RATING REPORT

United Bank Limited

REPORT DATE:
June 13, 2018

RATING ANALYSTS:
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RATING DETAILS

	Tier-1 TFC Rating
Rating Category	**Long-term**
Tier-1 TFC	AA+
Rating Outlook	Stable
Rating Date	*13th June, 2018*
Rating Action	Preliminary

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):	**Chief Executive Officer:** Ms. Sima Kamil
Bestway Group (BG)	

APPLICABLE METHODOLOGY

JCR-VIS Commercial Banks Rating http://jcrvis.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.
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As at end-March'2018. The Bank operated 1,362 (December 31, 2017: 1,361) branches inside Pakistan including 93 (December 31, 2017: 93) Islamic Banking branches and 2 (December 31, 2017: 2) branches in Export Processing Zones. The Bank also operates 18 (December 31, 2017: 18) branches outside Pakistan.

Profile of Chairman

Sir Mohammad Anwar Pervez serves as Chairman of the Board. He is also the founder and chairman of Bestway group. He has been recipient of number of awards in both UK and Pakistan for his professional achievements and charitable causes.

Profile of CEO

The management team is spearheaded by Ms. Sima Kamil who has joined as the CEO of the bank in 2017. Ms. Kamil was previously associated with HBL as the head of branch banking and has a diversified banking experience spanning over 25 years.

RATING RATIONALE

Strong domestic franchise, diversified revenue streams and existing market share are key rating drivers

United Bank Limited (UBL) is the second largest private sector Bank in the country having a market share of 8.4% in domestic deposits as at end-December'2017 with strong domestic franchise and diversified operations. In the outgoing year, UBL crossed Rs. 1 trillion in domestic deposits. The bank also has a sizeable presence in the overseas market, largest by a local bank. Besides overseas operations, revenue streams in domestic operations are diversified with trade (22% volumetric growth in 2017 and 40% volumetric growth in 1Q18), branchless banking (OMNI fee revenues represent around 14% of total fee revenues with the bank maintaining market leadership in G2P payments), bancassurance (commission income doubled during 2017), home remittance (market leader with share in home remittance business increasing to 30% in 1Q18) and commission on ATM/debit cards (commission income increased by 18% in 2017) being major contributors to fee based income.

Sizeable growth in financing portfolio with improving overall asset quality indicators. Decline in provisioning coverage, mainly due to higher NPLs from international operations, where coverage is expected to be further strengthened.

Major portion of the Bank's assets comprises exposure to the sovereign/public sector. Aggregate exposure to the sovereign / public sector by way of investments & advances represents around 60% of total assets. Broad based growth in financing portfolio was witnessed in 2017 with corporate, commercial and consumer portfolio recording over 25% increase vis-a-vis preceding year. Corporate segment represents over two-third of the domestic and international financing portfolio. Proportion of public sector/government financing increased to 30.2% (2016: 27.9%) at end-2017 with the largest sectoral exposures being to the power and the textile sectors. With strong recoveries from the domestic portfolio, infection levels have declined (2017: 7.9%; 2016: 8.1%; 2015: 9.4%); however, provisioning coverage (overall) was lower (2017: 82.2%; 2016: 90.9%; 2015: 88.9%) on account of significant increase in NPLs from international operations. At end-1Q18, gross infection and provisioning coverage (specific) of international portfolio was reported at 14% and 67.2%, respectively, however provisioning coverage is expected to revert to previous levels. Management has enhanced risk management for international exposures and is pursuing a more cautious fund deployment strategy focusing on exposure to sovereigns, well-established corporates and deepening of existing relationships. While yield on earning assets may decline, overall profitability of international operations is projected to be supported by lower provisioning charges from FY19 onwards. Increase in oil prices and improvement in operating environment should facilitate in recoveries and cushion against any further significant accretion in NPLs. Given the mid-term economic scenario and policy rate regime, maintaining asset quality indicators in line with benchmarks for the assigned ratings is considered important.

Robust liquidity profile as evident from sizeable liquid assets carried on the balance sheet and healthy domestic deposit mix. Deposit concentration and NSFR has room for improvement.

Deposit base of the Bank increased by 9.3% during 2017. Current account and new to bank (NTB current accounts increased by 12.5%) growth continued to drive deposit strategy with average current account deposits increasing by 18% and 19% during 2017 and 1Q18, respectively. Resultantly, proportion of current accounts in domestic deposits increased to 44.8% (2017: 44.3%; 2016: 41.5%) at end-March'2018; one of the highest amongst peer banks. However, depositor concentration levels have continued to increase on a timeline basis and are higher vis-à-vis JCR-VIS benchmark for the assigned ratings. Besides improving deposit mix, overall liquidity profile is supported by sizeable liquid assets in relation to total deposits and borrowings. Liquidity coverage ratio of 162.2% at end-Dec'2017 was significantly above the regulatory requirement of 90% while cushion in net stability funding ratio was limited (NSFR Dec'2017: 103.8%; Regulatory requirement Dec'2017: 100%) and is on the lower side vis-à-vis peer Banks.

Healthy existing and projected capitalization buffers reflective of strong investor protection and timely repayment capacity for ADT-1 TFC even in the event of unforeseen one-off losses.

Capitalization indicators have strengthened over time with increase in equity base on account of healthy internal capital generation and focused management of risk weighted assets (RWAs). Despite sizeable dividend payout, Tier-1 and overall CAR (unconsolidated basis) have increased by around 200bps over the last three years and were reported at 11.7% and 16% at end-1Q18, respectively; significantly above regulatory requirements. Increase in

RWAs during 2017 was significantly below historical levels (despite sizeable increase in financing portfolio) given the strong focus on managing RWAs growth and decline in market risk weighted assets due to lower PIB exposure. Going forward, management has projected RWAs growth at similar levels as witnessed in 2017. Moreover, proposed issuance of additional Tier-1 (ADT-1) capital amounting to Rs. 10b (inclusive of green shoe option) will further support capitalization indicators and will have an estimated impact of 1% (assuming constant RWAs) on Tier 1 and overall CAR. Leverage ratio after witnessing a dip at end-2017 has increased again to 4.52% (2017: 3.8%; 2016: 4.9%) at end-1Q18 due to decline in repo borrowings. Given the increase in non-performing advances from international operations, net-NPL in relation to tier-1 equity witnessed a noticeable jump to 10.8% (2016: 6.9%). Future trend with respect to the same will continue to be tracked by JCR-VIS.

Profitability growth for 2018 to be impacted by higher pension cost and provisioning charge on international portfolio; growth momentum in profitability expected from 2019 onwards.

In line with trend for other large banks, operating profitability of UBL declined by 11% during 2017 owing to pressure on spreads, increase in administrative expenses and decline in dividend income. Overall profitability was also impacted by lower capital gains and higher provisioning charges. International operations were a significant drag on overall profitability with the Bank incurring a loss in 2017 vis-à-vis profit before tax of Rs. 4.3b in 2016. For 2018, JCR-VIS expects operating profitability to witness some increase given the aggressive volumetric growth in earning assets & increase in fee based income while spreads are projected to clock in around prior year level (impact of increase in yield on financing portfolio to be offset largely offset by decline in yield on investment portfolio). However, overall profitability for 2018 will be impacted given significant one-off expenses (higher pension cost and increase in provisioning charge on international portfolio). JCR-VIS expects sustainable growth in profitability from 2019 onwards where cumulative impact of improvement in spreads and volumetric growth will be key profitability drivers.

Credit risk emanating from investment portfolio is low but exposure to market risk is on the higher side vis-à-vis peer banks.

Net investment portfolio represented around 54% of total asset base at end-Dec'2017. Investment in local government securities represents over nine-tenth of the investment portfolio. Resultantly, credit risk emanating from the investment portfolio is low. In absolute terms, investment in PIBs has declined during 2017 and 1Q18; however, PIBs in relation to domestic deposits is on the higher side vis-à-vis peer Banks at over 50% at end-December'2017. While average yield on PIB portfolio is on the higher side vis-à-vis peer Banks, exposure to market risk is on the higher side given the duration of the PIB portfolio and in the backdrop of further increase expected in benchmark rates.

Adequate Corporate Governance Infrastructure

Overall corporate governance framework is supported by strong board composition and oversight, professional and experienced management team and adequate control infrastructure. Strong focus on innovation is evident from progress with regards to implementation of Bank's digital strategy. UBL in 2013 signed a written agreement with the Federal Reserve Bank of New York for compliance and risk management matters which the Bank is in the process of addressing. The Bank has almost entirely curtailed its dollar clearing and international remittance business with focus being on compliance with the stipulated requirements in the written agreement. Going forward, JCR-VIS will continue to track events with regards to New York operations.

Additional Tier-1 Instrument

The Instrument: UBL is in the process of issuing a listed, perpetual, unsecured, subordinated, non-cumulative and contingent convertible debt instruments amounting up to Rs. 10.0b (inclusive of Green Shoe Option of Rs. 3.0b). The TFC will carry mark-up at KIBOR+1.55% (indicative pricing). The issue proceeds will contribute towards the bank's additional Tier-1 (ADT-1) capital and will be utilized towards enhancement of the bank's business operations.

Priority: In terms of priority of claims, UBL's ADT-1 instrument will rank ahead of claims of ordinary shareholders but below the bank's senior creditors, including depositors.

Non-performance risk: Non-performance risk for ADT-1 instruments is characterized by presence of point of non-viability and lock-in-clause, issuer having full discretion on coupon payments, interest servicing from only profits for the year and conversion feature in the event of pre-specified trigger events in terms of regulatory requirements. The ADT-1 instrument being issued by UBL also has a dividend stopper clause as per which UBL will not make any dividend payments on common shares in the event of a non-payment of mark-up on the TFCs. While the regulatory framework may not consider a missed coupon payment as a default; the credit rating methodology employed by JCR-VIS would treat such missed payments as an event of default. In normal course of business, JCR-VIS believes that chances of non-performance risk are considered remote given healthy profitability and capital buffers which will be enhanced further post issuance of ADT-1 instrument. Despite existence of full coupon discretion, exercising the feature is not considered likely in normal course of business as it will hamper future fund raising ability of the Bank.

United Bank Limited (UBL) — Appendix I

FINANCIAL SUMMARY *(All figures in PKR billions unless stated otherwise)*			Appendix I
BALANCE SHEET	**31-Dec-17**	**31-Dec-16**	**31-Dec-15**
Total Investments	1,091.8	806.5	719.5
Advances	604.6	510.1	455.4
Total Assets	2,007.4	1,577.6	1,400.7
Borrowings	512.7	201.5	163.1
Deposits & other accounts	1,289.2	1,179.9	1,051.2
Tier-1 Equity	110.6	101.1	87.4
Net Worth	159.3	151.8	142.1
INCOME STATEMENT	**31-Dec-17**	**31-Dec-16**	**31-Dec-15**
Net Mark-up Income	56.4	57.0	55.8
Net Provisioning	2.6	1.5	3.6
Non-Markup Income	22.2	23.6	22.0
Operating Expenses	35.8	33.2	32.0
Profit Before Tax	40.2	46.0	42.2
Profit After Tax	25.4	27.7	25.7
RATIO ANALYSIS	**31-Dec-17**	**31-Dec-16**	**31-Dec-15**
Market Share (Advances) (%)	7.0%	6.7%	7.0%
Market Share (Deposits) (%)	8.4%	8.4%	8.6%
Gross Infection (%)	7.9%	8.1%	9.4%
Total Provisioning Coverage (%)	82.2%	90.9%	88.9%
Net Infection (%)	2.0%	1.4%	2.0%
Cost of deposits (%)	2.6%	2.7%	3.1%
Net NPLs to Tier-1 Capital (including General Provisioning) (%)	10.8%	6.9%	10.2%
Capital Adequacy Ratio (C.A.R (%))	15.45%	15.13%	14.65%
Markup Spreads (%)	3.9%	4.7%	5.6%
Efficiency (%)	48.2%	42.9%	42.0%
ROAA (%)	1.41%	1.84%	2.03%
ROAE (%) *(Shareholder's Equity)*	20.90%	24.92%	25.71%
Liquid Assets to Deposits & Borrowings (%)	61.2%	65.8%	66.0%

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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 Bank				
Type of Relationship	Solicited				
Purpose of Rating	TFC Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: INSTRUMENT RATING				
	9-June-18	AA+	N/A	Stable	Preliminary
Instrument Structure	UBL is in the process of issuing a listed, perpetual, unsecured, subordinated, non-cumulative and contingent convertible debt instruments amounting up to Rs. 10.0b (inclusive of Green Shoe Option of Rs. 3.0b). The TFC will carry mark-up at KIBOR+1.55%. The issue proceeds will contribute towards the bank's additional Tier-1 capital and will be utilized towards enhancement of the bank's business operations.				
Statement by the Rating Team	JCR-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	JCR-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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