Press Release

JCR-VIS Reaffirms Ratings of United Bank Limited

Karachi, June 30, 2015: JCR-VIS Credit Rating Company Limited (JCR-VIS) has reaffirmed the entity ratings of United Bank Limited (UBL) at 'AA+/A-1+' (Double A Plus/A-One Plus). Outlook on the assigned ratings is 'Stable'. The previous rating action was announced on June 24, 2014.

Ratings of UBL reflect its diversified 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%). Ratings also incorporate strong liquidity profile, improving asset quality indicators, growing & diversified revenue stream and sound governance infrastructure.

Capitalization profile of the bank has improved on a timeline basis with tier-1 Capital Adequacy Ratio (CAR) of 10% at year-end'2014. 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.

In line with industry trends, the management of the bank has pursued a conservative asset deployment strategy with exposure to the sovereign representing nearly half of the asset base at year-end 2014. The bank's domestic loan book largely comprises corporate lending with large exposures primarily comprising public sector power companies and commodity financing operations of the GoP. 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 account 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. Management has indicated that no material deterioration has been witnessed in portfolio quality indicators in Yemen yet; 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, though spreads are expected to come under pressure with maturity of PIBs. 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. Profitability metrics of the bank are also supported by growing and diversified revenue stream (16% revenue contribution from international operations) & highest fee commission income to net mark-up income in relation to peer banks on account of sizeable remittance business handled and contribution from UBL Omni and trade business.

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.

For further information on this rating announcement, please contact Ms. Sobia Maqbool, CFA at 021-35311861-70 or Mr. Maimoon Rasheed at 042-35743411-13 or fax to 021-35311872-3.

Javed Callea
Advisor

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