RATING REPORT

United Bank Limited

REPORT DATE:
June 30, 2022

RATING ANALYSTS:

Asfia Aziz
asfia.aziz@vis.com.pk

Sundus Qureshi
sundus.qureshi@vis.com.pk

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, '22*		*June 30, '21*	
TFC Rating	AA+		AA+	
TFC Outlook	Stable		Stable	
Date	*June 30, '22*		*June 30, '21*	
Rating Action	*Reaffirmed*		*Reaffirmed*	

COMPANY INFORMATION	
Privatized in 2002	**External auditors:** M/s. EY Ford Rhodes
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

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

As at end-Mar'22, UBL operates a network of 1,340 (Dec'21: 1,341, Dec'20: 1,356) branches nationwide and 8 (Dec'21: 8, 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 in 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

Ratings incorporate strong franchise of the Bank and diversified revenue stream

United Bank Limited (UBL) is classified as the third (2020: second) largest private sector Bank in the country having a market share of 7.24% (Dec'20: 7.9%) in domestic deposits as at end-Dec'21 with a strong domestic franchise and diversified stream of revenues. Owing to its strategic importance, UBL was categorized as one of the Domestic Systemically Important Banks (D-SIBs). Therefore, the HLA surcharge was effective on the Bank. However, in the latest assessment carried out by the SBP in October 2021, UBL is no longer a D-SIB. However, the Bank shall continue to meet the higher HLA capital surcharge, in the form of Additional Common Equity Tier 1 (CET-1) capital of 1.00% on a standalone and consolidated basis till June 30, 2022.

UBL, through its subsidiaries, associated companies and representative offices, has global presence in UK, UAE, China, Bahrain, and Qatar. The bank also has a well -diversified revenue stream in domestic operations. Fee income on trade credit/debit cards, home remittances and bancaassurance have remained major contributors over the years.

Investments continue to form a major part of the asset mix. Although credit risk on the portfolio is considered manageable, however the Bank remains exposed to heightened market risk.

UBL's balance sheet growth in terms of total assets (particularly investments and advances) recorded an increase of 28% in 2021 versus negligible growth last year driven primarily by growth in borrowings and deposits. Investment portfolio has increased on a timeline basis with continued focus towards federal Government securities. As at March 31, 2022 investments accounted for 52% (Dec'21: 57%) of the total asset base of the Bank. Investments predominantly remain vested in Government securities accounting for 92.2% (2020: 89.4%) of the total portfolio in 2021. The composition is fairly diversified with ~36% invested in T-Bills 28% in floating PIB's while fixed PIB's accounted for 22% of the investment portfolio at end-Dec'21. The Bank also has an exposure in Sri Lankan Government Bonds to the tune of Rs. 3.4b at end-Dec'21 holding 5.0% share in the total investment base as at Dec'21. Out of total provision stated for foreign bonds (Rs. 1b), 67% (Rs. 688m) provision is charged against this exposure during the year and VIS expects further provisioning burden against the same. With negative Pakistan country risk and rising interest rate environment, market risk on the portfolio is on the higher side which may impact future profitability.

UBL's loan book displayed an uptick in both domestic and international operations due to recovery in global environment post COVID-19. Global realignment strategy has stabilized credit risk in the overseas portfolio. While NPL portfolio only rose due to currency devaluation on international non-performing exposures, overall asset quality indicators improved in 2021, albeit remaining one of the highest in the peer group.

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.

UBL's advances portfolio displayed an uptick in both in the domestic and overseas operations. Around 31% (Dec'20: 33%) of the advances portfolio encompasses public sector exposures at end-Dec'21. Domestic advances were elevated in view of the global recovery in the macroeconomic environment post-COVID19. Share of domestic book in the total portfolio has been maintained at 75% at Dec'2021. In 2021, domestic net advances inclined by 20% to Rs. 520b (2019: Rs. 433b), mainly in the corporate segment (+17% YoY) which continued to dominate with the largest share of 70% of the total domestic portfolio at end-Dec'21. UBL is aggressively expanding its Islamic loan book with advances doubling to Rs. 44b (2020: Rs. 21b). Going forward, growth in domestic advances is expected to remain cautionary with focus on enhancing exposures with multinationals offering greater cross sell opportunities.

The bank has had a sizeable presence in the overseas markets historically, however over the last few years; UBL has been following a global re-alignment and de-risking strategy in its international operations whereby it was continuously reducing its overseas portfolio. In the first half of 2021, UBL continued to scale down its operations in overseas markets. However, growth was evident in the international portfolio in the remaining half. Overseas NPLs have declined from $343m in Dec'20 to $334m as at end-Dec' 21 with further decline to $329m at end-Mar'22. However, due to rupee devaluation, the same were reported on the higher side in rupee terms. Going forward, the Bank plans to follow a business model that is focused on selective lending, mainly to established corporates with a longer-term business relationship with the Bank to minimize the risk of NPL formation. Excess liquidity is primarily deployed in stable, sovereign debt securities to maintain net interest margins.

Overall asset quality indicators improved in 2021 with gross infection decreasing to 11.8% (2020: 13.7%) mainly due to higher growth in advances Similarly, Net infection reduced to 1.7% (2020: 2.2%) at end-2021, due to higher provisioning coverage. Although improving, both gross and net infection levels report higher than the peers (barring NBP). Amidst weak macroeconomic environment further improvement in asset quality indicators is considered important from a ratings perspective.

Strong liquidity profile and improved deposit mix.

Liquidity profile of the bank improved on account of buildup in liquid assets and improvement in current account proportion of deposits despite elevation in gross advances in relations to deposits. Although ADR remains on the lower side as compared to historic levels. Despite sizeable investments in liquid assets, liquid assets to deposits and borrowings (LADB) decreased to 73.5% (2020: 77.1 %) at end-2021. The decrease in LADB was a result of significant increase in borrowings (2021: Rs. 563.3b; 2020: Rs. 129.0b) majorly consisting of repurchase agreements. Similarly, NSFR was reported lower at 180% (2020: 222%). However, LCR increased to 335% in 2021. However, both liquidity indicators, LCR and NSFR remained complaint with regulatory requirement.

The year 2021 witnessed an active buildup of domestic deposits that surged by 7% with market share reported at 7.24% (Dec'20: 7.94%) at end-Dec'21. Going forward, UBL's management aims to achieve the target of 8.0% market share by year-end 2022. The collection in deposits was mainly in current accounts, which not only improved the deposit mix of the bank but also contributed towards lowering costs of deposit. Current account contribution increased from 42% to 47% while CASA accounted for 82% of total deposits at end-Mar'22. The bank on boarded approximately 564,000 new to bank (NTB) current deposit customers during 2021 (Growth of 18%) and 162,000 new current accounts in 1Q22 as part of their acquisition drive. Deposit concentration has been improving on a timeline basis, on a stand-alone basis as well as in terms of peer comparison and VIS rating benchmarks. Going forward, low cost deposit mobilization will remain a key focus area for the Bank.

With reducing spreads in 2021, net interest income of the Bank declined. However, overall profitability profile was supported by higher non-interest income as well as higher recoveries. Furthermore, given heightened market risk and higher expected provisioning, maintenance of profit levels is considered important.

UBL's overall profitability profile has depicted sizeable improvement of 48% in 2021 with PAT of Rs. 31b (2020: Rs. 21b). Greater profitability levels were a function of higher non-markup income and higher recoveries. The Bank's net mark-up income was reported lower by 4% at Rs. 71.8b (2020: Rs. 74.9b) in 2021 due to reduced spreads. Interest rates remained lower in 2021 as the benchmark policy rate averaged 7.3% in 2021 versus 8.6% in 2020, which restricted the overall interest earnings profile of the banking sector. Spreads of the bank stood higher at 3.6% (2021: 3.1%, 2020: 3.9%) in 1Q'22 owing to immediate re-pricing of interest bearing liabilities against lagged effect on repricing of assets. Full year effect of rising interest rates will be visible in 2023.

The downtick in net interest income was offset by higher non-interest income and recoveries. Fees and Commission income constituting 56% of the total non-interest income witnessed growth of 18% in 2021 emanating from higher branch banking operations, remittances, card related fees, and consumer finance related fees. Higher non-interest income in 2021 was further supported by higher dividend income (Rs. 2b), and realized gain on sale of foreign (Rs. 1.9b) and federal GoP securities (Rs. 1.2b). With higher growth in administrative expenses (attributable by higher compensation expenses and IT related expenditure), efficiency ratio deteriorated from 44% to 47% for 2021. Given inflationary pressures, maintaining lower efficiency levels is considered important. Furthermore, given heightened market risk and higher expected provisioning, maintenance of profit levels is considered important.

With growth in Risk Weighted Assets, CAR of the Bank decreased in the review period; however the same is reported higher against the regulatory requirement.

UBL's capitalization profile depicted improvement on account of higher shareholder's equity, reduced leverage levels and lower non-performing loan book in relation to capital base. While CAR has reduced in the outgoing year to 21.54% (2020: 24.43%) at end-Dec'21 due to greater quantum of risk weighted assets (RWA); the same has strengthened on a timeline basis and classifies as one of the highest amongst the peers. The same remains comfortably above the regulatory requirement of 12.5% (1% including D-SIB buffer). With optimization of risk weighted assets, the bank has built adequate capitalization buffer to absorb any projected credit impairment. Absorbing the impact of projected higher provisioning and IFRS 9 is considered important from the ratings point of view.

FINANCIAL SUMMARY *(United Bank Limited)*		Appendix I		
BALANCE SHEET	**31-Dec-19**	**31-Dec-20**	**31-Dec-21**	**31-Mar-22**
Total Investments	840,323	1,128,674	1,496,542	1,207,824
Advances - net	635,834.0	530,279.5	646,188.5	655,542.9
Total Assets	1,892,775	2,049,392	2,618,166	2,311,044
Borrowings	154,484	128,987	563,285	210,644
Deposits & other accounts	1,467,063	1,640,212	1,750,944	1,774,652
Paid-up Capital	12,242	12,242	12,242	12,242
Tier-1 Equity	124,683	136,795	140,725	143,220
Net Shareholders Equity (excl. revaluation surplus)	143,232	156,432	166,586	170,977
INCOME STATEMENT	**2019**	**2020**	**2021**	**1Q2022**
Net Mark-up Income	61,774	74,959	71,759	21,473
Net Provisioning	8,220	16,768	(955)	347
Non-Markup Income	21,676	17,094	23,379	6,780
Operating Expenses	40,209	40,061	42,745	11,728
Profit Before Tax	34,242	34,192	52,127	15,847
Profit After Tax	19,134	20,899	30,882	9,528
RATIO ANALYSIS	**31-Dec-19**	**31-Dec-20**	**31-Dec-21**	**31-Mar-22**
Market Share (Domestic Advances) (%)	6.12%	5.10%	5.12%	5.19%
Market Share (Domestic Deposits) (%)	8.31%	7.94%	7.24%	7.43%
Gross Infection (%)	10.95%	13.72%	11.81%	11.76%
Total Provisioning Coverage (%)	87.18%	94.50%	95.45%	96.01%
Net Infection (%)	2.09%	2.21%	1.73%	1.71%
Cost of deposits (%)	4.90%	4.03%	3.30%	4.07%
Net NPLs to Tier-1 Capital (including General Provisioning) (%)	10.40%	8.24%	7.64%	7.50%
Advances to Deposits (ADR) Adjusted for SBP Borrowings	44.28%	33.52%	37.42%	37.53%
Unadjusted ADR	47.9%	37.1%	41.6%	41.6%
Capital Adequacy Ratio (C.A.R (%))	18.94%	24.43%	21.54%	21.74%
Markup Spreads (%)	3.40%	3.90%	3.10%	3.58%
Efficiency (%)	49.26%	44.02%	47.05%	42.53%
ROAA (%)	1.00%	1.06%	1.32%	1.55%
ROAE (%) *(Shareholder's Equity)*	13.80%	13.95%	19.12%	22.58%
Liquid Assets to Deposits & Borrowings (%)	64.16%	77.06%	73.46%	72.56%

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				
	6/30/2022	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 Action**
	RATING TYPE: ADT-1 (TFC)				
	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 did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2022 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				

	Name	Designation	Date
Due Diligence Meeting(s) Conducted	**Mr. Arif Akmal Saifie**	Financial Controller & Head of Investor Relations	June 06, 2022
	Mr. Muhammad Ali	Head of Anti-Fraud Division	June 06, 2022
	Mr. Abdul Saeed Siddiqui	Divisional Head of CAD	June 06, 2022
	Mr. Masood Mahmood Khan	Divisional Head of AML	June 06, 2022