RATING REPORT

United Bank Limited

REPORT DATE:
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RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating Long-term	Latest Rating Short-term	Previous Rating Long-term	Previous Rating Short-term
Entity	AA+	A-1+	AA+	A-1+
Rating Date	*June 30, '15*		*June 24, '14*	
Rating Outlook	Stable		Stable	
Outlook Date	*June 30, '15*		*June 24, '14*	

COMPANY INFORMATION

Privatized in 2002	External auditors: **A.F. Ferguson & Co.**
Public Limited Company	**KPMG Taseer Hadi & Co.**
Category of Shareholders (with stake 5% or more):	Chairman of the Board: **Sir Mohammed Anwer Pervez, OBE, HPk**
Foreign Companies – 78.65%	President and CEO: **Mr. Wajahat Husain**
Public Sector Companies – 7.68%	

APPLICABLE METHODOLOGY(IES)

PRIMER - Commercial Banks (December 2001): http://jcrvis.com.pk/images/primercb.pdf

United Bank Limited

OVERVIEW OF THE INSTITUTION

UBL was privatized in 2002. Bestway Group is the major shareholder of the bank. At end-1Q15, the bank was operating through a network of 1,295 branches across Pakistan and 18 overseas branches.

RATING RATIONALE

The assigned ratings reflect United Bank Limited's (UBL) franchise which has allowed the bank to build a sizeable, cost effective and granular deposit base. With growth in domestic deposits outpacing sector growth rate, market share of the bank increased to 8.4% (2013: 8.2%) in domestic deposits, third highest in the country. Ratings also incorporate strong liquidity profile, improving asset quality indicators, growing and diversified revenue stream and adequate capitalization level. Ratings also reflect a sound governance infrastructure in place at the institution. There have been a number of changes at the senior management team at key positions during 2014 and in the ongoing year. New inductions at the senior management team comprise experienced professionals.

In line with industry trends, the management of the bank has pursued a conservative asset deployment strategy with exposure to the sovereign representing around 47% (2009: 23%) of the asset base at year-end 2014. While private sector credit off-take from the banking sector has shown some uptick in FY14 and in the ongoing year, resolution of energy crisis and improvement in law and order situation is required for more meaningful and sustained growth in the same. The bank's domestic loan book largely comprises corporate lending with large domestic exposure primarily comprising public sector power companies and commodity financing operations of the GoP; being sizeable in relation to the bank's own equity. The management has targeted to grow SME & commercial loan book at a healthy rate in 2015 while consumer lending will continue to be driven by management's selective underwriting criteria. Wholesale banking continues to be the key focus of UBL's international banking operations. Growth in overseas operations was manifested in UAE and Qatar on the back of healthy growth in the non-oil sectors in the two countries. The bank may face asset quality pressures due to ongoing instability in Yemen where balance sheet size has witnessed contraction. UBL's total exposure (financing and investments) in Yemen is sizeable in relation to bank's own equity. Gross infection in the financing portfolio in Yemen was reported at 3%. As per management, no major non-performing exposures have been reported while just under two-thirds of the financing is secured or cash collateralized. Portfolio quality indicators in Yemen will be monitored by JCR-VIS; as such, the bank's earnings have the capacity to absorb losses, if any.

The banking sector has posted strong growth in profitability in 2014. With an increase in PIB holdings and linking of deposit rate on saving products to repo rate, the banking sector may be able to sustain the impact of declining interest rates over the near to medium term. However, if low interest rate environment persist over the long term, spreads and profitability are expected to come under pressure with maturity of PIBs, particularly following the recent cut in discount rate whereby the downward adjustment in cost of saving deposits will be less than the re-pricing of loans. UBL has one of the highest PIBs to local deposits ratio in the banking sector on account of which profitability is expected to remain strong during 2015 and 2016. However, the bank may face redeployment challenge for funds from maturing PIBs, if low interest rate environment persists. Profitability metrics of the bank are also supported by growing and diversified revenue stream (16% profit before tax from international operations) & highest fee commission income to net interest income in relation to peer banks on account of sizeable remittance business handled and contribution from UBL Omni and trade business.

Capitalization profile of the bank has improved on a timeline basis with increase in Capital Adequacy Ratio (CAR) and growth in capital base; CAR however remains lower than the peer group median. While current capitalization levels of the bank are considered adequate, given the future growth plans, enhancing retention levels will facilitate the bank in maintaining a healthy CAR in the backdrop of increased capital requirements under Basel 3.

United Bank Limited

Appendix I

FINANCIAL SUMMARY			*(amounts in PKR billions)*
BALANCE SHEET	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Total Investments	497.3	423.8	349.6
Advances	434.3	390.8	364.4
Total Assets	1,111.4	1,009.7	896.5
Borrowings	53.1	40.6	68.7
Deposits & other accounts	895.1	827.8	698.4
Subordinated Loans	-	0.7	9.3
Tier-1 Equity	94.6	88.6	78.7
Net Worth	125.5	100.9	92.2
INCOME STATEMENT	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Net Mark-up Income	45.0	37.9	38.6
Net Provisioning	0.9	1.3	4.1
Non-Markup Income	19.3	18.1	17.1
Operating Expenses	30.0	26.9	24.7
Profit Before Tax	33.4	27.8	26.9
Profit After Tax	21.9	18.6	17.9
RATIO ANALYSIS	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Market Share (Advances) (%)	7.6%	7.4%	7.7%
Market Share (Deposits) (%)	8.4%	8.2%	8.1%
Gross Infection (%)	11.2%	12.1%	14.0%
Provisioning Coverage (%)	81.2%	83.8%	75.8%
Net Infection (%)	2.3%	2.2%	3.8%
Cost of deposits (%)	3.9%	3.9%	4.3%
Net NPLs to Tier-1 Capital (%)	10.5%	9.4%	17.4%
Capital Adequacy Ratio (C.A.R (%))	13.90%	13.30%	15%
Markup Spreads (%)	5.7%	5.4%	6.5%
Efficiency (%)	47.5%	49.9%	46.3%
Basic ROAA (%)	3.1%	2.9%	3.2%
ROAA (%)	2.07%	1.95%	2.07%
ROAE (%)	19.37%	19.27%	20.72%
Liquid Assets to Deposits & Borrowings (%)	61%	63%	56%

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 Banks
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
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

Instrument Structure	N/A
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.
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