JCR-VIS Credit Rating Company Limited

Founder Shareholder - Islamic International Rating Agency (IIRA), Bahrain
Joint Venture Partner - Credit Rating & Information Services Ltd. (CRISL), Bangladesh
Member - Association of Credit Rating Agencies in Asia (ACRAA)

Press Release

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

Karachi, June 29, 2018: 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 30, 2017.

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

In line with continuation of a prudent asset deployment strategy, major portion of the bank's assets comprises exposure to the sovereign/public sector. Broad based growth in financing portfolio was witnessed in 2017 with corporate, commercial and consumer portfolio recording sizeable increase in financing portfolio. With recoveries from the domestic portfolio, asset quality indicators of the bank improved. Management has enhanced risk management for international exposures and is pursuing a more cautious fund deployment strategy given the sizeable increase in NPLs. Provisioning coverage is expected to be further strengthened for international operations. 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. While average yield on PIB portfolio compares favorably 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 expected increase in benchmark rates.

In the outgoing year, UBL crossed Rs. 1 trillion in domestic deposits. Current account and new to bank growth continued to drive deposit strategy with average current account deposits increasing at a healthy pace during 2017 and 1Q18. Besides improving deposit mix, overall liquidity profile is supported by sizeable liquid assets in relation to total deposits and borrowings. Deposit concentration and Net Stability Funding Ratio has room for improvement. Capitalization indicators have strengthened over time on account of healthy internal capital generation and focused management of risk weighted assets.

In line with trend for other large banks, operating profitability of UBL declined during 2017 owing to pressure on spreads, increase in administrative expenses and decline in dividend income. International operations were a significant drag on overall profitability. 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. However, overall profitability for 2018 will be impacted given significant one-off expenses. Sustainable growth in profitability is expected from 2019 onwards where cumulative impact of improvement in spreads and volumetric growth will be key profitability drivers.

Overall corporate governance framework is supported by strong board composition and oversight, professional and experienced management team and improving control infrastructure. 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 ratings would be reviewed, if needed, with progress in the matter.

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

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Applicable rating criterion: Commercial Banks Methodology – November 2015
http://www.jcrvis.com.pk/Images/Meth-CommercialBanks201511.pdf