

RATING REPORT

United Bank Limited

REPORT DATE:

June 26, 2024

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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/ Rating Watch	Stable		Stable	
Rating Action	<i>Reaffirmed</i>		<i>Reaffirmed</i>	
Date	<i>June 26, 2024</i>		<i>June 27, 2023</i>	
TFC Rating	AA+		AA+	
TFC Outlook/ Rating Watch	Stable		Stable	
Date	<i>June 26, 2024</i>		<i>June 27, 2023</i>	

COMPANY INFORMATION

Privatized in 2002	External auditors: EY Ford Rhodes, Chartered Accountants
Public Limited Company	Chairman of the Board: Sir Mohammed Anwar Pervez, OBE, HPk
Key Shareholders (with stake 5% or more): Bestway Group (BG) – 62.13%	President & CEO: Mr. Muhammad Jawaid Iqbal

APPLICABLE METHODOLOGY

VIS Financial Institution<https://docs.vis.com.pk/Methodologies%202024/Financial-Institution-v2.pdf>**VIS Rating Scale**<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

United Bank Limited (UBL)

OVERVIEW OF
THE
INSTITUTION

RATING RATIONALE

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

Profile of Chairman
Sir Mohamud 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. He has been recipient of number of awards in UK and Pakistan.

Profile of CEO
Mr. Mubammad Jawaid Iqbal was appointed as the new President & CEO effective May 2, 2023. Mr. Iqbal is a member of UBL's BoD since Dec'22. Mr. Iqbal has over two decades of banking experience at senior managerial positions. Mr. Iqbal is an MBA from Bahauddin Zakariya University, Pakistan; Chartered Financial Analyst (CFA) from CFA Institute, USA; and Advanced Management Program from Harvard Business School, USA.

Banking Sector

The banking sector in Pakistan has been navigating a challenging macroeconomic landscape. Despite facing headwinds such as high inflation, elevated interest rates, and geopolitical uncertainties, the sector has demonstrated resilience and adaptability in supporting economic stability. One of the important factors contributing to the sector's resilience has been its strong capitalization and liquidity. Banks in Pakistan remain well-capitalized, with an industry-wide CAR of 19.7%. This ensures that banks are equipped to absorb potential shocks and maintain financial stability. Moreover, profitability metrics remain healthy, with a return on equity (ROE) of 27.1% based on CY-23 results, underscoring the sector's ability to generate sustained returns amidst challenging operating conditions.

The government's successful negotiation of the IMF's Stand-By Arrangement (SBA) program, culminating in a Staff-Level Agreement and disbursement of funds, has provided additional support to market confidence and exchange rate stability, with positive implications for the banking sector. In terms of monetary policy dynamics, the State Bank of Pakistan (SBP) has maintained a cautious stance, balancing the imperative of containing inflationary pressures while supporting economic growth. Even as headline inflation has moderated from peak levels, it remains elevated. Nevertheless, the SBP has reduced the policy rate at 20.5% in its latest monetary policy statement. This stance reflects the central bank's commitment to anchoring inflation expectations and safeguarding macroeconomic stability.

Looking ahead, the banking sector faces both challenges and opportunities. Continued vigilance in managing credit quality and liquidity risks will be vital, especially amidst evolving macroeconomic dynamics and policy uncertainties. Moreover, the sector's role in supporting the government's reform agenda, particularly in areas such as energy, SMEs and privatization of state-owned enterprises, will be critical in fostering sustainable economic growth and financial stability.

Rating Drivers**The Bank's ratings reflect its strong domestic franchise and market position.**

UBL operates a network of 1,356 (2022: 1,335) branches within Pakistan, including 209 (2022: 150) Islamic Banking branches, and 2 (2022: 2) branches in Export Processing Zones. There are 8 overseas branches as at end-Mar'24. The Bank is classified as a Domestic Systemically Important Bank (D-SIB) and remains compliant to the additional supervisory requirements as laid down in the framework.

Asset Mix

UBL experienced an increase in its asset base, exceeding the industry's year-over-year increase of 29.5% in 2023. Much of this increase was a function of heightened activity in the treasury market with repo borrowings secured by government treasuries driving profitability for the year, as the Bank took advantage of high interest rates. Deposits also grew, outpacing the industry's growth of 23.9%, and causing the Bank's market share of deposits to rise to 8.4% (CY22: 8.2%) as of Dec'23. The Bank remained cautious on the lending front with the decrease in advances being significant and marking a deviation from trends in peer banks. By Mar'24, the Bank's asset base had grown further, though at a much lower pace, driven mainly by further utilization of repo borrowing facilities.

Credit Risk

By end-Dec'23, the Bank's gross advances had decreased by 29.3%, in contrast to the industry's growth of 3.7%. This led to a decline in UBL's market share in gross advances to 5.8% (CY22: 8.5%). The financing portfolio is dominated by corporate exposures. International exposures also constitute a sizable part of the advances, rendering the portfolio trends relatively more exposed to currency valuation effects. In terms of economic sectors, a decrease in the lending portfolio within the 'Financial' sector, 'Agriculture' sector, and 'Individuals' sector coupled with a cumulative decline within the 'Textile' sector was observed. The decline was partially offset by higher lending in sectors including 'Wholesale and Retail Trade', 'Sugar' and 'Telecommunications'. As of Mar'24, gross advances further decreased, by 3.3%, in line with the industry's decline of 3.1%, reflecting a sector-wide caution in lending and weak demand.

Asset Quality

As of Dec'23, the Bank's Non-Performing Loans (NPLs), increased by 13.1% taking gross infection (GI) ratio to 14.7% (CY22: 9.2%). The rise in NPLs was attributed primarily to the negative impact of currency devaluation on the international NPL portfolio. With higher NPLs, the Net NPLs to Tier-1 equity ratio saw a minor increase, standing at 8.0% (CY22: 7.5%).

Starting in 2024, and following the directives of the State Bank of Pakistan (SBP), the Bank transitioned to implementing IFRS-9. As a result, the Bank set aside higher reserves mostly as Expected Credit Losses (ECL) estimations against stage 1 and stage 2 assets, while ECLs against stage 3 assets remained comparable to specific provisions held against NPLs as of Dec'23. Due to the implementation of IFRS-9, the Bank's total provisioning coverage increased, mitigating the risk of any potential asset losses.

Investments

The Bank's investments rose significantly, reaching Rs. 4.4tn as of Dec'23 (Dec'22: Rs. 1.4 tn). By Mar'24, UBL's investments had increased further by 5.6% while having minimal credit risk, with 95.5% (CY23: 95.4%; CY22: 90.5%) comprising federal government securities. During 2023 and 1QCY24, the Bank continued to increase its allocation to floating rate PIBs, which represented 64.3% of total PIBs by end Mar'24. By Mar'24, the weighted average duration of fixed rate PIBs was 1.8 years (Dec'23: 2.0 years), while that of floating rate PIBs was 0.2 years (Dec'23: 0.8 years), giving an average duration of the portfolio at below 1 year, and mitigating the risk of MTM losses.

Liquidity

As of Dec'23, the Bank's deposits growth was driven by an increase in saving and current deposits. Consequently, the Bank's CASA proportion increased to 87.1% (CY22: 82.9%). By end-Dec'23, individual deposits constituted 62.9% (Dec'22: 62.3%) of total deposits. No depositor balances exceeded 2.0% of total deposits. By Mar'24, the Bank's deposits had further increased, attributed to an uptick in current account deposits.

UBL has maintained a strong liquidity profile with a LADB ratio of 82.2%, which further improved to 82.4% as of Mar'24. Additionally, the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) remained significantly above regulatory requirements.

Profitability

In 2023, the State Bank of Pakistan (SBP) implemented a contractionary monetary policy, maintaining a consistently high benchmark rate throughout the year. In line with sector trends,

the Bank reported a higher Profit after Tax (PaT) compared to CY22, driven by higher net markup income, though it was partly offset by a decline in non-markup income and rise in administrative expenses. However, the excess of recurring income over recurring expenses led to an improvement in the efficiency ratio to 36.8% (2022: 40.3%). The Bank reported a provision reversal, compared to a net charge in the previous year, supporting profitability. With a stronger bottom line, UBL reported higher Return on Average Assets (ROAA) and Return on Average Equity (ROAE).

The short to medium-term outlook for UBL's profitability appears positive, primarily due to an expected expansion in the spread in the short term. This is mainly due to the downward trend in benchmark rates, and the expected lag in the repricing of assets relative to liabilities. Non-interest income is expected to increase and partially offset any rise in operating expenses and provision charges. Additionally, sizable holdings in the floating PIB portfolio are likely to result in MTM surpluses and gains from the investment book.

Capitalization

The Capital Adequacy Ratio (CAR) decreased to 16.6% by the end of Dec'23 (Dec'22: 19.2%). This decline was due to a greater increase in Risk Weighted Assets (RWAs) relative to total eligible capital driven by higher exposure to market risk, off-balance-sheet items, and operational risk.

As of Dec'23, the Bank's Common Equity Tier-1 Capital increased, due to earning generated and regulatory adjustment and reduced adverse impact from negative adjustments particularly pertaining to deferred tax asset. As of Mar'24, the Bank's paid-up capital remained unchanged. However, UBL's total eligible capital increased, while RWAs remained stable at Rs. 1.2 tn. Consequently, the CAR improved to 17.5%. The CAR continues to exceed regulatory requirements. Total Tier-1 capital comprising 75.3% of total eligible capital, also allows room for growth through Tier-2 supplementary capital if necessary.

United Bank Limited (UBL)
Appendix-I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
BALANCE SHEET	Dec'22	Dec'23	Mar'24
Total Investments	1,415,194	4,385,217	4,630,656
Gross Advances	1,013,767	717,068	693,613
Net Advances	921,837	613,566	584,903
Total Assets	2,758,753	5,574,998	5,862,684
Borrowings	564,519	2,815,471	2,979,183
Deposits & other accounts	1,841,819	2,350,541	2,469,100
Subordinated Loans	10,000	10,000	10,000
Tier-1 Equity	144,078	153,391	161,246
Paid-up Capital	12,242	12,242	12,242
Net Shareholder Equity (excl. revaluation surplus)	189,934	210,535	209,955
INCOME STATEMENT			
	2022	2023	1QCY24
Net Spread Earned	103,209	142,884	26,614
Net Provisioning / (Reversal)	15,669	(9,042)	(1,720)
Non-Markup Income	34,443	22,869	20,397
Operating expenses	52,284	64,306	17,610
Profit/ (Loss) Before Tax	68,310	108,118	30,451
Profit / (Loss) After Tax	32,063	53,180	15,588
RATIO ANALYSIS			
	2022	2023	1QCY24
Market Share (Domestic Advances) (%)	8.5%	5.8%	5.8%
Market Share (Domestic Deposits) (%)	8.2%	8.4%	8.7%
Non-Performing Loans (NPLs) (%)	93,339	105,541	106,808
Gross Infection (%)	9.2%	14.7%	15.4%
Total Provisioning Coverage (incl. general prov.) (%)	98.5%	98.1%	101.8%
Net Infection (%)	1.2%	2.1%	2.2%
Cost of deposits (%)	5.7%	8.0%	9.0%*
Gross Advances to Deposits Ratio*** (%)	49.7%	27.5%	25.4%
Net NPLs to Tier-1 Capital (adj. for general prov.) (%)	7.5%	8.0%	7.5%
Tier-1 CAR (%)	14.4%	12.6%	13.2%
Capital Adequacy Ratio (CAR) (%)	19.2%	16.6%	17.5%
Spread (%)	4.7%	4.8%	3.7%*
Efficiency (%)	40.3%	36.8%	50.3%
Liquid Coverage Ratio (LCR) (%)	317.0%	274.0%	251.0%
Net Stable Funding Ratio (NSFR) (%)	113.0%	146.0%	146.0%
ROAA (%)	1.2%	1.3%	1.1%*
ROAE (Net Shareholder Equity) (%)	18.0%	26.6%	29.7%*
Liquid Assets to Deposits & Borrowings** (%)	59.6%	82.2%	82.4%

* Annualized

** Adjusted for repo and collateral

*** Adjusted for SBP refinancing schemes

REGULATORY DISCLOSURES					Appendix II
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 Watch	Rating Action
	RATING TYPE: ENTITY				
	6/26/2024	AAA	A-1+	Stable	Reaffirmed
	6/27/2023	AAA	A-1+	Stable	Reaffirmed
	6/30/2022	AAA	A-1+	Stable	Reaffirmed
	6/30/2021	AAA	A-1+	Stable	Reaffirmed
	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 Watch	Rating Action
	RATING TYPE: ADT-1 (TFC)				
	6/26/2024	AA+		Stable	Reaffirmed
6/27/2023	AA+		Stable	Reaffirmed	
6/30/2022	AA+		Stable	Reaffirmed	
6/30/2021	AA+		Stable	Reaffirmed	
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. For conducting this assignment, analyst				

<p>did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2024 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.</p>			
<p>Due Diligence Meeting(s) Conducted</p>	Name	Designation	Date
	Mr. Arif Akmal Saifie	Chief Financial Officer	<p>06- June- 2024</p>
	Mr. Imran Sarwar	Group Executive Risk & Credit Policy	
	Mr. M. Rizwan Malik	Global Head, Treasury, & Capital Markets	
	Ms. Saira Shah	Financial Controller & Head of Investor Relations	