# Press Release

# JCR-VIS Reaffirms Ratings of United Bank Limited to AAA/A-1+

JCR-VIS Credit Rating Company Limited (JCR-VIS) has reaffirmed the entity ratings of United Bank Limited (UBL) at 'AAA/A-1+' (Triple A/A-One Plus). Outlook on the assigned ratings is 'Stable'. The previous rating action was announced on June 29, 2016.

The ratings assigned to UBL, the second largest private sector bank in the country, incorporate the sustained soundness in key performance areas including asset quality, capitalization and profitability. Strong domestic operations and franchise is supported by a sizeable presence in the overseas market. Diversification in revenue streams stems from sizeable contribution of trade commissions, remittance, ADCs and branchless banking in overall revenues. In line with the bank's continuous focus on innovation, UBL inaugurated its first digital branch and branch of the future in the ongoing year. Moreover, a digital strategy is also in the process of being implemented.

UBL continues to pursue a conservative asset deployment strategy with aggregate exposure to the sovereign representing around two-third of advances & investments. Diversification in lending operations is planned through growth in consumer and SME segment. Overall asset quality indicators continued their improving trend on the back of recoveries from domestic non-performing portfolio. However, the international portfolio faces challenges emerging from the operating environment in key markets.

Capitalization indicators of the bank have witnessed noticeable improvement over the last two years on the back of higher internal capital generation and managed growth in risk weighted assets. In the backdrop of increasing regulatory requirements, maintaining strong cushion over Tier-1 and overall CAR regulatory requirement remains important. While depositor concentration has doubled over the last two years, liquidity profile of the bank is sound with high liquid assets in relation to deposits and borrowings and sizeable retail deposits. Aggressive new-to-bank acquisition within CASA and growth in current accounts will continue to drive deposit strategy, going forward.

Despite pressure on spreads, profitability growth of the bank compared favorably with peers. Profit before tax increased by 9% during 2016 on account of higher capital gains and lower provisions. Cost to income ratio is on the lower side vis-a-vis peers but has increased slightly on a timeline basis. While spreads of the bank will continue to be supported by high yielding PIB portfolio, with limited maturities in the ongoing year, the same may witness pressure over the medium term with maturity of PIBs given that the bank primarily has exposure to the corporate segment where margins are low. In the backdrop of forecasted mid-term economic scenario and policy rate regime along with maturity of PIBs and low lending rates due to excess liquidity, spreads and profitability growth of the banking sector are expected to remain under pressure during 2017.