

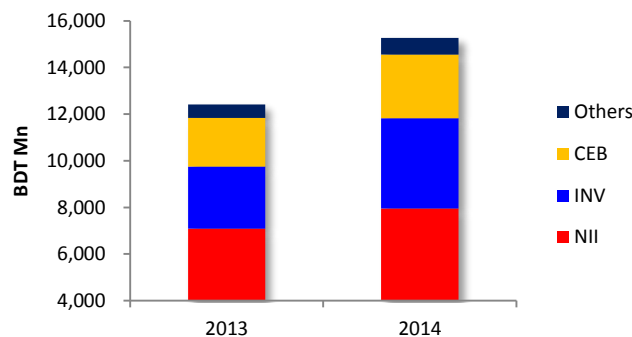
## Flash Note: United Commercial Bank Limited - 2014 Performance

### Summary

United Commercial Bank Limited (DSE: UCBL) declared consolidated NPAT of BDT 3,700.3 Mn and EPS of BDT 4.42 for the year ended 2014, compared to BDT 3,069.4 Mn and BDT 3.66, respectively in 2013.

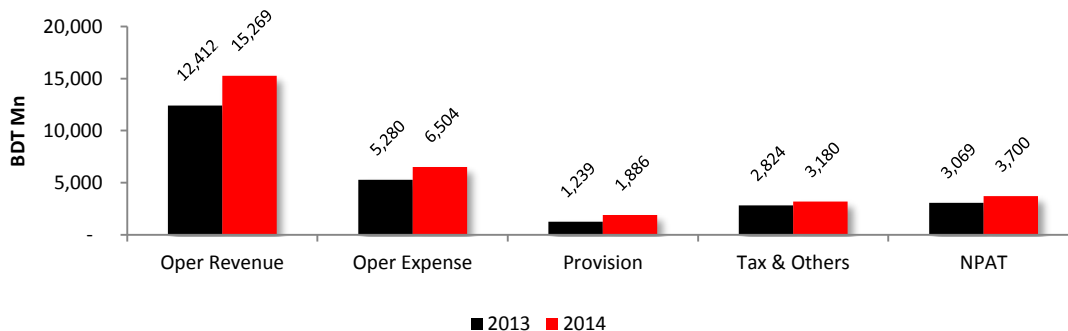
### Performance Analysis:

UCBL posted a 23.0% YoY growth in operating revenue, driven by positive growth in NII (12.3% YoY) and robust growth in non-interest income (37.2% YoY). Core banking performed average coupled with declining lending and deposits rates as industry was hovering around weak corporate governance, contaminated loan asset portfolio and excess liquidity. Consequently, the bank diverted its business strategy in 2014, putting more reliance on fixed income securities and commission based off-balance sheet exposure. As a result, investment income (INV) and commission, exchange and brokerage (CEB) were primary contributors to revenue, totaling non-interest income to capture 47.9% of total operating revenue which was 42.9% in 2013. During 2014, UCBL had a significant 45.1% YoY growth in INV, primarily due to increased investments (mostly in govt. securities). Overall, 2014 operating revenue growth roots from a strong performance in INV and commission based income, supported by positive core banking performance with better spread management.



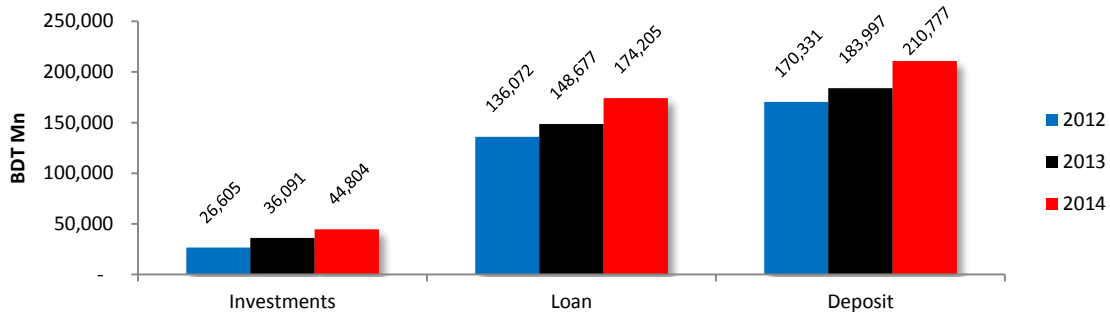
Source: UCBL Annual Report 2014 and Research, IDLC Investments Limited

In addition, net profit grew by 20.6% YoY while cost-income ratio stayed almost flat at 42.6%, as both the opex and revenue grew hand in hand. Despite 52.2% and 12.6% respective YoY growth in total provisions and taxes, profitability stayed upbeat. Most importantly, total provisions consisted mostly from loan provisions, increased by 36.1% YoY. Meanwhile, a better portfolio management assisted the company to maintain positive portfolio net worth (in capital market), while more increased concentration in commission based business, the company had to keep provisions against off-balance sheet exposure. Overall, strong growth in net profit sourced from strong operating revenue growth surpassing pressures of costs and provisions.



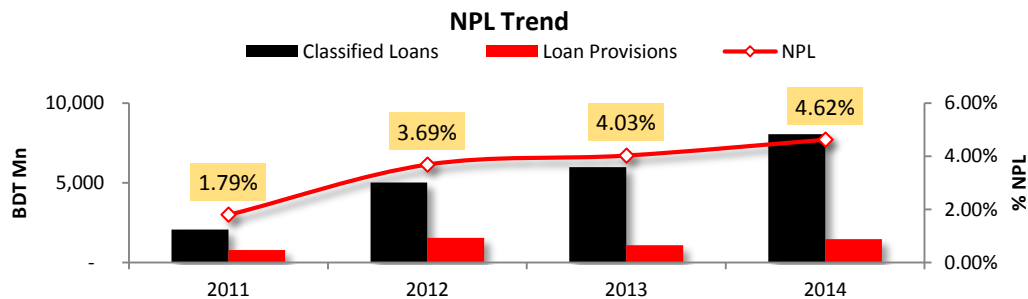
Source: UCBL Annual Report 2014 and Research, IDLC Investments Limited

Despite, core business was affected from declined interest rate, the company continued increasing its loan asset portfolio (17.2% YoY) as well as deposit basket (14.6% YoY) amid weak credit demand and excess liquidity in the banking sector. With idle money piling up and weaker capital market, the bank resorted to govt. instruments, putting a boost in investments (24.1% YoY). Notably, investments amount to 21.3% of total deposits at present.



Source: UCBL Annual Report 2014 and Research, IDLC Investments Limited

Non Performing Loans (NPL) soared in 2014. NPL stepped up to 4.6% in 2014 which was 4.0% in 2013. During the year, classified loan increased by BDT 2,064.9 Mn compared to BDT 969.6 Mn in last year. Looking closer, it appears sub-standard & doubtful loans declined slightly while bad loans increased significantly by BDT 2,403.1 Mn. Interestingly, special mention account (SMA) almost doubled, grew 100.5%, stepping to BDT 6,169.0 mn, hinting some impact from loan re-classification/re-scheduling. Hence, NPL incorporates some risk of being understated, which may shrink profits in future.



Source: UCBL Annual Report 2014 and Research, IDLC Investments Limited

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