United Bank Limited

RATING REPORT

REPORT DATE:
June 29, 2016

RATING ANALYSTS:
Talha Iqbal
talha.iqbal@jcrvis.com.pk

Moiz Badshah
moiz.badshah@jcrvis.com.pk

RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity Rating	AAA	A-1+	AA+	A-1+
Outlook	Stable		Stable	
Date	*June 29, '16*		*June 30, '15*	

COMPANY INFORMATION	
Privatized in 2002	**External auditors:** A.F. Ferguson & Co., Chartered Accountants – KPMG Taseer Hadi & Co., Chartered Accountants
Type of Company: Public Limited Company	**Chairman of the Board:** Sir Mohammed Anwar Pervez, OBE, HPk
Key Shareholders (with stake 5% or more):	**President & CEO:** Mr. Wajahat Husain
Bestway Group (BG) (61.46%)	

APPLICABLE METHODOLOGY(IES)
PRIMER - Commercial Banks (December 2001): ***http://jcrvis.com.pk/images/primercb.pdf***

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OVERVIEW OF THE INSTITUITION	RATING RATIONALE
UBL was privatized in 2002. The Bank is a subsidiary of Bestway (Holdings) Limited which is incorporated in the United Kingdom. At end-1Q16, the bank was operating through a network of 1,313 branches across Pakistan and 18 overseas branches. Financial Statements for FY15 were co-audited by A.F. Ferguson & Co. and M/s KPMG Taseer Hadi & Co. Sir Mohammed Anwar Pervez, OBE, HPk is the Chairman of the Board of Directors while management team is spearheaded by Mr. Wajahat Husain.	United Bank Limited (UBL) is the second largest private sector bank in the country with a market share of 8.95% (2015: 8.60%; 2014: 8.36%) in domestic deposits at end-March'2016. The bank also has a sizeable presence in the overseas market, largest by a local bank, representing around one-fourth of total assets. Besides overseas operations, diversification in revenue streams is evident from the bank's branchless banking presence through its Omni platform and significant market share in home remittance business (25%). As part of the bank's strategic initiative, steady branch expansion is planned to continue with a further build up in the asset base. In line with the bank's continuous focus on innovation, UBL is working on initiatives including a 'branch of the future' and a complete digital strategy for the bank. Corporate lending represents the major portion of UBL's financing portfolio with large exposures primarily comprising lending to top-tier clients. In line with sector trends, financing to the energy sector witnessed an increase with product pipeline for the ongoing year including a number energy and infrastructure projects. Moreover, UBL has also positioned itself (opening of representative offices and collaboration with ICBC) to tap lending opportunities arising from China Pakistan Economic Corridor (CPEC). The bank is cautiously expanding its presence in other market segments, including commercial, agriculture and consumer; further increasing the breadth of its lending operations. The overseas portfolio represents almost one-third of the gross financing portfolio and has been funded by an organic build up in overseas deposits which crossed $2b (largest for a commercial bank) in the outgoing year. The bank has been proactive in reducing the exposures in Yemen (clean exposure has reduced from $33m at end-March'2015 to $7m at end-March'2016, with remaining loan portfolio being cash collateralized). UBL has also prudently maintained strong general provisions against Yemen operations. Given the lower oil prices and the resultant slowdown particularly in the GCC, the bank continues to maintain a prudent strategy with respect to its overseas portfolio. In terms of sectoral exposures, UBL has very minimal oil related exposures in GCC with predominantly trade related financing. Gross (on account of write-off) and net infection levels (higher provisions) have improved at end-FY15 vis-à-vis preceding year. Funds generated by way of an increasing deposit base and higher repo borrowings have been channeled towards government securities particularly Pakistan Investment Bonds (PIBs). PIBs represented 48% of the total deposit base and had an average yield of around 10%. Around one-fifth of the PIBs mature in the ongoing year indicating lower reinvestment risk vis-à-vis peers. Resultantly, reinvestment risk on account of PIB holdings is lower vis-à-vis peers. Market risk on account of PIB holdings is sizeable with duration of PIB portfolio at 2.3 years at end-3M16. Surplus on revaluation of PIBs stood at Rs. 21.5b at end-March'2016. Liquidity profile of the bank is strong as evident from sizeable, cost effective & granular deposit base and significant liquid assets carried on the balance sheet. While depositor concentration levels increased and proportion of non-remunerative current accounts witnessed a slight decline as part of a deliberate strategy to gain market share, depositor profile of the bank remains at par with peer banks. Focus on new-to-bank and current accounts will continue to drive deposit strategy, going forward. Capitalization indicators of the bank have improved on a timeline basis with growth in equity base on account of retained profits and increase in Tier-1 (10.4%) and overall CAR (14.6%). Capitalization indicators of the bank while remaining at comfortable levels compare less favorably to peer banks. As per management, this is a part of a deliberate strategy to efficiently utilize capital; however, going forward the bank plans to maintain a buffer over and above the regulatory CAR requirement. Net-NPL in relation to tier-1 equity (including general provisioning) is the highest amongst peer banks at 10.1% (2014: 13.2%). While interest rates declined, operating profitability (excluding provisions & capital gains) and profit before tax witnessed significant growth during 2015 on the back of higher accrual income & capital gains on PIBs, increase in fee based income and volumetric growth in earning assets. Operating profitability was lower during 1Q16 vis-à-vis 1Q15 on account of spread compression but profit before tax was higher due to sizeable capital gains. Going forward, high yielding PIB portfolio along with declining cost of deposits and growth in earning assets bodes well for profitability of the bank despite declining interest rates. Some challenges around maintaining historical growth rates in fees and commissions would be due to competition in Omni business and lower rebates from remittance business. This is however expected to be offset by higher investment banking, trade related and Financial Institution Group fee.

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FINANCIAL SUMMARY *(All figures in PKR billions unless stated otherwise)*			Appendix I
BALANCE SHEET	**DEC 31, 2015**	**DEC 31, 2014**	**DEC 31, 2013**
Total Investments	714.1	497.3	423.8
Advances	454.6	434.3	390.8
Total Assets	1,400.6	1,111.4	1,009.7
Borrowings	163.1	53.1	40.6
Deposits & other accounts	1,051.2	895.1	827.8
Subordinated Loans	-	-	0.7
Tier-1 Equity	87.4	74.8	66.8
Net Worth	142.1	125.5	100.9
INCOME STATEMENT	**DEC 31, 2015**	**DEC 31, 2014**	**DEC 31, 2013**
Net Mark-up Income	55.8	45.0	37.9
Net Provisioning	3.6	0.9	1.3
Non-Markup Income	22.0	19.3	18.1
Operating Expenses	32.0	30.0	26.9
Profit Before Tax	42.2	33.4	27.8
Profit After Tax	25.7	21.9	18.6
RATIO ANALYSIS	**DEC 31, 2015**	**DEC 31, 2014**	**DEC 31, 2013**
Market Share (Advances) (%)	7.0%	7.6%	7.4%
Market Share (Deposits) (%)	8.6%	8.4%	8.2%
Gross Infection (%)	9.4%	11.2%	12.1%
Total Provisioning Coverage (%)	89.0%	84.9%	87.3%
Net Infection (%)	2.0%	2.3%	2.2%
Cost of deposits (%)	3.1%	3.9%	3.9%
Net NPLs to Tier-1 Capital (including General Provisioning) (%)	10.1%	13.2%	12.4%
Capital Adequacy Ratio (C.A.R (%))	14.6%	13.9%	13.3%
Markup Spreads (%)	5.6%	5.8%	5.4%
Efficiency (%)	42.0%	47.3%	49.9%
ROAA (%)	2.03%	2.09%	1.96%
ROAE (%) *(Shareholder's Equity)*	25.71%	24.32%	22.55%
Liquid Assets to Deposits & Borrowings (%)	66.6%	59.8%	61.6%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES
Appendix III

Name of Rated Entity	United Bank Limited
Sector	Commercial Banks
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Outlook	Rating Action
RATING TYPE: ENTITY				
6/29/2016	AAA	A-1+	Stable	Upgrade
6/30/2015	AA+	A-1+	Stable	Reaffirmed
6/24/2014	AA+	A-1+	Stable	Reaffirmed
6/19/2013	AA+	A-1+	Stable	Reaffirmed
6/11/2012	AA+	A-1+	Stable	Reaffirmed
6/28/2011	AA+	A-1+	Stable	Reaffirmed
6/24/2010	AA+	A-1+	Stable	Reaffirmed

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