

United Bank Limited

Chairman: His Highness Sheikh Nabayan Mabarak AlNabayan

President & CEO: Mr. Atif R. Bokhari

June 19, 2013

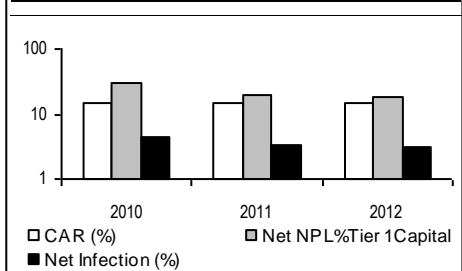
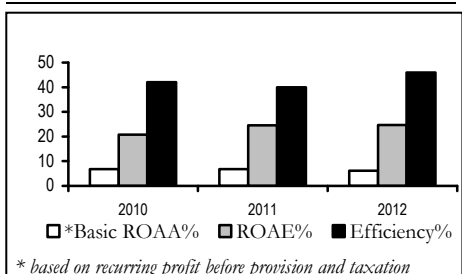
Analysts: Sobia Maqbool, CFA
M. Raza Lakhani

Category	Latest	Previous
Entity	AA+/A1+	AA+/A-1+
	Jun 19, '13	Jun 11, '12
TFC 3	AA	AA
Rs. 2b	Jun 19, '13	Jun 11, '12
TFC 4	AA	AA
Rs. 6b	Jun 19, '13	Jun 11, '12
Outlook	Stable	Stable
	Jun 19, '13	Jun 11, '12

Rating Rationale

Systemic importance of United Bank Limited (UBL) in the domestic financial sector is evidenced by market share of 8.1% in domestic deposits. Market share of UBL has to some extent declined on a timeline basis and has been an outcome of bank's focus on core deposits rather than price-sensitive large ticket deposits; cost of deposits of the bank is amongst the lowest in the industry. UBL has well-diversified funding access, with depositor concentration levels further improving by end-2012. Liquid assets held by the bank are sizeable at 57% of the funding base. Advances to Deposit ratio for branch operations in various overseas markets ranged between 40-80% at end-Dec'12. Sound capitalization provides the cushion to absorb downside risks emanating from investments and credit portfolio. Tier-1 CAR of the bank was reported at 10.5%; overall CAR of 14.8% may experience some reduction on account of retirement of subordinated TFCs. Net NPLs in relation to tier-1 capital is almost 18% and is considered manageable in relation to equity base of the bank.

Key Financial Trends



	2010	2011	2012
Net Advances (Rs. in b)	333.7	325.3	364.4
Deposits (Rs.in b)	550.6	613.0	700
Market Share** (%)	8.6	8.4	8.1
Deposit Cost (%)	4.0	4.3	4.3
Profit / (Loss) (Rs.in b)	11.2	15.5	18
Net worth (Rs. in b)	68.4	79.2	91.2
CAR (%)	14.5	14.3	14.8
Liquid Assets % Deposits & Borrowings	45%	55%	57%
Net Infection (%)	4.5	3.4	3.1

**Based on total domestic deposits

In a period of high interest rates and heightened credit risk, banks mostly remained shy of enhancing their loan books. Moreover, funding needs of the government itself had a crowding out effect on the private sector. In 2012, growth in the domestic loan book of UBL was driven by public sector advances with fresh lending in the commodity and power sectors. Share of public sector advances increased to one-third of UBL's domestic loan book of Rs. 299b by end-Dec'12. Across the banking sector, there have been delays in payment of markup and retirement of obligations by some public sector entities. To settle these public sector loans, debt-conversion/ transfer schemes have been introduced in the past. Nevertheless, frequent delays in servicing of public sector loans expose the banking sector to economic losses. Further growth in this avenue may need to be viewed cautiously; unless, favorable changes are witnessed in the sovereign's risk profile and the government's ability to manage circular debt crisis. Selective lending approach in the private sector has led to a decline in the private sector loans over the past two years. As a result, pace of fresh accretion of NPLs in private sector domestic loan book has subsided vis-à-vis prior years and apart from few exceptions, credit quality of private sector domestic loan book is considered sound. In terms of systems and procedures, the bank is well-positioned to deepen its exposure in segments like consumer; though, outlook for consumer segment in Pakistan remains cautious. Overseas loan book comprises around 29% of net advances. At end-1Q13, around 63% of the overseas loan book comprised exposure in the UAE. Within UAE, share of loans originating in Abu Dhabi has increased to 36% (end-2011: 27%) by end-1Q13, in line with the management's strategy for this market. Mortgage lending (*Baitina*) has resumed in UAE on a selective basis, following changes in underwriting standards and uptick in real-estate market. Loan portfolio mix in the overseas market continues to feature concentration. The bank remains cautiously optimistic with regards to growth in the overseas loan book; diversifications benefits arising from the same depend on market correlations.

On a timeline basis, the bank's exposure to interest rate risk has increased as the bank built position in long-term fixed rate GoP bonds to the extent of 28% of total portfolio. In proportionate terms, exposure to equity market has been maintained at previous levels; equity prices have appreciated significantly in recent months.

Even with decline in spreads and increase in administrative expenses, profits of the bank improved in 2012 vis-a-vis prior year (FY12: Rs. 18b; FY11: Rs. 15.5b) on account of improvement in non-interest income (recurring and non-recurring) and decline in incremental provisioning to Rs. 4.1b (FY11: Rs. 7.3b). Profit for 1Q13 was lower compared to 1Q12 as spreads further compressed to 5.4%. Specific provisioning coverage against NPLs was around 80% at end-1Q13. Going forward, profits of the bank are expected to remain under pressure, till such time that trend reversal is witnessed in interest rates or alternatively, environment for lending to business segments other than corporate becomes attractive. Focus on cost efficiencies, containing cost of deposits and improving asset quality, are some of the measures taken by the management to support to the overall profitability of the bank.

Senior management team has remained stable apart from turnover of the Head of Corporate Banking and Head of Global Operations and Technology. In 2013, portfolios of few Group Executives have been rotated to further develop broad-based skill set at the senior management level and facilitate succession planning. Implementation of the core banking system has been completed in all domestic branches of the bank; deployment of the same in overseas branch operations in UAE is targeted for completion by end-2013.

Overview of the Institution

UBL was privatized in 2002. Major shareholders of the bank are Bestway Group and Abu Dhabi Group. The bank operates through a network of 1,278 branches across Pakistan and 18 overseas branches. The bank has five subsidiaries, namely UBL Switzerland AG, United Executors and Trustees Company Limited, United Bank UK, UBL Fund Managers Limited and UBL Bank (Tanzania) Limited. **JCR-VIS**