RATING REPORT

United Bank Limited

REPORT DATE:
July 02, 2020

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+
Entity Outlook	Stable		Stable	
Date	*June 29, '20*		*June 28, '19*	
TFC Rating	AA+		AA+	
TFC Outlook	Stable		Stable	
Date	*June 29, '20*		*June 28, '19*	

COMPANY INFORMATION	
Privatized in 2002	**External auditors:** A.F. Ferguson & Co., Chartered Accountants – KPMG Taseer Hadi & Co., Chartered Accountants
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*** Mr. Shazad G. Dada*
Bestway Group (BG) (61.48%)	*Ms Sima Kamil's term ends as of end-Jun'2020; Effective July'2020, Mr. Shazad G, Dada has been appointed as President/CEO

APPLICABLE METHODOLOGY(IES)
VIS Commercial Banks Rating http://vis.com.pk/docs/Meth-CommercialBanks201803.pdf

United Bank Limited (UBL)

OVERVIEW OF THE INSTITUTION

UBL was established in 1959 and is a subsidiary of Bestway (Holdings), which is incorporated in the United Kingdom.

As at end-Mar'20, UBL operates a network of 1,363 (Dec'18: 1,364) branches nationwide and 14 (Dec'18: 15) overseas branches.

Profile of Chairman

Sir Mohammad Anwar Pervez has been serving as Chairman of the board since 2013. He is also the Chairman and founder of Bestway Group & its subsidiaries. He has been recipient of number of awards in both UK and Pakistan for his professional achievements and charitable causes. He was honored with Hilal-e-Pakistan' in 2000.

Profile of CEO

Mr. Shazad G. Dada would be joining the Bank on July 01, 2020 as President & CEO.He has replaced Ms Sima Kamil who completed her term as President &CEO of the Bank on June 30th 2020,

He is a graduate from University of Pennsylvania with Bachelors of Science and Bachelors of

RATING RATIONALE

Industry Update

As a result of the novel coronavirus outbreak, both macro and micro financial stability indicators have been impacted. Pakistan's economy, which was already undergoing a phase of adjustment, has been dented by the resultant intermittent lock downs and depressed economic activity. As of the date of this report, with new virus cases touching new peaks, the pandemic is expected to stretch into Q2'2021, when potentially an effective vaccine can be developed. A stretched period of economic depression, continuing into Q2'2021, is considered aligned with principles of prudence.

In view of the same, credit risk across the sector is considered to be heightened, beyond pre-coronavirus credit risk levels, which were more aligned with usual macroeconomic cycle-based volatility. Accordingly, there is a credit risk driven downward pressure on all bank ratings. SBP, in an effort to promote financial stability, ensure continued credit supply to the economy and maintain confidence in the banking system, has taken a few measures, which include allowance to defer principal payments for up to a year, while also allowing other clients facing major liquidity constraints, restructuring of their existing loan facilities; the policy rate has been reduced by 625 basis points to 7% (Dec'19: 13.25%); capital conservation buffer (CCB) has been waived by 100 basis points to 1.5%; for SMEs, the regulatory limit for extension of credit has been increased to Rs. 180m (up 44%) and allowed debt burden ratio for consumer loans has been enhanced from 50% to 60%.

These measures are expected to provide short-term relief to counterparties, with several of them facing liquidity constraints. Nevertheless, at the same time, these will also delay the materialization of increased credit risk level on asset impairment ratios. The waiver in CCB should allow the banks additional room to meet financing requirements of liquidity-strained counterparties.

Collectively, sector financial risk indicators have significantly strengthened since the last financial crises of 2008. In terms of capitalization, the industry boasts a CAR of 17%, ADR of 51% and about 50% of the asset base is liquid (Mar'20). These ratios are indicative of strong loss absorption buffers, while the excess liquidity available with the banks should allow them navigate through the crises without completely halting lending operations.

The industry profitability indicators are expected to be impacted by the followings; i) So far, the interest rate has already dropped by 625 basis points; this sharp drop in interest rates and narrowing of the interest rate corridor is expected to negatively affect banking spread. A review of historical banking spread in low interest regime indicates that spread shrinkage is likely going to be ~50 basis points. However, in the near term (Q2 & Q3), the spreads may post short term improvement, as a result of faster re-pricing on liabilities vis-à-vis assets. This short-term spread improvement will likely keep the spreads intact for the ongoing year; ii) the adverse credit risk environment – on account of the Covid-19 outbreak – is expected to translate in increased provisioning burden. However, the charge of the same is expected to be rolled forward as a result of the SBP relief measures; iii) in view of the reduced economic activity, fee-related income and overall ancillary income will shrink. This, along with projected spread shrinkage, will likely have an adverse impact on efficiency ratios across the industry; SBP maintains its deadline for IFRS 9 implementation at January 1 2021, with deadline for pro-forma accounts preparation being Oct'20; full provisioning impact of this is expected to be sizable.

Arts degrees, and also has an MBA from the Wharton Business School, University of Pennsylvania. Prior to joining UBL, he has held the position of Chief Executive Officer and Managing Director of Standard Chartered and Barclays Pakistan. He has also worked at the Deutsche Bank Securities Inc in New York for over 15 years in various capacities; last as the Managing Director in the Mergers, Acquisitions, and Corporate Advisory Group and was Head of Media M&A practice in the Americas.

Key Rating Drivers

…Strong Market Position and Domestic Franchise

United Bank Limited (UBL) is the second largest private sector Bank in the country having a market share of 8.3% (Dec'18: 8.3%) in domestic deposits as at Dec'19 with strong domestic franchise and diversified operations. The bank also has a sizeable presence in the overseas market, largest by a local bank.

Overseas assets represented over one-fifth of the total asset base. In 2019, UBL continued with its de-risking strategy in its overseas operations, with the business model focused on selective lending, mainly to established corporates with a longer term business relationship with the bank. During 2019, the bank voluntarily closed its New York branch, liquidated its stake in Oman United Exchange Company, Muscat and has completed the asset and liabilities purchase agreement with EXIM Bank Tanzania Limited for its subsidiary UBL Bank (Tanzania) Limited (UBTL), with UBTL currently in preparation for wind up and voluntary liquidation.

…In line with expectations, credit growth remained muted during 2019. On the other hand, despite healthy growth in deposits, asset growth remained muted on account of reduction in borrowings.

UBL's balance sheet growth remained depressed during 2019 at 0.2% vis-à-vis 7.1% shrinkage in the preceding year. The depressed growth metrics are mainly attributable to reduction in repurchase agreement borrowings. On a timeline basis, the asset mix depicts a rising trend in investment portfolio, with financing operations, both domestic and overseas, remaining depressed during the period under review. Resultantly, ADR of both domestic and overseas operations has dropped. The Bank's ADR is broadly aligned with the peer median, while ADR of domestic operations is conservatively lower than peers.

…Portfolio impairment has risen and exceeds peer median

UBL's asset quality indicators have depicted an adverse trend in 2019 and Q1'20, wherein gross infection (incl. of overseas portfolio) has risen from 8.8% (Dec'18) to 12.4% as of Mar'20, while net infection has risen from 1.8% (Dec'18) to 3.1% as of Mar'20. Both measures exceed UBL's peer median. The uptick in infection ratio mainly emanated from the overseas financing portfolio, wherein NPLs grew by 12%, which was more pronounced in local currency terms at 22%. Infection within the domestic portfolio remained range-bound in 2019. However, fresh NPL accretion was noted in the domestic portfolio in Q1'20, as NPLs increased by 14% (Mar'20: Rs. 30.9b; Dec'19: 27.2b).

… With credit growth being muted, excess liquidity was channeled to investment portfolio

With financing operations having been curtailed, the asset allocation to investment portfolio has notably increased from 42%, as of Dec'18, to 50%, as of Mar'20. Investment in domestic sovereign securities remains the primary investment avenue, comprising 89.2% of the investment portfolio. In the domestic context, sovereign issuances are considered the highest credit quality.

… Liquidity indicators have improved and compare favorably to peers, with the exception of deposit base granularity

UBL's liquidity profile is considered strong and comfortably aligned with peers. Overall, the bank's liquid assets to deposits and borrowings (LADB) & ADR is aligned with peer median, while the bank's cost of deposits is the lowest amongst peers. Both LCR and NSFR are compliant with domestic regulations.

UBL's depositor concentration levels are considered on the higher side as compared to similar rated peer banks and VIS's benchmark for the assigned ratings.

… Profitability indicators are broadly aligned with the peer median. Going forward, akin to the industry, the bank's profitability is projected to weaken

Subsequent to experiencing a downswing in profitability in 2018, UBL's profitability indicators have depicted improvement in 2019. Despite the volatility in profitability indicators, these broadly remain aligned with the peer median. The volatility is mainly attributable to sizable ongoing provisioning expenditure, largely on the international operations.

UBL's operational profitability indicators depicted improvement in 2019, mainly on the back of improved spread. This was also reflected in the bank's net interest margin, which improved from 3.5% to 4.1%. In absolute terms, the bank's recurring income grew by 8%, which was mainly supported by Rs. 5.5b uptick in net interest income and Rs. 1.1b uptick in foreign exchange income. UBL's efficiency ratio depicted improvement, and compared favorably to peers. Going forward, the sector profitability is expected to weaken, in line with the industry, as discussed in the 'Industry Risk' segment above.

… Strong capitalization buffers facilitated by internal capital generation, sub-ordinated Tier-I Debt and continued reduction in risk weighted assets

UBL's capitalization has been reinforced over the years on the back of internal capital generation and most recently, by issuance of Additional Tier-I instrument, which raised Rs. 10b. The bank's capitalization buffers are aligned with the peers. However, the rising credit impairment in relation to equity, as reflected by net-NPLs to tier-I equity, is a concern. The Bank has done well in the area of Risk Weighted Assets (RWA) optimization. As a result of which the CAR has been rising and stood above the peer median as of Dec'19.

Given the heightened credit risk environment – on account of the novel coronavirus outbreak - and planned implementation of IFRS 9 by end-2020, the bank's capital adequacy buffer is expected to shrink. However, capitalization buffers, built up over the past few years, are expected to provide adequate cushion to absorb projected credit impairment charges. Our credit impairment expectations are conservative, albeit there is a probability of deviation from expectations, amidst an uncertain economic environment. VIS will continue to closely monitor the capitalization ratios on quarterly basis.

Corporate Profile

Established in 1959, United Bank Limited ('UBL' or 'the Bank') is classified as a Domestic-Systemically Important Bank (D-SIB) in Pakistan. During the initial 15 years of operations, the bank remained in the private sector until 1974, when all the private sector banks of Pakistan were nationalized. UBL operated as a public entity for around 27 years and subsequently, Government of Pakistan (GoP) privatized UBL in 2002. Presently, UBL is the 3rd largest bank in Pakistan, in terms of assets and deposits, and the 2nd largest private sector bank.

The Bank's shares are listed on Pakistan Stock Exchange (PSX) and its Global Depository Receipts (GDRs) are listed on the UK listing authority and the London Stock Exchange Professional Securities Market.

With its head office based in Karachi, UBL operates a network of 1,363 branches nationwide and 14 overseas branches as at end-Mar'20.

Shareholding Structure

The Bank is a subsidiary of Bestway (Holdings) Limited which is a part of Bestway Group Limited, incorporated in United Kingdom. The latest shareholding pattern is presented in the table below:

Table 1: Shareholding Pattern (Dec'19)

Shareholders	Holding
Bestway Group (BG)	61.48%
General Public & Others	30.51%
Banks, DFIs & NBFIs	1.80%
Insurance Companies	3.87%
Modarabas & Mutual Funds	2.25%
International GDRs (non-voting shares)	0.08%
Privatization Commission of Pakistan	0.00%

Board Composition & Profile

In accordance with Section 159(5) of the Companies Act, 2017, the elections of the Board of Directors were held in the 61st Annual General Meeting convened on March 25th, 2020. No changes in the Board were observed.

Since last review, composition of Board of Director (BoD) has remained unchanged. The Board comprises nine members; an executive director, three independent directors and five non-executive directors. Board Composition aligned with the Corporate Governance best practices.

Table 2: Board of Directors

Name	Category
Independent Directors	Mr. Khalid A. Sherwani
	Mr. Amar Zafar Khan
	Mr. Tariq Rashid
Executive Director	Ms. Sima Kamil (**President & CEO)**
Non-Executive Directors	Sir Mohammed Anwar Pervez, OBE, HPk (**Chairman)**
	Lord Zameer Mohammed Choudrey, CBE, Si Pk
	Mr. Haider Zameer Choudrey
	Mr. Rizwan Pervez
	Mr. Arshad Ahmad Mir

Sir Mohammad Anwar Pervez, OBE, HPk has served as the Chairman of the Bank's Board since 2013. He is also the Chairman and founder of Bestway Group & its subsidiaries. There were 6 Board meetings convened in 2019 with the entire board present in all meetings.

Board Committees

UBL has four Board Committees in place, namely, Board Audit Committee (BAC), Board Risk and Compliance Committee (BRCC), Board Human Resource and Compensation Committee (BHRCC) and Board IT Committee (BITC). As per best governance practices, BAC is chaired by an independent director. In addition, a separate Board Nomination Committee has been constituted in Oct'19, which constitutes 3 non-executive nominee directors, including Board Chairman.

Management Team

The management team of the Bank is headed by Ms. Sima Kamil. However, her term as President/CEO is to end as of end-June'2020. Effective July'2020, Mr. Shazad G. Dada has been appointed as the Bank's President/CEO. Mr. Shazad is a seasoned banker and a prominent capital markets professional, with over 21 years of diverse experience with renowned financial institutions in the United States and Pakistan. Prior to joining UBL, Mr. Shazad has served as the CEO of Standard Chartered (Pakistan) and Barclays Pakistan. His experience spreads across Corporate, Investment and Retail Banking. Shazad was additionally the Head of Regional Transaction Services Steering Committee for Asia and India, UAE & Pakistan. He has also worked at the Deutsche Bank Securities Inc in New York for over 15 years in various capacities; last as the Managing Director in the Mergers, Acquisitions, and Corporate Advisory Group and was Head of Media M&A practice in the Americas.

Digital Banking

UBL continues to invest in its digital outreach solutions. During the year, a major initiative to on-board - accounts through digital channels was introduced. The initiative has been very successful as 35% of all new to bank relationships were on-boarded through digital tablets. The digital banking application also garnered a warm response from the market with its user base having surpassed 1m as of Dec'19 (Dec'18: 300k)

International Business

UBL, through its subsidiaries, associated companies and representative offices, has global presence in UK, UAE, Switzerland, China, Bahrain, Qatar and Tanzania.

In 2019, - UBL continued with its de-risking strategy in its overseas operations, with the business model focused on selective lending, mainly to established corporates with a longer term business relationship with the bank. During 2019, the bank voluntarily closed its New York branch, liquidated its stake in Oman United Exchange Company, Muscat and has completed the asset and liabilities purchase agreement with EXIM Bank Tanzania Limited for its subsidiary UBL Bank (Tanzania) Limited (UBTL), with UBTL currently in preparation for wind up and voluntary liquidation.

Financial Analysis

Assets Mix

UBL's balance sheet growth remained depressed during 2019 at 0.2% vis-à-vis 7.1% shrinkage in the preceding year. With deposit growth in the domestic market matching the industry – thus allowing the bank to maintain its domestic market share at 8.3% - the depressed growth metrics are mainly attributable to reduction in repurchase agreement borrowings. Aggregate borrowings of the bank reduced from Rs. 268b to Rs. 154b in 2019 (-42%). Subsequently, borrowings have been increased by 20% in Q1'20, increasing the aggregate amount to Rs. 186b.

Table 3: Asset Mix (Figure in PKR Billions)

	Dec'18	%	Dec'19	%	Mar'20	%
Cash & Cash Equivalents	241	13%	277	15%	213	11%
Investment Portfolio	786	42%	840	44%	970	50%
Advances Portfolio	716	38%	636	34%	623	32%
Other Assets	147	8%	140	7%	139	7%
Total Assets	**1,890**		**1,894**		**1,944**	

On a timeline basis, the asset mix depicts a rising trend in investment portfolio, with financing operations, both domestic and overseas, remaining depressed during the period under review. Resultantly, ADR of both domestic and overseas operations has dropped. The Bank's ADR is broadly aligned with the peer median, while ADR of domestic operations is conservatively lower than peers.

Table 4: UBL ADR – Domestic & Overseas[1]

	Dec'18	Dec'19	Mar'20
ADR (Unconsolidated)	53.2%	44.3%	43.0%
ADR – Domestic	47.1%	38.8%	36.5%
ADR- Overseas	79.1%	71.0%	76.1%

[1] ADR has been adjusted for borrowings from SBP, under ERF, LTFF etc.

Credit Risk

Table 5: Gross Advances Breakup

	Dec'18	Dec'19	Mar'20
Gross Advances	776,272	702,951	694,959
Domestic	571,052	525,039	508,441
Overseas	205,220	177,913	186,518
Overseas (in USD' Millions)	1,478	1,149	1,119

UBL's financing operations – both domestic & overseas – remained depressed during 2019. As per management, sans the impact of repayment from a large public sector enterprise, domestic loan book was prudently maintained at last year's levels. On the other hand, the overseas loan book was intentionally reduced, in line with a de-risking strategy on the international front.

Domestic Portfolio

The segment-wise breakup of the portfolio, as provided below, signifies the quantum of corporate financing operations vis-à-vis other segments. As depicted in the table below, activity in all segments remained stagnant, while portfolio in certain segments has shrunk on account of run-offs.

Table 6: Segment-wise Breakup of Advances Portfolio (Figures in PKR Billions)

Segments	Dec'18	Dec'19
Corporate	374	373
Commodity	68	66
Commercial	43	10
Consumer	16	17
Others	44	33
Total Domestic	**545**	**500**
International	**171**	**137**
Total Net Advances	**716**	**636**

With financing operations broadly remaining depressed, sector-wise exposure to almost all major sectors has dropped, as also reflected in the table below.

Table 7: Sector-wise Breakup of Financings Portfolio & Gross Infection (GI) - (Figure in PKR Billions, unless stated otherwise)

	Dec'18		Dec'19	
	Rs.	%	Rs.	%
Production & Transmission Energy	226.8	29.2%	193.4	27.5%
Food	87.4	11.3%	81.6	11.6%
Textile	80.0	10.3%	76.8	10.9%

Financial	68.4	8.8%	46.8	6.7%
Whole Sale Trader	37.7	4.9%	35.7	5.1%
Construction	31.2	4.0%	26.8	3.8%
Engineering	22.8	2.9%	20.4	2.9%
Others	188.3	24.2%	245.4	24.3%
Total	**776.3**		**703.0**	

Notable sectors, in terms of contribution to NPLs, included Construction and Wholesale Trade, which added Rs. 4.1b and Rs. 1.8b to the gross NPLs respectively. Counterparty concentration is almost similar on a timeline, with top-10 exposure comprising 40% of the gross advances (Dec'18: 39%). In case of non-funded exposures, top-10 constitute 9.5% of gross unfunded exposures (Dec'18: 11.3%).

Overseas Portfolio

Table 8: Country-wise Breakup of Overseas Financing Portfolio

Country	Dec'18		Dec'19	
	Amount	**%**	**Amount**	**%**
UAE	159,563	77.8	136,398	76.7
Qatar	19,879	9.7	20,492	11.5
Bahrain	21,073	10.3	16,113	9.1
Yemen	4,546	2.2	4,871	2.7
EPZ	159	0.1	38	0.0
Total	**205,220**		**177,913**	

In accordance with its de-risking strategy in international operations, financing operations have been notably scaled back. The drop was more pronounced in foreign currency terms, at 22%, vis-à-vis 13% in local currency terms. The reduction in average loan book stood at 30% for the year. As reflected in the table above, GCC countries remain the mainstay for foreign operations, comprising 97.2% of the overseas loan book.

Asset Quality

Table 9: Asset Quality Indicators (Figures in PKR Millions, unless stated otherwise)

	Domestic		Overseas	
	Dec'18	**Dec'19**	**Dec'18**	**Dec'19**
Gross loans	571,052	525,039	205,220	177,913
NPLs	27,920	27,180	40,642	49,421
Gross Infection	4.9%	5.2%	19.8%	27.8%
Prov. Coverage (Specific)	92.5%	92.1%	74.0%	77.3%

UBL's asset quality indicators have depicted an adverse trend in 2019 and Q1'20, wherein gross infection (incl. of overseas portfolio) has risen from 8.8% (Dec'18) to 12.4% as of Mar'20, while net infection has risen from 1.8% (Dec'18) to 3.1% as of Mar'20. Both measures exceed UBL's peer median.

As reflected in table 9, the uptick in infection ratio mainly emanated from the overseas financing portfolio, wherein NPLs grew by 12%, which was more pronounced in local currency terms at 22%.

Infection within the domestic portfolio remained range-bound in 2019. However, fresh NPL accretion was noted in the domestic portfolio in Q1'20, as NPLs increased by 14% (Mar'20: Rs. 30.9b; Dec'19: 27.2b).

Investments Portfolio

Table 10: Investment Portfolio Breakup (All Figures in PKR' Millions)

	Dec'18		Dec'19		Mar'20	
	Rs.	**%**	**Rs.**	**%**	**Rs.**	**%**
			Federal Securities			
Total	**684,695**	**87.1%**	**725,175**	**86.3%**	**865,434**	**89.2%**
PIBs	396,026	50.4%	405,081	48.2%	445,694	45.9%
T-Bills	239,787	30.5%	254,136	30.2%	359,726	37.1%
GoP Ijarah	15,627	2.0%	9,836	1.2%	4,064	0.4%
GoP Eurobonds	24,955	3.2%	29,678	3.5%	28,729	3.0%
Others	8,301	1.1%	26,444	3.1%	27,221	2.8%
			Foreign Securities			
Total	**59,408**	**7.6%**	**74,591**	**8.9%**	**67,264**	**6.9%**
T-Bills	2,885	0.4%	3,458	0.4%	3,000	0.3%
Sovereign Bonds	48,531	6.2%	62,788	7.5%	55,853	5.8%
Others	7,991	1.0%	8,345	1.0%	8,410	0.9%
			Non- Govt Debt Instruments			
Total	**18,774**	**2.4%**	**20,898**	**2.5%**	**21,455**	**2.2%**
Listed	1,645	0.2%	2,597	0.3%	2,471	0.3%
Unlisted	17,128	2.2%	18,301	2.2%	18,983	2.0%
			Equity			
Total	**17,350**	**2.2%**	**14,035**	**1.7%**	**10,706**	**1.1%**
Listed	16,718	2.1%	13,411	1.6%	10,082	**1.0%**
Unlisted	632	0.1%	624	0.1%	624	**0.1%**
			Others			
Preference Shares	**37**	**0.0%**	**37**	**0.0%**	**37**	**0.0%**
Associate / Subsidiary	**5,612**	**0.7%**	**4,798**	**0.6%**	**4,798**	**0.5%**
Others	**500**	**0.1%**	**916**	**0.1%**	**750**	**0.1%**
Total	**786,376**		**840,448**		**970,442**	

With financing operations having been curtailed, the asset allocation to investment portfolio has notably increased from 42%, as of Dec'18, to 50%, as of Mar'20. Investment in domestic sovereign securities remains the primary investment avenue, comprising 89.2% of the investment portfolio. In the domestic context, sovereign issuances are considered the highest credit quality.

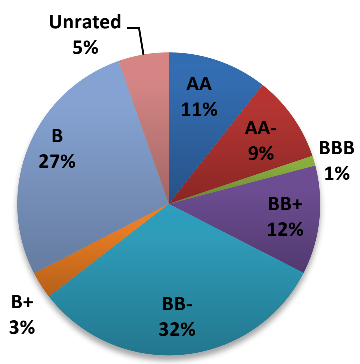
Table 11: Investment Portfolio Breakup (in terms of maturity)

Maturity	Dec'18	Dec'19
1 month	27%	20%
1-3 months	9%	12%
3-6 months	8%	5%
6 months -1 year	4%	10%
1-2 years	16%	14%
2-5 years	19%	15%
>5 years	17%	25%

As such we have not noted any elongation in portfolio duration during 2019, with short term (<1 year) investments comprising 47% of the aggregate investments (Dec'18: 48%). The weighted average duration of the PIB portfolio has reduced from 1.95 years to 1.80 years.

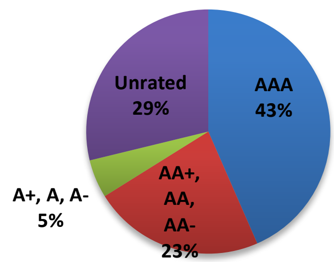
Investment in foreign government sovereign securities is the second largest investment avenue. These securities include issuances of various Middle Eastern, South Asian, and African countries. Breakup of the portfolio, in terms of credit quality is provided in the figure below:

Figure 1: Credit Quality of Foreign Sovereign Securities Portfolio (in cost terms) (Dec'19)



Investment in non-government debt has been rising. However, credit quality of the portfolio is considered sound, as depicted in figure 2.

Figure 2: Credit Quality of Non-Government Debt Securities (Dec'19)



Overall, (net) investment in equities has deceased from Rs. 17.4b to Rs. 10.7b. As of Mar'20, the aggregate equities portfolio had a cost value of Rs. 16.5b which netted off for provision for diminution & deficit on revaluation of Rs. 5.7b.

Investment in Associates / Subsidiaries amounted to Rs. 4.8b (Dec'18: Rs. 5.6b) as of Mar'20. Investment in associates includes exposure to Khushali Bank Limited (KBL), and funds held by UBL Fund Managers while subsidiaries primarily include investment in United National Bank (UK), UBL (Tanzania), UBL (Swiss) and UBL Fund Managers Limited.

Liquidity

UBL's liquidity profile is considered strong and comfortably aligned with peers. Overall, the bank's liquid assets to deposits and borrowings (LADB) & ADR is aligned with peer median, while the bank's cost of deposits is the lowest amongst peers. Both LCR and NSFR are compliant with domestic regulations.

Table 12: Liquidity Indicators

	Dec'18	Dec'19	Mar'20
LADB	55.1%	63.4%	63.6%
ADR	53.2%	44.3%	43.0%
LCR	190.3%	256.3%	263.3%
NSFR	126.0%	136.6%	139.3%

During 2019, the bank's deposit base grew by 7.4%, which was aligned with the growth noted in preceding year. Growth in deposits was driven by the domestic market, wherein growth was in line with industry, and hence market share was maintained at 8.3%. The slight growth visible in international deposits in the table below can be attributed to local currency depreciation during the period. In foreign currency terms, the international deposits were lower by 13%.

Table 13: Breakup of Deposits (Domestic & International)

	Dec'18		Dec'19	
	Rs. M	**%**	**Rs. M**	**%**
Domestic	1,106,488	81.0%	1,216,621	82.9%
International	259,573	19.0%	250,443	17.1%
Total	**1,366,060**		**1,467,063**	

The type-wise break-up of deposits does not indicate a material change in deposit base, with CA and CASA ratios remaining range-bound. However, growth has been noted in absolute terms. As per management, 534k New to Bank (NTB) current account customers were added during 2019 (2018: 586k) and growth of average current accounts domestically was reported at 8%. As of Dec'19, even though the overall CA ratio is aligned with peers, the CASA ratio lags the peer median.

Table 14: Breakup of Deposits (Type-wise)

	Dec'18		Dec'19		Mar'20	
	Customers					
Fixed Deposits	298	22%	314	21%	289	25%
Savings Deposits	435	32%	484	33%	495	30%
Sundry Deposits	13	1%	13	1%	11	1%
Margin Deposits	6	0%	6	0%	6	0%
Current Accounts - Remunerative	7	1%	8	1%	13	0%
Current Accounts - Non-remunerative	539	39%	551	38%	569	37%
	Financial Institutions					
Non-remunerative Deposits	23	2%	29	2%	15	1%
Remunerative Deposits	44	3%	63	4%	95	4%
Total	**1,366**		**1,467**		**1,493**	
CA	**40%**		**38%**		**39%**	
CASA	**72%**		**71%**		**72%**	

The growth in deposits in 2019, mainly emanated from private sector corporate deposits, with growth in retail deposits standing at a meager 4%. Consequently, proportion of retail deposits has reduced from 60% to 55%.

Table 15: Depositor Concentration (Domestic)

	Dec'18		Dec'19	
	Rs. B	**%**	**Rs. B**	**%**
Top 20	135	12.2	167	13.7
Top 50	186	16.8	222	18.2
Domestic Deposits	**1,106**		**1,217**	

UBL's depositor concentration levels are considered on the higher side as compared to similar rated peer banks and VIS's benchmark for the assigned ratings. Top 50 depositors' concentration has remained within the range of 16%-18% over past three years, standing at 18.2% as of Dec'19.

The bank's borrowings have been notably reduced over the past few years (Mar'20: Rs. 186b; Dec'19: Rs. 154b; Dec'18: Rs. 268b; Dec'17: Rs. 513b). The drop in borrowings has mainly been driven by lower borrowings under repo, is in line with trend noted across the industry.

Profitability

Subsequent to experiencing a downswing in profitability in 2018, UBL's profitability indicators have depicted improvement in 2019. Despite the volatility in profitability indicators, these broadly remain aligned with the peer median. The volatility is mainly attributable to sizable ongoing provisioning expenditure, largely on the international operations.

Table 16: P&L Indicators (All Figures in PKR Millions, unless stated otherwise)

	2017	2018	2019
Net Interest Income	56,424	56,234	61,774
Administrative Expenses	35,350	38,827	40,209
Efficiency	48.2%	51.3%	49.3%
Intermediation Cost[2]	2.9%	2.9%	2.8%
RoAA	1.4%	0.8%	1.0%
RoAE	20.6%	11.6%	13.8%
Operating Profit / (Loss)	37,931	36,891	41,323
Profit before Tax	39,918	24,967	34,242
Profit/ (loss) after Tax	25,180	15,226	19,134

UBL's operational profitability indicators depicted improvement in 2019, mainly on the back of improved spread, as reflected in the table below. This was also reflected in the bank's net interest margin, which improved from 3.5% to 4.1%.

Table 17: Banking Spread

	2018	2019	Q1'20
Avg. Return on Earning Assets	**7.4%**	**10.1%**	**11.1%**
Avg. Return on Financing	7.1%	10.7%	11.4%
Avg. Return on Investment	7.6%	9.8%	11.0%
Cost of Funds	**3.6%**	**5.8%**	**6.5%**
- Cost of Deposits	2.9%	4.9%	5.7%
Spreads	**3.8%**	**4.3%**	**4.6%**

In absolute terms, the bank's recurring income[3] grew by 8%, which was mainly supported by Rs. 5.5b uptick in net interest income and Rs. 1.1b uptick in foreign exchange income.

Conversely, fee & commission (F&C) income remained stagnant (-2%) amidst depressed macroeconomic activity. Within the F&C income, notable decrease was noted in investment banking fees (-Rs. 387m) and commission on guarantees (-Rs. 188m), while increase was noted in commission on remittances (+Rs. 213m), branch banking fees (+Rs. 181m) and consumer finance fees (+Rs. 153m).

Amidst a high inflation environment, the uptick in expense base was relatively controlled at 4%. Resultantly, UBL's efficiency ratio depicted improvement, and compared favorably to peers.

Table 18: Provisioning Charge & Other Non-Recurring Charges

	2018	2019
Gain on Securities	**4,562**	**2**
Other Income	**1,054**	**1,852**
Income / (Loss) on Derivatives	**(88)**	**65**
Provisioning Charges	**12,854**	**8,220**
- Loan Losses	11,280	4,945
- Investments	1,495	3,199
- Others (net)	79	76
Extra-Ordinary Charge (Pension Liability)	**6,567**	**-**

As reflected in the table above, the gain on securities fell down notably, vis-à-vis preceding year, while the bank had to charge a sizable (Rs. 3.2b) provision on its investment portfolio; this included a Rs. 2.3b net impairment charge on investment in listed equities, and Rs. 0.8b charge on impairment in subsidiary investment (UBL Tanzania).

Going forward, the sector profitability is expected to weaken on account of the following

- So far, the interest rate has already dropped by 625 basis points; this sharp drop in interest rates and narrowing of the interest rate corridor is expected to negatively affect banking spread. A review of historical banking spread in low interest regime indicates that spread shrinkage is likely going to be ~50 basis points. However, in the near term (Q2 & Q3), the spreads may post short term improvement, as a result of faster re-pricing on liabilities vis-à-vis assets. This short-term spread improvement will likely keep the spreads intact for the ongoing year.
- The adverse credit risk environment – on account of the novel coronavirus outbreak – is expected to translate in increased provisioning burden. However, the charge of the same is expected to be rolled forward as a result of the SBP relief measures.
- In view of the reduced economic activity, fee-related income and overall ancillary income will shrink. This, along with projected spread shrinkage, will likely

[2] Administrative Expenses / Average Deposits
[3] Net Interest Income + Fee & Commission Income + Dividend Income + Foreign Exchange Income

have an adverse impact on efficiency ratios across the industry.

- The SBP maintains its deadline for IFRS 9 implementation at January 1 2021, with deadline for pro-forma accounts preparation being Oct'20. The full provisioning impact of the same is expected to be sizable.

Capitalization

Table 19: Capitalization

	Dec'18	Dec'19	Mar'20
Tier-1 Equity	117,901	124,683	124,351
Shareholder's Equity	134,683	143,232	145,591
Revaluation Surplus on Investments	16,587	25,837	19,811
Net NPLs to Tier 1 capital	10.4%	10.4%	14.9%
(Common Equity Tier-1) CAR	12.37%	13.72%	13.68%
Tier-1 CAR	13.38%	14.89%	14.85%
CAR	17.74%	18.94%	19.51%
Leverage	4.87%	5.25%	5.19%
Shareholders' Equity/ Total Assets	7.1%	7.6%	7.5%

UBL's capitalization has been reinforced over the years on the back of internal capital generation and most recently, by issuance of Additional Tier-I instrument, which raised Rs. 10b. The bank's capitalization buffers are aligned with the peers. However, the rising credit impairment in relation to equity, as reflected by net-NPLs to tier-I equity is a concern.

Table 20: Risk Weighted Assets

	Dec'17	Dec'18	Dec'19	Mar'20
Risk Weighted Assets	**981**	**881**	**837**	**837**
- Credit Risk	666	730	642	637
- Market Risk	174	10	49	53
- Operational Risk	140	142	147	147

The bank has done well in the area of Risk Weighted Assets (RWA) optimization. As a result of which the CAR has been rising and stood above the peer median as of Dec'19. UBL has been designated a Domestic Systemically Important Bank (D-SIB) by the SBP. This designation requires the bank to hold an additional 1.5% Higher Loss Absorbency (HLA) Surcharge, over and above its minimum capital adequacy ratio (CAR) limit in 2019, on both a standalone and consolidated basis. However, the SBP has reduced the HLA surcharge by 50 basis points to 1.0% effective March 2020 as per their latest D-SIB designation. Furthermore, in view of the novel coronavirus outbreak, the required capital adequacy buffer has been reduced from 2.5% to 1.5%. In accordance with the revised requirement, the bank's overall CAR was in excess of the regulatory requirement by 7% as of Mar'20

Dividend payout of the bank has remained on the higher side, averaging 76% for the past 3-year period; this can mainly be attributed to a depressed bottom line.

Table 21: Dividend Payout Ratio

	2016	2017	2018	2019
Dividend Payout ratio	**57%**	**63%**	**88%**	**77%**

Given the heightened credit risk environment – on account of the novel coronavirus outbreak - and planned implementation of IFRS 9 by end-2020, the bank's capital adequacy buffer is expected to recede. However, capitalization buffers, built up over the past few years, are expected to provide adequate cushion to absorb projected credit impairment charges. Our credit impairment expectations are conservative, albeit downside risks are elevated, amidst an uncertain economic environment. VIS will continue to closely monitor the capitalization ratios on quarterly basis.

FINANCIAL SUMMARY *(All figures in PKR billions unless stated otherwise)*				Appendix I
BALANCE SHEET	**31-Dec-17**	**31-Dec-18**	**31-Dec-19**	**31-Mar-20**
Total Investments	1,091.8	786.4	840.4	970.4
Advances - net	627.4	715.9	636.2	622.6
Total Assets	2,032.9	1,889.6	1,893.7	1,944.5
Borrowings	512.7	268.1	154.5	185.8
Deposits & other accounts	1,272.8	1,366.1	1,467.1	1,492.5
Paid-up Capital	12.2	12.2	12.2	12.2
Tier-1 Equity	110.7	117.9	124.7	124.4
Net Shareholders Equity (excl. revaluation surplus)	127.0	134.7	143.2	145.6
INCOME STATEMENT	**2017**	**2018**	**2019**	**Q1'20**
Net Mark-up Income	56.4	56.2	61.8	17.3
Net Provisioning	2.5	12.9	8.2	3.7
Non-Markup Income	22.2	25.0	21.7	4.7
Operating Expenses	35.3	38.8	40.2	9.5
Profit Before Tax	39.9	25.0	34.2	8.4
Profit After Tax	25.2	15.2	19.1	5.1
RATIO ANALYSIS	**31-Dec-17**	**31-Dec-18**	**31-Dec-19**	**31-Mar-20**
Market Share (Advances) (%)	7.1%	7.2%	6.4%	6.2%
Market Share (Deposits) (%)	8.2%	8.3%	8.3%	8.2%
Gross Infection (%)	7.8%	8.8%	10.9%	12.4%
Total Provisioning Coverage (%)	81.7%	88.0%	87.1%	83.8%
Net Infection (%)	2.0%	1.8%	2.1%	3.1%
Cost of deposits (%)	2.6%	2.9%	4.9%	5.7%
Net NPLs to Tier-1 Capital (including General Provisioning) (%)	11.2%	10.4%	10.4%	14.9%
Capital Adequacy Ratio (C.A.R (%))	15.45%	17.74%	18.94%	19.51%
Markup Spreads (%)	3.9%	3.8%	4.3%	4.6%
Efficiency (%)	48.2%	51.3%	49.3%	44.2%
ROAA (%)	1.4%	0.8%	1.0%	1.1%*
ROAE (%) *(Shareholder's Equity)*	20.6%	11.6%	13.8%	14.0%*
Liquid Assets to Deposits & Borrowings (%)	60.3%	55.1%	63.4%	63.6%
***Annualized**				

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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 and Instrument Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Outlook	Rating Action
		RATING TYPE: ENTITY		
6/29/2020	AAA	A-1+	Stable	Reaffirmed
6/28/2019	AAA	A-1+	Stable	Reaffirmed
6/29/2018	AAA	A-1+	Stable	Reaffirmed
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

Rating Date	Medium to Long Term	Short Term	Outlook	Rating Action
		RATING TYPE: ADT-1 (TFC)		
6/29/2020	AA+		Stable	Reaffirmed
6/28/2019	AA+		Stable	Reaffirmed
9/6/2018	AA+		Stable	Final
6/12/2018	AA+		Stable	Preliminary

Instrument Structure	Listed, perpetual, unsecured, subordinated, non-cumulative and contingent convertible debt instrument amounting up to Rs. 10.0b (inclusive of Green Shoe Option of Rs. 3.0b).
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings.

Due Diligence Meeting(s) Conducted

Name	Designation	Date
Mr. Arif Akmal Saifie	Financial Controller & Head of Investor Relations	June 25, 2020