RATING REPORT

United Bank Limited

REPORT DATE:
July 02, 2021

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 30 '21*		*June 29, '20*	
TFC Rating	AA+		AA+	
TFC Outlook	Stable		Stable	
Date	*June 30', '21*		*June 29, '20*	

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:** Mr. Shazad G. Dada
Bestway Group (BG) (61.48%)	

APPLICABLE METHODOLOGY(IES)

VIS Commercial Banks Rating http://vis.com.pk/docs/Meth-CommercialBanks201803.pdf

United Bank Limited (UBL)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

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'21, UBL operates a network of 1,348 (Dec'20: 1,356) branches nationwide and 13 (Dec'20: 14) 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 joined the Bank on July 2020 as President & CEO.

He is a graduate from University of Pennsylvania with Bachelors of Science and Bachelors of Arts degrees, and also has an MBA from the Wharton Business School, University of Pennsylvania. Prior to

RATING RATIONALE

<u>Key Rating Drivers</u>

Dominant market position and strong franchise are key rating drivers

United Bank Limited (UBL) remains the second largest private sector Bank in the country having a market share of 7.94% in domestic deposits as at end-December FY20 with a strong domestic franchise and diversified stream of revenues. Owing to its strategic importance, UBL is categorized as one of the Domestic Systemically Important Banks (D-SIBs). The bank also has had a sizeable presence in the overseas markets historically, however over the last few years; UBL has been following a global re-alignment strategy in its international operations whereby it is continuously reducing its overseas portfolio. Most recently, the bank has decided to wind up its Switzerland subsidiary. The bank also has a fairly diversified revenue stream in domestic operations. Fee income on trade credit/debit cards, home remittances and bancaassurance have remained major contributors over the years, albeit declining in 2020 on account of COVID related slowdown.

Asset growth remained concentrated in investments. Curtailment in financing portfolio continued, largely in international operations.

UBL's financing portfolio reduced by 17% in FY20 due to continued de-risking strategy pursued in the overseas operations. International book registered a decline of 31% (FY20: USD 606m; FY19: USD 882m) in FY20 while domestic book also reduced by 13% (FY20: Rs. 433b; FY19: Rs. 500b) at year end on account of constrained lending amid challenging economic environment. Consequently, the reduction in risk weighted assets resulted in improvement in capitalization indicators for the bank. Asset growth in 2020 was mainly driven by deposit growth of 12% which was channeled primarily towards the investment portfolio. On a timeline basis, the asset mix depicts a rising trend in investments, resulting in ADR declining to 34% from 44% in FY19. The Bank's ADR is in line with peer median.

Credit risk remains elevated in the overseas portfolio

Asset quality indicators remained under pressure with gross infection increasing to 13.7% during FY20 mainly emanating from overseas portfolio. Non-Performing loans (NPLs) in the international book increased by 11% on account of challenging business environment in the GCC countries which was further compounded by COVID-19. Domestic NPL's remained fairly intact registering a 4% increase year over year. The bank made sizable provisions of Rs. 16b during the year, including Rs. 3.6b in general provisions, which has improved provisioning coverage to 95%. However, both gross (13.7%) and net infection (2.2%) remains above peer median during FY20. Going further, overseas book will remain under pressure with NPL accretion expected on the back of prolonged adverse economic environment in the GCC region.

joining UBL, he 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.

Strong liquidity profile and improved deposit mix.

With sizeable increase in investment portfolio in 2020 comprising majorly of liquid Govt securities, UBL's liquidity profile has improved. Liquid assets to deposits and borrowings surged to 76% at March' 21 end. Both LCR and NSFR registered an increase and remained comfortably above regulatory compliance. The bank actively focused on expanding the low cost deposits base which was reflective in improvement in deposit mix, whereby concentration on expensive term deposits was reduced. CASA accounted for 80% in 2020 (2019: 75%). There is however room for improvement in the deposit concentration as the same remains higher than rating benchmarks.

Profitability remained under pressure on account of higher provisioning and lower non markup income.

While net interest income increased in 2020 by 21% (2019: 10%) on account of volumetric growth in earning assets, profitability remained subdued due to higher provisioning burden. Spreads reduced in 2020 due to interest rate cut although repricing on deposits was much larger than the decline in yield on earning assets. Non markup income contribution to recurring revenues (2020: 19%; 2019: 26%) was also impacted in 2020 as a result of COVID related slowdown in business activity. Fees & commissions across almost all revenue streams registered a decline. However, expenses remained constrained, resulting in improvement in efficiency ratio. Net profitability remained fairly stable at Rs. 20.9b in 2020(2019: Rs. 19.1b). Going forward, higher provisioning on account of international operations might affect profitability of the bank.

Improvement in capitalization indicators

Capitalization indicators registered a significant improvement in 2020 on account of reduction in Risk Weighted Assets (RWA), in line with the banks de-risking strategy. Capital adequacy ratio (CAR) increased to 24% at Dec 2020, which is one of the highest in the peer group. Tier 1 CAR also registered increase to 18%. Notable improvement in risk weighted assets optimization and net NPL to Tier 1 Capital ratio (2020: 8%; 2019: 10%) has been noted. Given the ongoing pressure from further impairment in the international portfolio, the bank has built a comfortable cushion in its capital to absorb projected credit impairment charges. Implementation of IFRS 9 will also exert some provisioning pressure which can be accommodated at existing capitalization levels.

FINANCIAL SUMMARY *(All figures in PKR billions unless stated otherwise)*				Appendix I
BALANCE SHEET	**31-Dec-18**	**31-Dec-19**	**31-Dec-20**	**31-Mar-21**
Total Investments	786.4	840.4	1,128.7	1,322.6
Advances - net	715.9	636.2	530.3	540.7
Total Assets	1,889.6	1,893.7	2,049.58	2,174.94
Borrowings	268.1	154.5	129.0	252.8
Deposits & other accounts	1,366.1	1,467.1	1,640.21	1,636.75
Paid-up Capital	12.2	12.2	12.2	12.2
Tier-1 Equity	117.9	124.7	136.8	132.5
Net Shareholders Equity (excl. revaluation surplus)	134.7	143.2	156.4	150.443
INCOME STATEMENT	**31-Dec-18**	**31-Dec-19**	**31-Dec-20**	**31-Mar-21**
Net Mark-up Income	56.2	61.8	75.0	16.9
Net Provisioning	12.9	8.2	16.8	0.4
Non-Markup Income	25.0	21.7	17.1	5.8
Operating Expenses	38.8	40.2	40.1	9.9
Profit Before Tax	25.0	34.2	34.2	12.2
Profit After Tax	15.2	19.1	20.9	7.4
RATIO ANALYSIS	**31-Dec-18**	**31-Dec-19**	**31-Dec-20**	**31-Mar-21**
Market Share (Advances) (%)	7.2%	6.4%	5.39%	5.4%
Market Share (Deposits) (%)	8.3%	8.3%	7.9%	8.0%
Gross Infection (%)	8.8%	10.9%	13.7%	12.9%
Total Provisioning Coverage (%)	88.0%	87.1%	94.50%	95.95%
Net Infection (%)	1.8%	2.1%	2.2%	1.9%
Cost of deposits (%)	2.9%	4.9%	4.02%	3.10%
Net NPLs to Tier-1 Capital (including General Provisioning) (%)	10.4%	10.4%	8.2%	7.3%
Capital Adequacy Ratio (C.A.R (%))	17.74%	18.94%	24.43%	23.81%
Advances to Deposits Ratio (ADR)	49.0%	44.3%	33.5%	34.1%
Markup Spreads (%)	3.8%	3.4%	3.9%	3.4%
Efficiency (%)	51.3%	49.3%	44.0%	47.8%
ROAA (%)	0.8%	1.0%	1.06%	1.4%
ROAE (%) *(Shareholder's Equity)*	11.6%	13.8%	14.0%	19.5%
Liquid Assets to Deposits & Borrowings (%)	55.1%	63.4%	76.0%	76.0%
Branches – Domestic	1364	1362	1356	1348
Branches - Overseas	15	14	14	13
***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				
	6/30/2021	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 Action**
	RATING TYPE: ADT-1 (TFC)				
	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.				
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Due Diligence Meeting(s) Conducted	**Name**	**Designation**		**Date**	
	Mr. Arif Akmal Saifie	Financial Controller & Head of Investor Relations		June 23, 2021	