

## United Bank Limited

Chairman: Sir Mohammed Anwar Pervez, OBE, HPk

President & CEO: Mr. Wajahat Husain

June 25, 2014

<b>Analysts:</b>	Maimoon Rasheed Mohammad Arsal Ayub
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Category	Latest	Previous
<b>Entity</b>	<b>AA+/A-1+</b>	<b>AA+/A-1+</b>
	Jun 24, '14	Jun 19, '13
<b>TFC 3</b>	<b>AA</b>	<b>AA</b>
Rs. 2b	Jun 24, '14	Jun 19, '13
<b>Outlook</b>	<b>Stable</b>	<b>Stable</b>
	Jun 24, '14	Jun 19, '13

### Rating Rationale

The long term economic growth prospects of Pakistan appear positive, provided the security and energy concerns are addressed dynamically. The banking industry in general and banks having meaningful outreach in particular, are expected to benefit from this scenario. United Bank Limited (UBL) is the third largest bank in Pakistan, with a market share of 8.2% in domestic deposits and asset base crossing the Rs. 1trln mark at end-13. Having implemented a well articulated strategy a few years earlier which entailed enhanced focus on quality of deposits, UBL now has one of the lowest cost of deposits in the banking sector. The bank's extensive outreach and granularity in deposit mix remain its key strengths. With second consecutive year of robust growth in international deposits, increase in overall deposits has also received impetus from the bank's overseas operations. The management expects positive momentum in international deposits to also continue in coming years. Resultantly, maximum advances to deposit ratio for overseas branches with meaningful operations, declined to 71% (2012: 77%) while it was recorded at 46% for domestic operations.

While having declined on a timeline basis, the bank's Capital Adequacy Ratio (CAR) at 13.3% depicts strength. Asset quality indicators posted improvement on a timeline basis, owing to both decline in non-performing loans and enhanced provisioning coverage. The impact of previously classified advances has largely been absorbed by the bank, with net NPLs in relation to tier-1 capital declining from 18% to 10% in 2013.

In 2013, UBL's domestic lending portfolio was maintained at the preceding year's level in line with management's conservative asset acquisition strategy in the backdrop of prevailing market dynamics. There has however been a slight shift in portfolio structure towards private sector. In terms of sectoral exposures, the portfolio reflects reasonable degree of diversification vis-à-vis most of its peers, with maximum exposure to any single sector restricted to 13.4% of the portfolio. This also primarily relates to commodity financing to government owned entities; the underlying risk is primarily at the sub-sovereign level. Portfolio remained dominated by corporate & commercial lending contributing more than two thirds of the domestic loan book. The management is endeavoring to enhance commercial loan book, which while adding diversity, will also help in improving yield on advances. SME and consumer portfolios of the bank have reflected a declining trend in the past few years; the management's stance continues to be cautious in these sectors as asset quality indicators remain stressed.

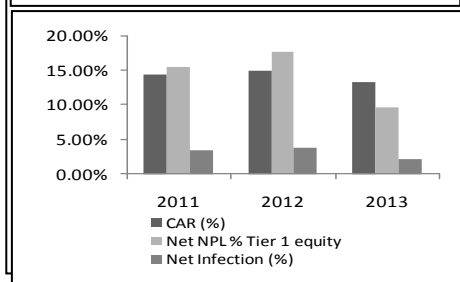
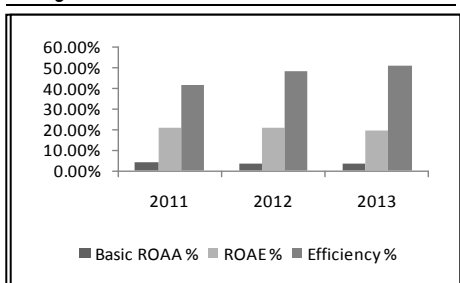
UBL's international loan book depicted growth of almost 15% in US Dollar terms during 2013. Growth has emanated from the corporate client base while the other major segment i.e. consumer lending has continued to showcase a declining trend. Country-wise, growth was driven by UAE, where market dynamics continued to improve; more than two-thirds of the international loan book pertained to UAE. Going forward as well, the management maintains a positive outlook on its UAE business in light of expected increase in economic activity.

The bank's holding of government paper comprises almost one-third of total assets. During 2013, additional investments have been made in T-bills. In view of short-term nature of T-bills, market risk on the same is considered low. The proportion of PIBs holding, albeit reduced, remained sizeable at around 24% of the investment portfolio. The decline in portfolio duration has reduced the interest rate risk on a timeline basis; given the interest rate volatility in the market, this may be considered a prudent strategy. Exposure in equity market has increased over the last year. Market risk related to equity portfolio of the bank is managed by investing primarily in high dividend yielding blue chip companies. As at end-2013, exposure in equities represented 17% of the bank's own equity.

In line with overall banking sector of the country, UBL witnessed pressure on spreads during 2013. The bank's profitability, however, improved on account of higher contribution from non-interest income and lower provisioning charge for the year. Fee based income of almost 26.5% of net interest income reflects strong trade based linkages with customers and strong revenue stream from services such as facilitation of remittances, branchless banking, cash management, among others, offered by the bank. Profitability from overseas operations contributed an increasing proportion to the bank's bottom line and adds diversity to the bank's earning sources.

Recently, some noteworthy changes were witnessed in the shareholding pattern and top management. Bestway Group enhanced its shareholding to 61.4% (end-12: 51.1%) in UBL by acquiring 10.3% of the bank's ordinary shares, in the form of non-voting Global Depository Receipts (GDRs), from the Abu Dhabi Group; accordingly, Board composition witnessed changes in the on-going year to reflect change in shareholding pattern. More recently, the Government of Pakistan has divested its residual shareholding of 19.8% in the bank. On April 18, 2014, Mr. Atif R. Bokhari, who had been associated with UBL since May 2004, resigned from his position of President & CEO of the bank. Mr. Wajahat Husain has been appointed as the new President & CEO of the bank, effective June 1, 2014. Mr. Husain has a long banking career spanning three decades in Pakistan and abroad. Another senior level position in the bank has also been filled through internal placement. Replacement of the exiting senior personnel by internal candidates is a depiction of UBL's effective succession planning.

### Key Financial Trends



	2011	2012	2013
Net Advances (Rs. in b)	325.3	364.3	390.8
Deposits (Rs. in b)	613.0	698.4	827.8
Deposit Cost (%)	4.3%	4.3%	3.9%
Profit / (Loss) (Rs. in b)	15.5	17.8	18.6
Net worth (Rs. in b)	71.9	78.7	88.6
CAR (%)	14.8%	15.0%	13.3%
Liquid Assets % Deposits & Borrowings	55%	56%	63%
Net Infection (%)	3.42%	3.80%	2.17%

### Overview of the Institution

UBL was privatized in 2002. Bestway Group is the major shareholder of the bank. At end-1Q14, the bank was operating through a network of 1,281 branches across Pakistan and 18 overseas branches. Financial Statements for FY13 were co-audited by M/s BDO Ebrahim & Co. (BDO) and M/s KPMG Taseer Hadi & Co. (KPMG)

**JCR-VIS Credit Rating Company Limited**

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<b><u>RATING TYPE: ENTITY</u></b>				
24-Jun-14	AA+	Stable	A-1+	Reaffirmed
19-Jun-13	AA+	Stable	A-1+	Reaffirmed
11-Jun-12	AA+	Stable	A-1+	Reaffirmed
28-Jun-11	AA+	Stable	A-1+	Reaffirmed
24-Jun-10	AA+	Stable	A-1+	Reaffirmed
19-Jun-13	AA+	Stable	A-1+	Reaffirmed
<b><u>RATING TYPE: TFC - 3</u></b>				
24-Jun-14	AA	Stable		Reaffirmed
19-Jun-13	AA	Stable		Reaffirmed
11-Jun-12	AA	Stable		Reaffirmed
28-Jun-11	AA	Stable		Reaffirmed
24-Jun-10	AA	Stable		Reaffirmed
22-Jun-09	AA	Stable		Reaffirmed
30-Jun-08	AA	Stable		Reaffirmed
29-Jun-07	AA	Stable		Upgrade
6-Sep-06	AA-	Stable		Final
27-Jun-06	AA-	Stable		Preliminary
29-May-06	AA-	Stable		Preliminary