RATING REPORT

United Bank Limited

REPORT DATE:
June 27, 2023

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 27, '23*		*June 30, '22*	
TFC Rating	AA+		AA+	
TFC Outlook	Stable		Stable	
Date	*June 27, '23*		*June 30, '22*	

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):	**President & CEO:** Mr. Muhammad Jawaid Iqbal
Bestway Group (BG) (61.31%)	

APPLICABLE METHODOLOGY(IES)
VIS Financial Institutions Rating (June 2023) https://docs.vis.com.pk/docs/FinancialInstitution.pdf
VIS Rating Scales and Definitions https://docs.vis.com.pk/docs/VISRatingScales.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.

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

Profile of CEO
Mr. Muhammad 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.

RATING RATIONALE

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

United Bank Limited (UBL) is now the fifth (2021: third) largest commercial bank in the country with market share of 6.88% (Dec'21: 7.24%) in scheduled bank domestic deposits as at end-Dec'22. UBL operates a network of 1,335 branches nationwide including 150 Islamic banking branches and 2 branches in Export Processing Zones. There are 8 overseas branches as at end-Mar'23. The Bank is now classified as a Domestic Systemically Important Bank (D-SIB) and remains compliant to the additional supervisory requirements as laid down in the framework.

UBL, through its subsidiary and representative offices, has 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.

Economic and Sector Update

The economy is currently facing several challenges, including a decrease in foreign reserves, a devaluing currency, and high inflation levels. To combat rising inflation, caused by the commodity super cycle and effects of Ukraine war, the central bank has implemented stricter monetary policies, resulting in a significant increase in the policy rate. This has led to higher funding costs for banks and impacted borrowers' debt servicing ability. As a result, banks are adjusting by increasing provisions for potential loan losses and writing off non-performing loans. The economic slowdown will likely prompt stricter lending standards with banks continuing to remain heavily invested in sovereign exposures. Counterbalancing this, rising interest rates should help banks maintain their margins, partially offsetting the decline in earnings and allowing for improved profitability. However, there is increased credit risk and market risk vulnerability, especially in the face of any potential interest rate or currency fluctuations, which could impact the capitalization levels of banks. Looking ahead, the medium to long-term outlook for the fiscal account is challenging because the government is struggling to expand its revenue base. Public debt accumulation is accelerating, crowding out private sector credit. This trend also increases the risk of potential sovereign debt restructuring. Given banking sector balance sheets highly skewed towards Government paper, this could lead to liquidity and profitability challenges, particularly for small and medium-sized banks in the future.

Asset base recorded relatively muted growth in 2022. However, domestic advances increased considerably mainly due to higher disbursements towards financial sector. Despite increase in classified portfolio due to currency devaluation on international non-performing exposure, overall asset quality indicators remained range bound during the review period.

The asset base recorded relatively muted growth of 5% in 2022. The increase was largely manifested in net advances portfolio, which rose by 42.7% during the year. Domestic advances mainly contributed towards the said increase. Resultantly, ADR of domestic operations increased while that of overseas operations remained stagnant. The Bank's overall and domestic ADR was slightly higher than the peer median at end-2022. Change in asset mix was witnessed during

1Q2023 with increase in investments and decrease in advances. Resultantly, ADR of both domestic and overseas operations dropped.

The growth was primarily driven by the corporate and others segment. Corporate segment increased by 18.5% year-on-year and remained the dominant segment in the domestic portfolio. However, its proportion in domestic net advances portfolio decreased to 56.7% (2021: 70.0%) by end-2022 owing to relatively higher increase in advances to financial sector which led to increase in the proportion of others segment to 30.2% (2021: 11.7%). At the same time, UBL has been expanding its Islamic loan book, with net advances in this segment growing by 133.1% to reach at Rs. 102.2b by end-2022 (2021: Rs. 43.9b). Going forward, growth in domestic advances is expected to remain limited with focus on multinationals offering greater cross sell opportunities.

UBL has been addressing various factors in its overseas operations, implementing strategic measures to optimize performance by streamlining certain international subsidiaries and branches. Overseas NPLs have declined from $334m in Dec'21 to $296m as at end-Dec'22. However, with devaluation of local currency against US$, NPLs increased in terms of local currency to Rs. 67.1b (2021: Rs. 58.9b). Going forward, the Bank plans to focus on selective lending, mainly to established corporates.

Overall asset quality indicators improved during 2022 with gross infection ratio decreasing to 9.21% (2021: 11.81%) mainly due to higher growth in advances portfolio. Similarly, with slightly higher specific provisioning coverage, net infection decreased to 1.24% (2021: 1.73%) by end-2022. Although improved, both gross and net infection levels were reported higher than the other D-SIBs (barring NBP). With decline primarily in domestic loan book, gross and net infection increased to 13.42% and 1.95% respectively by end-1Q23. Improvement in asset quality indicators is considered important from the ratings perspective.

Investments continues to form a major part of the asset mix. Investments mainly comprises federal government securities – local and foreign. Given deterioration in sovereign ratings and high interest rate environment, investment portfolio is exposed to heightened credit and market risks.

In 1Q23, UBL's total investments portfolio followed its growth trajectory, reaching Rs. 1,710b (2022: Rs. 1,415b; 2021: Rs. 1,497b), after a slight dip in 2022. During 2022, the significant increase in investments was funded mainly through deposits. At end-1Q23, the proportion of investments to total assets stood higher at 57.3% (2022: 51.3%). The majority of UBL's investments remained concentrated in government securities, accounting for 89.6% (2022: 90.5%; 2021: 92.1%) of the total portfolio. Elongation in portfolio duration was witnessed during 2022, with long-term (>1 year) investments comprising 87.0% of the aggregate investments (Dec'21: 42.0%). The weighted average duration of the fixed PIB portfolio has increased from 2.09 years to 2.57 years.

UBL's foreign securities portfolio consisted mainly of government securities from different sovereign states. However, it includes investments in securities from certain weaker sovereigns, such as Sri Lanka which has been rated 'D' while sovereign rating of some other countries like Nigeria and Turkey was also downgraded. The bank is providing coverage against foreign currency denominated investments including GoP Euro Bonds as sovereign rating of Pakistan has also been downgraded. With weakening of credit risk related to its foreign securities portfolio, further provisioning may have adverse impact on the bank's profitability.

The Bank remains exposed to heightened market risk with about half of its PIB portfolio comprising fixed income instruments. With negative country risk of Pakistan and high interest rate environment, market risk on the portfolio is on the higher side which may impact future profitability. At end-1Q23, the investment portfolio recorded significant provision for diminution in various categories. Moreover, the bank reported considerable mark to market deficit on investments which is as follows.

- *Fixed PIBs- Rs. 22.2b*
- *Floater PIBs- Rs. 15.6b*
- *GoP EuroBonds- Rs. 13.6b*
- *Sovereign Foreign Bonds- Rs. 5.7b*

Liquidity profile is considered strong and comfortably aligned with peers. Deposit concentration has been improving on a timeline basis

UBL's liquidity profile is considered strong and comfortably aligned with peers. Overall, the bank's liquid assets to deposits and borrowings (LADB) is towards upper quartile amongst peers. Both LCR and NSFR are compliant with domestic regulations. Largely stable borrowings and consistent subordinated debt further contribute to the bank's overall liquidity profile.

During 2022, the bank experienced slow domestic deposit accretion resulting in further decline in market share to 6.89% (Dec'21: 7.24%; 2020: 7.94%). However, the domestic deposits increased by 14.9% to 1,778b (2022: 1,547b) during 1Q23. The bank largely maintained proportion of its current deposit base while slight improvement was witnessed in CASA during the period under review. Deposit concentration has been improving on a timeline basis, on a stand-alone basis, though just short of VIS rating benchmarks. Going forward, low cost deposit mobilization will remain a key focus area for the Bank.

Healthy fund based income with improvement in spreads. Considerable support continues to emanate from non-markup income. Further improvement in efficiency ratio which in line with the rating benchmark. However, significant provision charge primarily on investments and higher incidence of taxation, restricted the bottom line

The bank's profitability depicted a relatively slow growth of 3.8% in contrast to 47.8% in 2021. The major factor was higher tax incidence during the outgoing year. The bank recorded higher tax on income (2022: 39%; 2021: 35%), higher super tax expense (2022: 10%; 2021: 4%) and prior year tax adjustment. Otherwise, profit before tax increased at a considerable growth rate of 31.0% despite notably higher incidence of provision charge during 2022.

The Bank's net mark-up income reported a growth of 43.8% at Rs. 103.2b (2021: Rs. 71.8b) in 2022 on account of both volume expansion and higher markup spreads. Given rise in interest rates and enhanced average investment portfolio, income from investments increased by 62.3% to Rs. 172.5b (2021: 106.2b) during 2022, representing about 69% of the markup income. With higher markup rates and increase in ADR, income from loans & advances also stood higher during 2022.

Fee and commission income constituted 46.1% of the total non-interest income which also witnessed a growth of 47.3% in 2022. The bank recorded higher foreign exchange income of Rs. 8.4b (2021: Rs. 4.0b) during the outgoing year. The bank also booked a one-off gain of Rs. 6.8b on the winding up of UBL Switzerland AG, a previously wholly owned subsidiary.

The bank's operating expenses increased to Rs. 52.3b in 2022, up 22% year on year, on account of significantly higher inflation levels, steep decline in the value of the PKR and higher overheads across the network. Despite the increase in the cost base, UBL's efficiency ratio improved from 47.1% in 2021 to 40.4% in 2022 and further to 34.2% in 1Q23 that is in line with the rating benchmark.

Provision expense increased to Rs. 15.7b (2021: Rs. (955m)) in 2022 primarily emanating from provisions against diminution in value of investments mainly to build coverage against investments held within UBL International. Provision against investments includes Expected Credit Losses (ECL) / impairment under IFRS 9 on overseas branches.

Given increase in Risk Weighted Assets, CAR decreased in the review period; however the same is comfortably above the rating benchmark and regulatory requirement

UBL's capitalization profile depicted improvement on account of higher shareholder's equity to total assets and reduced leverage levels. However, risk weighted assets (RWA) depicted a rising trend. RWA majorly inclined towards credit risk in 2022 and 1Q23. With increasing trend in RWA, CAR decreased to 17.6% (2022: 19.2%) by end-1Q23. UBL has been designated a Domestic Systemically Important Bank (D-SIB) by the SBP. The bank requires to hold an additional 0.5% Higher Loss Absorbency (HLA) Surcharge, over and above its minimum capital adequacy ratio, on both a standalone and consolidated basis. UBL's CAR remains comfortably above the regulatory requirement of 12.0% (including D-SIB buffer of 0.5%). CAR has remained around peer group median and comfortably above the rating benchmark. However, Net NPLs to Tier 1 Capital of the bank increased to 9.4% (2022: 7.5%, 2021: 7.6%) at end-1Q23 owing lower Tier-1 capital and higher net NPLs. The Bank needs to bring it down to keep it in line with the rating benchmark.

The capitalization buffers have provided adequate cushion to absorb credit impairment charges. Going forward, the bank may experience impairment with elevated upside due to higher exposure to longer tenor fixed income instruments, low rated sovereign debt along with uncertain economic environment. VIS will continue to closely monitor the capitalization ratios on a quarterly basis.

United Bank Limited (UBL) — Appendix I

Financial Summary				(amount in PKR millions)
BALANCE SHEET	**2020**	**2021**	**2022**	**1Q23**
Total Investments	1,128,674	1,496,542	1,415,194	1,710,211
Gross Advances	609,307	728,286	1,013,767	819,082
Advances - net	530,279	646,188	921,837	711,216
Total Assets	2,049,392	2,618,166	2,758,753	2,983,714
Borrowings	128,987	563,285	564,519	474,107
Deposits & other accounts	1,640,212	1,750,944	1,838,367	2,138,410
Subordinated Debt	10,000	10,000	10,000	10,000
Tier-1 Equity	136,795	140,725	144,078	138,766
Net Shareholders Equity (excl. revaluation surplus)	156,432	166,586	189,934	209,678
INCOME STATEMENT	**2020**	**2021**	**2022**	**1Q23**
Net Mark-up Income	74,959	71,759	103,209	33,255
Net Provisioning	16,768	(955)	15,669	2,615
Non-Markup Income	17,094	23,379	34,443	8,781
Operating Expenses	40,061	42,745	52,284	14,525
Profit Before Tax	34,192	52,127	68,310	24,399
Profit After Tax	20,899	30,882	32,063	13,903
RATIO ANALYSIS	**2020**	**2021**	**2022**	**1Q23**
Market Share (Domestic Advances) (%)	5.10%	5.12%	6.39%	4.71%
Market Share (Domestic Deposits) (%)	7.94%	7.24%	6.89%	7.51%
NPLs	83,624	86,013	93,339	109,904
Gross Infection (%)	13.72%	11.81%	9.21%	13.42%
Specific Provisioning Coverage	85.81%	86.85%	87.62%	87.17%
Total Provisioning Coverage (%) including General provisioning	94.50%	95.45%	98.49%	98.15%
Net Infection (%)	2.21%	1.73%	1.24%	1.95%
Cost of Funds (%)	4.40%	3.70%	6.40%	8.90%
Spreads (%)	3.90%	3.80%	5.00%	5.20%
Net NPLs to Tier-1 Capital (adjusted for General Provisioning) (%)	8.24%	7.64%	7.49%	9.35%
Advances to Deposits (ADR) Adjusted for SBP Borrowings	33.52%	37.42%	50.88%	34.84%
Tier 1 CAR (%)	18.37%	16.27%	14.41%	13.31%
Capital Adequacy Ratio (C.A.R (%))	24.43%	21.54%	19.17%	17.63%
Efficiency (%)	44.02%	47.05%	40.35%	34.25%
LCR (%)	318.68%	335.10%	320.60%	244.92%
NSFR (%)	222.42%	179.62%	161.94%	171.36%
ROAA* (%)	1.06%	1.32%	1.19%	1.94%
ROAE* (%) *(Shareholder's Equity)*	13.95%	19.12%	17.99%	27.83%
Liquid Assets to Deposits & Borrowings (adjusted for repo borrowings) (%)	78.89%	75.19%	60.73%	75.14%

**Annualized*

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 Action
		RATING TYPE: ENTITY		
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 Action
		RATING TYPE: ADT-1 (TFC)		
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 did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.

	Name	Designation	Date
Due Diligence Meeting(s) Conducted	**Ms. Saira Shah**	Financial Controller & Head of Investor Relations	June 13, 2023
	Mr. Muhammad Rizwan Malik	Global Executive Treasury & Capital Markets	June 13, 2023