

Press Release

VIS Reaffirms Instrument & Entity Ratings of United Bank Limited

Karachi, June 28, 2019: VIS Credit Rating Company Limited (VIS) has reaffirmed the entity ratings of United Bank Limited (UBL) at 'AAA/A-1+' (Triple A/A-One Plus). Ratings of UBL's Basel III compliant additional Tier-1 (ADT-1) TFC have also been reaffirmed at 'AA+' (Double A Plus). Outlook on the assigned ratings is 'Stable'. The previous rating action for entity ratings and instrument rating was announced on June 29, 2018 and September 6, 2018, respectively.

UBL is the second largest private sector Bank in the country having a market share of 8.3% (2017: 8.2%) in domestic deposits as at end-December'2018 with strong domestic franchise and diversified operations. The bank also has a sizeable presence in the overseas market, largest by a local bank. Overseas assets represented over one-fifth of the total asset base. During the outgoing year, UBL scaled down its international footprint with focus on core markets (Middle East and UK) which have synergies with the wider UBL network. Consolidation, compliance strengthening and de-risking remain important pillars of international strategy.

The assigned ratings reflect the Bank's strong domestic franchise and existing market share. Moreover, financial profile is strong as evident from robust liquidity profile, healthy existing & projected capitalization buffers and improving profitability indicators.

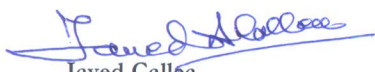
Financing portfolio has witnessed double digit growth over the last 3 years. Given the challenging macro-economic environment, credit growth is expected to slow down in the ongoing year. While gross infection has increased due to higher NPLs from international operations, loan loss coverage has been enhanced. Maintaining asset quality indicators in line with rating benchmarks is considered important from a ratings perspective. Credit risk emanating from investment portfolio is low but exposure to market risk is on the higher side vis-à-vis peer banks.

UBL's increasing customer base and sizeable addition to NTB customers is a competitive advantage. Deposit mix improved with growth in the proportion of non-remunerative current accounts. However, depositor concentration levels have room for improvement. Overall liquidity profile remains strong. Liquidity coverage ratio and net stable funding ratio are well in excess of regulatory requirements. On the digital banking front, roll out of the digital app (with QR code payment facility and facial recognition) and launch of digital client onboarding were major milestones. The digital app now has around 10% of the Bank's active client base.

Profitability for 2018 was impacted by higher pension cost and provisioning charge on international portfolio. While spreads of the Bank have increased in the ongoing year, growth in net interest income during 1Q19 was the lowest amongst peer banks given the bank's sizeable exposure to fixed rate PIBs. Nevertheless, overall profitability is projected to depict strong growth in the ongoing year aligning profitability profile with rating benchmarks. Capitalization indicators have strengthened over time facilitated by internal capital generation, issuance of additional Tier-1 (ADT-1) capital instrument and reduction in risk weighted assets

The assigned instrument rating portrays the relative risk of the Tier-1 instrument wherein issuer has full discretion on coupon payments, interest servicing from only profits for the year and conversion feature in the event of pre-specified trigger events, lock-in clause and point of non-viability in terms of regulatory requirements. While the regulatory framework may not consider a missed coupon payment as a default; the credit rating methodology employed by VIS would treat such missed payments as an event of default. In normal course of business, VIS believes that chances of non-performance risk are considered remote.

For further information on this rating announcement, please contact the undersigned (Ext: 201) at 021-35311861-70 or fax to 021-35311872-3.



Javed Callea
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Applicable rating criterion: Commercial Banks Methodology – November 2015

<http://www.vis.com.pk/Images/Meth-CommercialBanks201511.pdf>

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