RATING REPORT

United Bank Limited

REPORT DATE:
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RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity Rating	AAA	A-1+	AAA	A-1+
Outlook	Stable		Stable	
Date	*June 30, '17*		*June 29, '16*	

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:** Ms. Sima Kamil
Bestway Group (BG) (61.46%)	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Commercial Banks Rating ***http://www.jcrvis.com.pk/Images/Meth-CommercialBanks201511.pdf***

United Bank Limited

OVERVIEW OF THE INSTITUTION

UBL was established in 1959 and is a subsidiary of Bestway (Holdings), which is incorporated in the United Kingdom.
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As at end-March'2017. The Bank operated 1,344 (December 31, 2016: 1,341) branches inside Pakistan including 47 (December 31, 2016: 47) Islamic Banking branches and 2 (December 31, 2016: 2) branches in Export Processing Zones. The Bank also operates 18 (December 31, 2016: 18) branches outside Pakistan

Profile of Chairman

Sir Mohammad Anwar Pervez serves as Chairman of the Board. He is also the founder and chairman of Bestway group. He has been recipient of number of awards in both UK and Pakistan for his professional achievements and charitable causes.

Profile of CEO

The management team is spearheaded by Ms. Sima Kamil who has joined as the CEO of the bank in 2017. Ms. Kamil was previously associated with HBL as the head of branch banking and has a diversified banking experience spanning 25 years.

RATING RATIONALE

United Bank Limited (UBL) is the second largest private sector bank in the country with strong domestic operations and franchise and an average market share of 8.66% (2015: 8.55%) during 2016. The bank also has a sizeable presence in the overseas market, largest by a local bank. With growth in domestic operation outpacing increase in international assets, proportion of overseas assets in total assets decreased to 19.3% (2015: 20.3%; 2014: 22.2%). International operations contributed around one-tenth of UBL's profit before tax during 2016. Besides overseas operations, diversification in revenue streams is evident from sizeable contribution of trade commissions (14% increase and 16.7% contribution in fee income), remittance (25% market share), cash management (11% increase), bancassurance (17% decline), ADCs and branchless banking in overall revenues (16.5% contribution in fee income). In line with the bank's continuous focus on innovation, UBL inaugurated its first digital branch and branch of the future in the ongoing year. Moreover, a digital strategy is also in the process of being implemented.

Credit Risk: UBL continues to pursue a conservative asset deployment strategy with aggregate exposure to the sovereign representing around two-third of advances & investments. Gross financing portfolio increased by 11% during 2016 with growth noted in corporate, SME and commodity financing segment. Aggregate corporate/commodity financing exposure represents almost nine-tenth of the domestic financing portfolio indicating conservative lending strategy being pursued by management. However, diversification in lending operations is planned through growth in consumer and SME segment. Overall asset quality indicators continued their improving trend on the back of recoveries from domestic non performing portfolio. However, the international portfolio faces challenges emerging from the operating environment in key markets. UBL has managed to significantly reduce credit & clean exposures in Yemen with major deployment in government securities. For UAE operations, increased monitoring and lending cap have been implemented in sectors where incidence of NPLs was noted. Strong focus on recoveries will remain a key area of focus, going forward.

Market Risk: Given the increase in PIB holdings and higher duration of PIB portfolio, market risk exposure has increased on a timeline basis. Overall exposure to market risk is considered manageable given high average yield on PIB portfolio of around 9% and maturity profile over the next two years. Surplus on revaluation of PIBs stood at Rs. 13.7b at end-March'2017. Around half of the PIB portfolio is classified as held to maturity. Proactive market risk management is considered important in case of unanticipated increase in interest rates.

Liquidity: While depositor concentration has doubled over the last two years, liquidity profile of the bank is sound with high liquid assets in relation to deposits and borrowings and sizeable retail deposits. Momentum of growth in current accounts continued with average current account deposits growing by 18% during 2016. Aggressive new-to-bank acquisition within CASA and growth in current accounts will continue to drive deposit strategy, going forward. Future trend with respect to depositor concentration indictors will continue to be tracked by JCR-VIS.

Capitalization: Capitalization indicators of the bank have witnessed noticeable improvement over the last two years on the back of higher internal capital generation and managed growth in risk weighted assets. Tier-1 and overall CAR increased to 11.1% (2016: 10.87%; 2015: 10.41%; 2014: 10%) and 15.5% (2016: 15.13%; 2015: 14.65%; 2014: 13.9%), respectively at end-1Q17. Overall CAR of the bank benefits from sizeable revaluation surplus on investments and fixed assets. In the backdrop of increasing regulatory requirements, maintaining cushion over Tier-1 and overall CAR regulatory requirement in line with JCR-VIS's benchmark for the assigned ratings is considered important. Net-NPL in relation to tier-1 equity (including general provisioning) has improved to 6.9% (2015: 10.2%) at year-end'2016.

Profitability: Despite pressure on spreads, operating profit of the bank witnessed only a slight decrease of 0.5% during 2016. However, profit before tax of the bank increased by 9% on account of higher capital gains and lower provisions. Growth in profit before tax (based on CAGR) over the last 5 years is highest amongst peer banks. Moreover, in contrast to peer banks where net interest income witnessed a decline, UBL recorded a slight increase in net interest income during 1Q17. While spreads of the bank will continue to be supported by high yielding PIB portfolio, with limited maturities in the ongoing year, the same may witness pressure over the medium term with maturity of PIBs given that the bank primarily has exposure to the corporate segment where margins are relatively lower. In the backdrop of forecasted mid-term economic scenario and policy rate regime along with maturity of PIBs and low lending rates due to excess liquidity, spreads and profitability growth of the banking sector are expected to remain under pressure during 2017.

FINANCIAL SUMMARY *(All figures in PKR billions unless stated otherwise)*			Appendix I
BALANCE SHEET	**31-Dec-16**	**31-Dec-15**	**31-Dec-14**
Total Investments	806.5	719.5	497.3
Advances	510.1	455.4	434.3
Total Assets	1,577.6	1,400.7	1,111.4
Borrowings	201.5	163.1	53.1
Deposits & other accounts	1,179.9	1,051.2	895.1
Tier-1 Equity	101.1	87.4	74.8
Net Worth	151.8	142.1	125.5
INCOME STATEMENT	**31-Dec-16**	**31-Dec-15**	**31-Dec-14**
Net Mark-up Income	57.0	55.8	45.0
Net Provisioning	1.5	3.6	0.9
Non-Markup Income	23.6	22.0	19.3
Operating Expenses	33.2	32.0	30.0
Profit Before Tax	46.0	42.2	33.4
Profit After Tax	27.7	25.7	21.9
RATIO ANALYSIS	**31-Dec-16**	**31-Dec-15**	**31-Dec-14**
Market Share (Advances) (%)	6.7%	7.0%	7.6%
Market Share (Deposits) (%)	8.4%	8.6%	8.4%
Gross Infection (%)	8.1%	9.4%	11.2%
Total Provisioning Coverage (%)	90.9%	88.9%	84.9%
Net Infection (%)	1.4%	2.0%	2.3%
Cost of deposits (%)	2.7%	3.1%	3.9%
Net NPLs to Tier-1 Capital (including General Provisioning) (%)	6.9%	10.2%	13.2%
Capital Adequacy Ratio (C.A.R (%))	15.13%	14.65%	13.90%
Markup Spreads (%)	4.7%	5.6%	5.8%
Efficiency (%)	42.9%	42.0%	47.3%
ROAA (%)	1.84%	2.03%	2.09%
ROAE (%) *(Shareholder's Equity)*	24.92%	25.71%	24.32%
Liquid Assets to Deposits & Borrowings (%)	65.8%	66.0%	59.9%

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 Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Outlook	Rating Action
RATING TYPE: ENTITY				
6/30/2017	AAA	A-1+	Stable	Reaffirmed
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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