GCR GLOBAL CREDIT RATING CO.
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# United Bank for Africa Plc

**Nigeria Bank Analysis** **October 2017**

| Rating class | Rating scale | Rating | Rating outlook | Expiry date |
|---|---|---|---|---|
| Long-term | National | AA-(NG) | Stable | September 2018 |
| Short-term | National | A1+(NG) | | |
| Long-term | International scale | B+ | Stable | |

## Financial data:

(USDm comparative)ǂ

| | 31/12/15 | 31/12/16 |
|---|---|---|
| NGN/USD (avg.) | 197.0 | 256.0 |
| NGN/USD (close) | 197.0 | 305.3 |
| Total assets | 13,899.8 | 11,326.1 |
| Primary capital | 1,688.4 | 1,467.6 |
| Secondary capital | 434.6 | 281.6 |
| Net advances | 5,262.1 | 4,930.6 |
| Liquid assets | 3,413.9 | 2,613.5 |
| Operating income | 1,067.3 | 1,058.2 |
| Profit after tax | 302.8 | 282.3 |
| Market cap.* | N314.6bn/USD1.0bn | |
| Market share** | 10.9% | |

ǂ Central Bank of Nigeria ("CBN") exchange rate

*As at 12 October 2017.

**As a % of industry assets at 31 December 2016.

## Rating history:

**Initial rating**
**August 2000**
Long-term: AA(NG)
Short-term: A1+(NG)
Rating outlook: Stable
**August 2013**
Long-term international scale: BB-
Rating outlook: Stable

**Last rating (September 2016)**
Long-term: AA-(NG)
Short-term: A1+(NG)
Rating outlook: Stable
Long-term international scale: B+
Rating outlook: Stable

## Related methodologies/research:

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017
Nigerian Banking Sector Bulletin, 2017
UBA rating reports (2000-16)
Glossary of Terms/Ratios, February 2016

## GCR contacts:


**Primary Analyst**
Funmilayo Abdulrahman
Credit Analyst
funmilayo@globalratings.net

**Committee Chairperson**
Dave King
king@globalratings.net

**Analysts location:** Lagos, Nigeria
**Tel:** +234 1 462-2545

**Website:** www.globalratings.com.ng


## Summary rating rationale

- The accorded ratings reflect United Bank for Africa Plc's ("UBA" or "the bank") established franchise, significant domestic market share (being one of the top-tier banks in Nigeria) and its status as a systemically important bank. The ratings also reflect UBA's risk appropriate capitalisation, comfortable liquidity, resilient earnings performance, as well as geographic and earnings diversity. UBA is one of the leading financial services groups in Sub-Saharan Africa ("SSA"), by geographical coverage and balance sheet size, with operations in 19 African countries and offices in three global financial centers (London, Paris and New York). Operations in Nigeria contributed 69% of UBA's consolidated assets at FY16 and 63% of pre-tax profits.
- UBA's capitalisation is considered adequate for its current risk level, with the risk weighted capital adequacy ratio ("CAR") maintained at a flat rate of 20% at FY16 and 1H FY17, well above the prudential minimum of 15% for international banks in Nigeria. Shareholders' funds grew consistently over the review period to N448.1bn at FY16, underpinned by a strong internal capital generating capacity. Also, supporting UBA's capitalisation is the subordinated debt securities (Tier 2 capital) amounting to N86bn at FY16.
- The gross non-performing loan ("NPL") ratio rose to 3.9% and 4.2% at FY16 and 1H FY17 respectively (FY15: 1.7%), albeit remaining within CBN's tolerable limit of 5%. According to management, the increase in impaired loans was mainly due to macroeconomic pressures in Nigeria. Specific provision coverage of impaired loans stood at 36.1% at FY16 (FY15: 37.1%). Management has stepped up collection efforts to enhance recovery prospects.
- UBA's contractual and behavioural matching of assets and liabilities reflected a liquidity gap of N438bn and N489bn respectively at FY16 (equivalent to 97.9% and 109.2% of capital respectively), a feature common to all industry players (and emerging markets in general), due to reliance on short-dated funding to fund longer dated loans and advances. To mitigate the maturity mismatches, UBA has credit lines from other financial institutions and also successfully raised additional USD500m via a Eurobond Issue during 1H FY17. Liquidity risk is further ameliorated through maintaining a sizeable liquid asset buffer. The bank's average liquidity ratio was 42.0% in FY16 (FY15: 42.5%), which was well above the statutory minimum of 30%.
- Despite a challenging operating environment, key profitability metrics remained strong throughout the review period. Profit after tax rose 21.1% to N72.3bn in FY16 and stood at N42.3bn at 1H FY17 (in line with budget), underpinned by significant growth in earnings. While operating expenses rose by 11.6% in FY16, this was well absorbed by the earnings growth, translating to a moderated cost ratio of 56.3% (FY15: 65.0%). Overall, the return on average equity and assets ("ROaE" and "ROaA") was 19.0% (FY15: 20.4%) and 2.3% (FY15: 2.2%) in FY16 respectively.

## Factors that could trigger a rating action may include

**Positive change:** Significant (but not dominant) market position and a tough operating environment limit the likelihood of ratings rising in the medium term. Substantial market share and profitability enhancement, while maintaining a strong credit profile, may be ratings positive.

**Negative change:** The rating maybe revised downward following a significant decline in asset quality metrics. Furthermore, the international scale rating will be sensitive to changes in the sovereign rating of Nigeria.

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## Organisational profile

### Corporate summary[1]

UBA commenced operations as British and French Bank Limited in 1949, and has over the years evolved through organic and inorganic growth initiatives to become one of the largest financial institutions in Africa, with operations currently in 19 Africa countries, as well as in the United Kingdom, the United States of America and France. The Nigerian banking operation and its subsidiaries are primarily involved in corporate, commercial and retail banking, trade services, cash management, treasury and custodial services.

| Table 1: Geographical segments (N'bn) | FY15 | FY16 |
|---|---|---|
| **By earnings:** | | |
| Nigeria | 248.1 | 268.8 |
| Rest of Africa | 67.7 | 121.9 |
| Rest of the World | 6.0 | 9.8 |
| Eliminations | (7.0) | (16.9) |
| **Total** | **314.8** | **383.6** |
| **By pre-tax profit:** | | |
| Nigeria | 52.3 | 58.5 |
| Rest of Africa | 18.8 | 31.4 |
| Rest of the World | 2.0 | 3.1 |
| Eliminations | (4.6) | (2.7) |
| **Total** | **64.5** | **90.4** |
| **By assets:** | | |
| Nigeria | 2,223.6 | 2,601.8 |
| Rest of Africa | 656.1 | 1,144.9 |
| Rest of the World | 63.6 | 102.0 |
| Eliminations | (190.7) | (344.2) |
| **Total** | **2,752.6** | **3,504.5** |

Source: UBA AFS.

### Ownership structure

The ownership structure remained largely unchanged during FY16, however, variations in shareholding at 1H FY17 were mainly driven by trading activities on the Nigerian Stock Exchange ("the NSE"). Table 2 reflects the list of shareholders with more than 5% holding at 31 December 2016 and at 1H FY17.

| Table 2: Shareholding structure | % Holding | |
|---|---|---|
| | FY16 | 1H FY17 |
| Stanbic Nominees Nigeria Ltd | 11.3 | 10.1 |
| UBA Staff Share Investment Trust Scheme | 6.2 | 5.7 |
| Mr. Tony O. Elumelu, CON* | 5.7 | 5.7 |
| Pioneer Investment | - | 5.0 |
| Others (all < 5%) | 76.8 | 73.5 |
| **Total** | **100.0** | **100.0** |

*Direct and indirect holdings. Source: UBA AFS.

In April 2016, shareholders agreed to cancel the Staff Share Investment Trust Scheme, which imply repossessing over 2bn of its issued shares. This was effected July 2017 on the NSE.

### Strategy and operations

Given the increased adoption of technology across the industry, UBA launched its Unstructured Supplementary Service Data Code ("USSD code") during FY16. The USSD code is part of mobile communication technology that allows customers to perform banking transactions from anywhere through their mobile phones, using short codes. In addition, management increased its focus on customers, leading to the launch of the "Customer First" initiative during the period. The initiatives changed the primary role of every employee to customer service, with the CEO as the Chief Customer Service Officer. Per management, the project led to enhanced customer engagement, the streamlining of various processes across the bank, resulting in greater efficiency and automation of processes for speed and accuracy. Going forward, customers will remain a priority, while ensuring operational efficiency and creating value for all stakeholders.

At 31 December 2016, the Nigeria banking operation had over 750 branches and customer touch points (FY15: 614). Total ATMs and point of sale terminals stood at 1,738 and 13,452 respectively.

### Governance structure

UBA's governance structure is in line with relevant codes of Corporate Governance of CBN and the Securities and Exchange Commission ("SEC"). Below is a summary of the current prevailing governance structure.

| Description | Findings |
|---|---|
| Board size | 19 |
| Number of Non-Executive Directors | 10 (including the Chairman, Vice-Chairman and three Independent directors) |
| Number of Executive Directors | 9 (including the Group Managing Director/Chief Executive Officer ("MD/CEO")) |
| Tenure of Directors | 3- 5years (with maximum of 10years) |
| Number of board committees | 6 (namely: Audit, Risk Management, Finance and General Purpose, Nominations and Governance, Credit, and Statutory Audit). |
| Int. audit and compliance functions | Yes, independent units |
| External auditors and rotation policy | PricewaterhouseCoopers ("PWC")/10year tenure |
| Internal and external practice guides | Yes, group wide rules applied |

Overall, the composition of the board of directors is considered satisfactory in terms of skills, experience and mix.

### Financial reporting

The bank's financial statements were prepared in accordance with all relevant and applicable laws, provisions and guidelines, and International Financial Reporting Standards. The external auditor, PWC, issued an unqualified opinion on the 2016 financial statements.

[1] Refer to previous rating reports for a detailed background.

## Operating environment[2]

### Economic overview

Nigeria's macroeconomic fundamentals remained unstable throughout 2016 and the start of 2017, owing to the weak global price of crude oil, which has severely affected the country's foreign reserve levels and fiscal planning capacity. This, in turn led to the significant fall in the value of the Naira against the US dollar, which further heightened economic uncertainty. According to the National Bureau of Statistics, the nation's real Gross Domestic Product ("GDP") contracted by 1.5% in 2016 (compared to 2.8% and 6.2% growth recorded in 2015 and 2014 respectively), placing the country in a recession. The negative trend was exacerbated by the resurgence of hostilities in the Niger Delta region (which affected crude oil production in the early part of 2016) and the impact of reduced forex earnings on the economy. As such, inflation rose markedly from 9.5% at end-December 2015 to 18.7% at end-January 2017, before easing slightly to 16.1% at end-June 2017.

In addition to retaining its restrictive policy that denied access to forex (from the official CBN window) for 41 items, in June 2016, CBN jettisoned the exchange rate peg to the USD in favour of a flexible exchange rate policy, to mitigate the forex shortages and stimulate broader economic activity. Despite these interventions, the Naira remained under pressure, with the restrictive forex regime affecting many manufacturers, as they were unable to effectively fund raw material purchases, given the inadequate forex supply, which drove higher exchange rates in the parallel market (above N500/USD in February 2017). Pressure on the Naira appears to have eased in recent weeks (below N400/USD) as CBN has maintained liquidity in the forex market, but increased demand for forex for the items on the restricted list could limit the gains recorded. CBN has left the monetary policy rate unchanged at 14% (since July 2016), while the cash reserve ratio at 22.5% and the liquidity ratio at 30% have also been maintained, in line with efforts to combat inflation and maintain price stability.

Given the current macroeconomic challenges, prospects for growth remain mixed over the short to medium term. Both the International Monetary Fund and World Bank expect the economy to record a modest rebound in 2017 (of 0.8% and 1.2% respectively). Similarly, the Federal Government of Nigeria ("FGN") projects that accelerated infrastructural spend and the diversification of earnings would drive an increase in economic activities, thereby, resulting in an overall GDP growth in 2017. This is detailed in the Economic Recovery and Growth Plan ("ERGP") 2017-2020, as released by the Ministry of Budget and National Planning. The ERGP centres on achieving macroeconomic stability and economic diversification, in order to boost non-oil revenues, with focus on key sectors ie, agriculture and food security, energy, transportation and manufacturing. The ERGP will aim to reduce the level of dependence on imports, while increasing revenue from a diversified stream of export activities. Overall, it seeks to achieve a robust 7% economic growth by end 2020.

### Industry overview

At 31 December 2016, Nigeria's financial sector comprised 21 commercial banks, one non-interest bank, four merchant banks and over 4,000 other financial institutions. The commercial banks include 10 international, nine national, and two regional banks. Keystone Bank, under Asset Management Corporation of Nigeria ("AMCON") management since 2009, was sold to the Sigma Golf-Riverbank consortium (ie, Sigma Golf Nigeria Limited and Riverbank Investment Resources Limited) in March 2017. Nigeria's eight largest banks (including UBA) accounted for about 70% of total industry assets at 31 December 2016.

Banking sector core earnings saw downward pressure in 2016, driven by margin compression, deteriorating asset quality, and moderating forex volumes. Per CBN statistics, total banking sector assets stood at N31.7tn at end-December 2016 (2015: N28.2tn), while credit exposure increased 18.1% to N21.5tn. Oil and gas remained the dominant sector at end-December 2016, accounting for around 30% of the Nigerian banking sector's credit portfolio. The banking sector's aggregate gross NPL ratio rose to 14.0% at end-December 2016 (2015: 5.3%) and to 15.2% by April 2017, exceeding the prudential tolerable limit of 5.0% and signalling a significant weakening in asset quality across the industry (though largely driven by outliers). While CBN has allowed banks to write-off fully provisioned NPLs since July 2016, GCR expects the industry NPL ratio to remain high and above the regulatory limit in 2017, given continuing increases in delinquencies in some sectors. Sectors which exhibit asset quality stress include: (i) the oil and gas sector (ii) the middle market, which was an area of lending focus in 2016, and features over-reliance on forex for business, (iii) the power sector (which continues to face high debt burdens and low capacity to generate sufficient cash flows due to poor infrastructure/management issues) and, more recently (iv) telecommunications.

The industry average CAR reduced to 12.8% at April 2017, from 13.9% at end-December 2016 (2015: 16.1%), and some players began to fall below the minimum threshold required by regulation. Downward pressure on banks' capitalisation levels has, for the most part, resulted from the devaluation of the Naira, as well as (oftentimes related) asset

[2] Refer to GCR's 2017 Nigeria Banking Industry Bulletin for a review of relevant economic, regulatory and/or industry developments.

quality concerns. Naira devaluation has increased pressure on banks' already moderating capital buffers, given the expansionary effect it has on forex denominated loans, and consequently on banks' risk-weighted asset balances.

Challenges for Nigerian banks and other financial institutions persist in 2017, given ongoing macroeconomic uncertainties. In view of the current pressure on capital adequacy, banks are likely to raise additional capital (via debt or equity issues) to absorb additional losses and meet regulatory capital requirements.

Part of government's effort in terms of risk management is the recent passing into law of the Collateral Registry Act 2017, which is expected to address the issue of security (collateral) realisation by financial institutions; as well as the Credit Reporting Act 2017, which will facilitate and promote access to accurate, fair and reliable credit information.

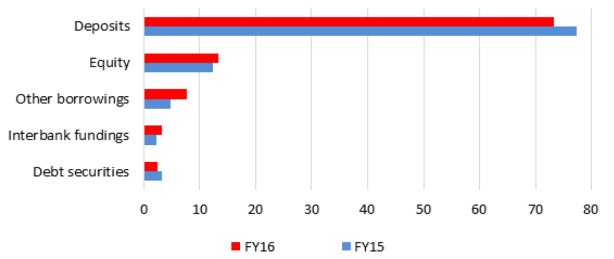
### Competitive position
Table 3 compares selected ratios of UBA with peers at 31 December 2016. Amidst an intense competitive environment, UBA compares favourably with the top-tier banks by balance sheet size, geographical spread, and asset quality. Also, profitability metrics ranked among the highest in FY16.

## Financial profile

### Likelihood of support
Being one of the systemically important banks in Nigeria, availability of government support is highly likely should such be required. Also, UBA's shareholders are likely to provide adequate support as and when required as demonstrated by capital raising undertaken in the past.

### Funding composition
The bank's funding composition remained relatively stable, albeit with slight variation in mix at FY16. Figure 1 compares the funding mix at FY16 with the previous year, and discussions on each of the components are in the sections that follow.

Figure 1: Funding mix (%)




### Deposits (including interbank funding)
Customer deposits increased 19.4% to N2.5tn at FY16, underpinned by growth in retail deposits which was up 26.6%. According to management, the bank leveraged on its various digital channels to grow low cost retail deposits during the period. As such, current and savings accounts accounted for a higher 75.5% of deposits at FY16 (FY15: 71.7%). Note is also taken of the increase in interbank funding at FY16 (up 78.3% to N109bn). However, weighted average cost of funds remained relatively stable at 3.7% (FY15: 4.0%).

| Table 4: Deposit book characteristics at FY16 (%) | | | |
|---|---|---|---|
| **By type:** | | **By source:** | |
| Current | 55.3 | Retail | 37.0 |
| Savings | 20.2 | Corporate | 58.5 |
| Term | 20.3 | Financial institution | 4.2 |
| Interbank borrowings | 4.2 | | |
| **Concentration (%):** | | | |
| Single largest | 3.7 | Ten largest | 9.2 |
| Five largest | 7.2 | Twenty largest | 9.8 |
| **Maturity (%):** | | | |
| < 1 month | 53.6 | 3-12 months | 26.9 |
| 1-3 months | 19.5 | > 1 year | - |

Source: UBA.

While the deposit book is considered to be fairly diversified (as single and twenty largest accounted for 3.7% and 9.8% respectively at FY16), analysis of the contractual maturity profile reflects a largely short-dated deposit book (with 53.6% of deposits maturing in less than 1 month at FY16). At 1H FY17, total deposits stood at N2.4tn, representing 85.7% of

| Table 3: Competitive position* UBA vs. selected banks | Zenith | FirstBank | UBA | Access | GTBank |
|---|---|---|---|---|---|
| Year end 31 December 2016 | | | | | |
| Capital (N'bn) | 704.5 | 517.9 | 448.1 | 454.5 | 504.9 |
| Total assets (N'bn)† | 4,635.2 | 4,398.4 | 3,457.9 | 3,423.4 | 3,090.3 |
| Net loans (N'bn) | 2,289.4 | 2,086.7 | 1,505.3 | 1,854.7 | 1,589.4 |
| Profit after tax (N'bn) | 129.7 | 11.8 | 72.3 | 71.4 | 132..3 |
| Capital/assets (%) | 15.2 | 17.0 | 15.2 | 19.5 | 15.9 |
| Liquid and trading assets/total short-term funding (%) | 45.9 | 15.4 | 17.2 | 20.5 | 21.7 |
| Gross NPL ratio (%) | 3.0 | 24.2 | 3.9 | 2.1 | 3.7 |
| Net interest margin (%) | 6.9 | 11.2 | 10.2 | 7.2 | 10.5 |
| Cost ratio (%) | 48.0 | 45.8 | 56.3 | 58.8 | 33.0 |
| ROaE (%) | 20.0 | 2.3 | 19.0 | 17.4 | 36.6 |
| ROaA (%) | 3.0 | 0.3 | 2.3 | 2.4 | 5.9 |

*Ranked by total assets. †Excludes banks' balances held in respect of letters of credit. Source: Audited Financial Statements.

budget.

### Capital adequacy

UBA's shareholders' funds stood at N448.1bn at FY16, representing 34.7% growth over that of FY15. Growth in capital was largely driven by retained earnings. UBA's capitalisation is also supported by subordinated debt securities amounting to N86bn at FY16. CAR for the Nigeria operation remained strong and relatively flat during the period under review around 20%, against the required minimum of 15%.

| Table 5: Capitalisation (N'bn) | FY15 | FY16 |
|---|---|---|
| Tier 1 | 197.3 | 214.5 |
| Tier 2 | 43.8 | 47.9 |
| **Total regulatory capital** | **241.1** | **262.4** |
| **Total risk weighted assets** | **1,208.4** | **1,331.9** |
| **CAR (%)** | **20.0** | **19.7** |

Source: UBA AFS.

### Borrowings

Total borrowings grew 60.5% to N345.9bn at FY16, comprising subordinated debt securities and on-lending facilities from international and local financial institutions.

*Debt securities*: Debt securities totalled N86bn at FY16, comprising three subordinated medium-term notes of N20bn, N35bn and N30.5bn issued in 2010, 2011 and 2014 respectively, with 7 year maturities each.

| Table 6: Other borrowings (N'bn) | FY15 | FY16 |
|---|---|---|
| **Domestic currency** | **26.7** | **54.2** |
| CBN | 13.6 | 43.2 |
| Bank of Industry | 13.1 | 11.0 |
| **Foreign currency** | **103.2** | **205.7** |
| Standard Chartered Bank | 40.0 | - |
| European Investment Bank | 1.6 | 2.0 |
| Syndicated facility | 41.7 | 27.5 |
| Africa Trade Finance | 19.9 | 15.1 |
| Afrexim | - | 30.4 |
| African Development Bank | - | 36.2 |
| Credit Suisse | - | 94.5 |
| **Total** | **129.9** | **259.9** |

Source: UBA AFS.

*Other borrowings*: Borrowings from financial institutions doubled to N259.9bn at FY16, comprising domestic (20.9%) and foreign (79.1%) currency denominated borrowings. Major additions to the book during the period include: (i) USD100m dual tranche short-term trade finance facility from African Export-Import Bank, secured in June 2016, for one year, at an interest rate of USD LIBOR + 575 basis points "bps", payable quarterly; (ii) USD150m credit line from African Development Bank, secured in November 2016. The first tranche of USD120m was disbursed in December 2016. The facility has a tenor of eight years, with interest rate of six months USD LIBOR + 440bps, payable semi-annually, after a moratorium of two years; and (iii) USD300m loan facility from Credit Suisse International, disbursed in three tranches. The first tranche was disbursed in July 2016, with a tenor of 13 months and an interest rate of 12 months USD LIBOR+ 550bps. The second and third tranches were also disbursed during the year, with tenors of 12 months and at the same interest rate as the first tranche.

### Liquidity positioning

UBA maintained a healthy liquidity profile throughout the period under review. The regulatory liquidity ratio ranged between 35.5% and 46.7% throughout FY16 and averaged 42% (FY15: ranged between 35.7% and 52.5%, averaged 42.6%) which is well above the required minimum of 30%. However, maturity matching of assets and liabilities on both contractual and behavioural basis reflected mismatches across most of the maturity buckets. Liquidity gap in the 'less than one month' maturity bucket amounted to N438.6bn and N489.3bn on a contractual and behavioural basis respectively at FY16 (equivalent to 97.9% and 109.2% of capital respectively). This is considered typical of banks in Nigeria.

## Operational profile

### Risk management

UBA continues to monitor potential risks, across its various geographical locations, given the spread and diversity in the operating environments. The enterprise risk management framework covers all aspects of risk the bank is exposed to, from credit origination to recovery. Also, embedded in UBA's risk management framework is information security control, which covers the E-channel banking transactions.

### Asset composition

| Table 7: Asset Mix | FY15 | | FY16 | |
|---|---|---|---|---|
| | N'bn | % | N'bn | % |
| **Cash & liquid assets*** | **672.5** | **24.6** | **797.9** | **23.1** |
| *Cash* | *36.1* | *1.3* | *71.5* | *2.1* |
| *Liquidity reserve* | *276.7* | *10.1* | *322.0* | *9.3* |
| *Treasury bills and bonds* | *11.2* | *0.4* | *52.3* | *1.5* |
| *Balances with other banks* | *348.5* | *12.7* | *352.1* | *10.2* |
| Net advances to customers | 1,036.6 | 37.9 | 1,505.3 | 43.5 |
| **Investments securities** | **757.2** | **27.7** | **566.9** | **16.4** |
| *Equity inv.* | *48.9* | *1.8* | *80.6* | *2.3* |
| *Available for sale inv.* | *226.6* | *8.3* | *196.1* | *5.7* |
| *Held to maturity inv.* | *481.7* | *17.6* | *290.2* | *8.4* |
| Pledged assets | 99.7 | 3.6 | 403.5 | 11.7 |
| Investment in associates | 2.2 | 0.1 | 2.9 | 0.1 |
| Property, Plant and Equipment | 88.8 | 3.2 | 93.9 | 2.7 |
| Other assets | 81.2 | 3.0 | 87.4 | 2.5 |
| **Total** | **2,738.3** | **100.0** | **3,457.9** | **100.0** |

*Excludes client balances held in respect of letters of credit.
Source: UBA AFS.

Total assets expanded 26.3% to N3.5tn at FY16, driven by robust growth in other African countries (excluding Nigeria) and the effect of Naira depreciation. Cash and liquid asset grew 18.6%

(albeit accounting for a slightly lower 23.1% of total assets), as the bank took advantage of the high yield on government securities in Nigeria and Ghana. Furthermore, the liquidity reserve was boosted by the increase in CRR during the period. Net loans and advances accounted for a higher 43.5% of the asset pool (FY15: 37.9%), which is considered a moderate credit risk exposure. Further supporting the bank's liquidity position is the increased investment securities mainly comprised treasury bills and bonds. However, note is also taken of the fact that a sizeable portion of the investment has been pledged as collateral. Hence, the escalation in pledged assets by over four folds, as it constituted 11.7% of the asset pool at FY16 (FY15: 3.6%).

### Loan portfolio

Gross loans and advances to customers grew significantly (46.4%) to N1.6tn at FY16, partly reflecting the effect of Naira devaluation on foreign currency ("FCY") denominated loans. Total foreign currency exposures grew 92% to N593.4bn, constituting 37.6% of the loan book at FY16. An analysis of the loan portfolio by sector reflects three largest exposures in; oil and gas, manufacturing and power sectors. Per management, the oil and gas exposure was largely inflated by the currency devaluation as most of the loans to the sector are FCY denominated. Management has informed GCR that exposures to these major sectors are generally to quality obligors with strong cash flow potentials. However, cognisance is taken of the increase in exposure by obligor as the single and twenty largest accounted for 5.4% and 41.7% respectively of total loans at FY16 (FY15: 3.7% and 39.4% respectively). Also, the single largest exposure constituted 18.7% of shareholders' funds, against a regulatory minimum of 20%. Providing some comfort is the fact that, about 65.6% of the loans mature within 12months. At 1H FY17, total gross loans remained relatively flat at N1.6tn.

**Table 8: Loan book characteristics (%)**

| By sector: | | | FY15 | FY16 |
|---|---|---|---|---|
| Agriculture | | | 5.0 | 3.9 |
| Oil and gas | | | 19.2 | 23.3 |
| Construction | | | 2.9 | 8.8 |
| General commerce | | | 9.8 | 9.7 |
| Consumer credit | | | 10.5 | 9.1 |
| Public sector | | | 5.9 | 4.7 |
| Power | | | 9.7 | 10.1 |
| Manufacturing | | | 16.6 | 14.9 |
| IT and Telecom | | | 7.5 | 6.5 |
| Financial Institutions | | | 6.7 | 4.3 |
| Others | | | 6.2 | 4.6 |
| **Largest exposures:** | **%** | **By Product:** | | **%** |
| Single largest | 5.4 | Overdrafts | | 21.7 |
| Five largest | 16.2 | Term loans | | 77.3 |
| Ten largest | 27.5 | Others | | 1.0 |
| Twenty largest | 41.7 | | | |

Source: UBA.

### Contingencies

Off-balance sheet contingencies were up 160.9% to N591bn at FY16, accounting for 14.6% of total on- and off-balance sheet assets. The increase in contingencies was mainly driven by guarantees and letters of credits issued to third parties on behalf of customers. At 1H FY17, off-balance sheet commitments increased further by 18.1% to N698bn.

### Asset quality

The gross NPL ratio rose to 3.9% from 1.7% in FY15, underpinned by macro-economic pressures in Nigeria which resulted in more loans being categorised as impaired. However, the NPL ratio remained within CBN tolerable limit of 5%. According to management, the sharp rise in impaired loans was due to the bank's conservative approach to tainted credits. Remedial actions are currently being taken to ensure full recovery of most of the funds. An analysis of the impaired loans reflects the majority to be in general commerce and power sectors. Specific provision coverage of the impaired loans remained relatively stable at 36.1% (FY15: 37.1%), while total provisioning coverage stood at 83.3%. Cognisance is also taken of the increase in NPL ratio to 4.2% at 1H FY17.

| Table 9: Asset Quality (N'bn) | FY15 | FY16 |
|---|---|---|
| **Gross Advances** | **1,062.4** | **1,555.7** |
| Performing | 1,044.1 | 1,495.2 |
| Impaired | 18.3 | 60.5 |
| **Provision for impairment** | **(25.8)** | **(50.4)** |
| Individually impaired | (6.8) | (21.8) |
| Collectively impaired | (19.0) | (28.6) |
| **Net NPLs** | **(7.5)** | **10.1** |
| NPL ratio (%) | 1.7 | 3.9 |
| Net NPL ratio (%) | neg. | 0.7 |
| Net NPL/Capital (%) | neg. | 2.4 |

Source: UBA AFS.

### Foreign currency exposure

UBA is exposed to foreign exchange risks via its FCY denominated portfolios, heightened by the Naira devaluation. The net exposure on the USD was equivalent to 12.6% of shareholders' funds at FY16.

| Table 10: FY16-Net FCY position | USD N'bn | EUR N'bn | GBP N'bn | Others N'bn | Total N'bn |
|---|---|---|---|---|---|
| Financial assets | 739.0 | 25.1 | 7.2 | 955.7 | 1,727.0 |
| Financial liabilities | (795.4) | (19.7) | (7.3) | (769.0) | (1,591.4) |
| **Net** | **(56.4)** | **5.4** | **(0.1)** | **186.7** | **135.6** |

Source: UBA AFS.

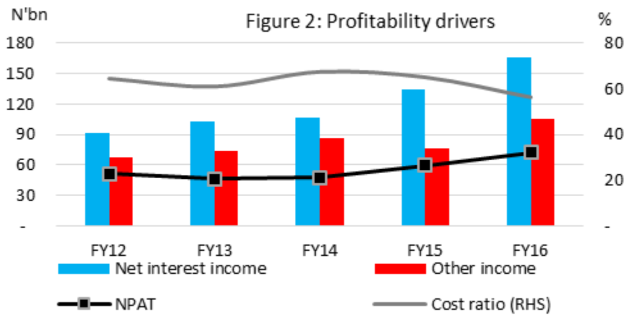
## Financial performance and prospects

A five-year financial synopsis, together with six months audited management accounts to 30 June 2017, is reflected at the back of this report, supplemented by the commentary below.

Despite weakened macroeconomic fundamentals in its major market (Nigeria), UBA reported a 32.4% and 21.1% growth in pre-tax and post-tax profits respectively in FY16. Supporting the bank's profitability position was its diversified franchise, as it made notable improvement in earnings from its other African subsidiaries. Net interest income grew 23.7% to N165.2bn, as business volumes increased outside Nigeria. Also, non-interest income rose significantly by 37.9% to N105.7bn, underpinned by improved fee and commission income as well as foreign currency revaluation gains (FY16: N15.1bn, FY15: N3.2bn). As such total operating income was reflected at a new high of N270.9bn, up 28.8% from FY15's level.

However, profitability was constrained by a significant rise in impairment charge (was up by over 400%), largely due to prudent provisioning on impaired loans. Also, operating expenses rose 11.6%, driven by increase in staff costs, IT and other administrative expenses. According to management, increase in staff costs was impacted by FX movement and the translation of personnel costs from foreign subsidiaries. However, the cost to income ratio declined to 56.3% (FY15: 65.0%), as the bank benefitted from growth in earnings during the period. Consequently, ROaE and RoaA closed at a relatively stable 19.0% and 2.3% in FY16 respectively, from 20.4% and 2.2% in FY15 respectively.

Figure 2: Profitability drivers




Management forecast reflects a pre-tax profit of N110.1bn for FY17, to be driven by improved net interest income and a moderate non-interest income (as FX revaluation gains are expected to tapper down). Operating expenses is also expected to grow moderately, with cost to income ratio maintained around FY16 corridor.

| Table 11: Budget FY17 Vs Actual (N'bn) | Actual FY16 | Budget FY17 | Actual 1HFY17 | % of * Budget |
|---|---|---|---|---|
| **Income statement** | | | | |
| Net int. income | 165.2 | 195.9 | 101.4 | 103.5 |
| Other income | 105.7 | 104.4 | 60.4 | 115.7 |
| **Total income** | **270.9** | **300.3** | **161.8** | **107.7** |
| Bad debt charge | (27.7) | (24.3) | (9.4) | 77.7 |
| Operating exp. | (152.5) | (165.9) | (94.8) | 114.3 |
| **NPBT** | **90.7** | **110.1** | **57.5** | **104.5** |
| **Statement of financial position** | | | | |
| Net advances | 1,505.3 | 1,733.0 | 1,560.3 | 90.0 |
| Deposits | 2,485.6 | 2,858.6 | 2,448.6 | 85.7 |
| Tier 1 capital | 448.1 | 544.1 | 483.1 | 88.8 |
| Total assets | 3,457.9 | 4,030.1 | 3,690.3 | 91.6 |

Source: UBA. *Annualised

Performance at 1H FY17 reflects UBA to be slightly ahead of budget on an annualised basis, for most performance parameters. The balance sheet was also enhanced by the successful Eurobond Issue of USD500m during 1H FY17. Based on the half year audited performance and the easing of some of the challenges in the operating environment, achieving the full year budget is considered attainable if the current momentum is sustained.

# United Bank for Africa Plc

(Naira in millions except as noted)

| Year end: 31 December | | | | | | |
|---|---|---|---|---|---|---|
| **Statement of Comprehensive Income Analysis** | **2012** | **2013** | **2014** | **2015** | **2016** | **1H2017** |
| Interest income | 150,003 | 185,700 | 196,680 | 229,629 | 263,970 | 154,954 |
| Interest expense | (58,386) | (82,469) | (90,547) | (96,030) | (98,770) | (53,575) |
| **Net interest income** | **91,617** | **103,231** | **106,133** | **133,599** | **165,200** | **101,379** |
| Other income | 67,599 | 73,762 | 86,322 | 76,658 | 105,689 | 60,398 |
| **Total operating income** | **159,216** | **176,993** | **192,455** | **210,257** | **270,889** | **161,777** |
| Impairment charge | (4,560) | (13,078) | (6,578) | (5,053) | (27,683) | (9,441) |
| Operating expenditure | (102,592) | (107,851) | (129,686) | (136,640) | (152,501) | (94,805) |
| Share of profit/(loss) of equity-accounted investee | 54 | (6) | 9 | (110) | (63) | - |
| **Net profit before tax** | **52,118** | **56,058** | **56,200** | **68,454** | **90,642** | **57,531** |
| Tax | (533) | (9,457) | (8,293) | (8,800) | (18,378) | (15,192) |
| **Net profit after tax** | **51,585** | **46,601** | **47,907** | **59,654** | **72,264** | **42,339** |
| Profit/(loss) from discontinued operations | 3,289 | - | - | - | - | - |
| Other after-tax income / (expenses) | 764 | 7,101 | (2,562) | 6,168 | 65,886 | 10,877 |
| **Total Comprehensive Income** | **55,638** | **53,702** | **45,345** | **65,822** | **138,150** | **53,216** |
| | | | | | | |
| **Statement of Financial Position Analysis** | | | | | | |
| Subscribed capital | 124,423 | 124,423 | 124,423 | 135,514 | 135,514 | 135,514 |
| Reserves (incl. net income for the year) | 64,683 | 103,226 | 135,507 | 190,313 | 299,337 | 332,971 |
| Hybrid capital (incl. eligible portion of subordinated term debt) | 53,719 | 55,653 | 85,315 | 85,620 | 85,978 | 86,231 |
| Minority interest | 3,361 | 7,387 | 5,476 | 6,794 | 13,218 | 14,646 |
| Less: Intangible assets (incl. goodwill) | (5,673) | (5,673) | (5,673) | (5,673) | (8,522) | (8,522) |
| **Total capital and reserves** | **240,513** | **285,016** | **345,048** | **412,568** | **525,525** | **560,840** |
| Bank borrowings (incl. deposits, placements & REPOs) | 57,780 | 60,582 | 59,228 | 61,066 | 109,080 | 139,630 |
| Deposits | 1,652,674 | 2,161,182 | 2,169,663 | 2,081,704 | 2,485,273 | 2,339,910 |
| Other borrowings | 53,500 | 3,762 | 6,755 | 73,542 | 167,569 | 133,911 |
| **Short-term funding (< 1 year)** | **1,763,954** | **2,225,526** | **2,235,646** | **2,216,312** | **2,761,922** | **2,613,451** |
| Deposits | 67,334 | - | - | - | 337 | 108,707 |
| Other borrowings | 61,020 | 45,104 | 107,042 | 56,354 | 92,358 | 268,073 |
| **Long-term funding (> 1 year)** | **128,354** | **45,104** | **107,042** | **56,354** | **92,695** | **376,780** |
| Payables/Deferred liabilities | 121,735 | 55,701 | 53,709 | 53,031 | 77,717 | 80,068 |
| **Other liabilities** | **121,735** | **55,701** | **53,709** | **53,031** | **77,717** | **80,068** |
| **Total capital and liabilities** | **2,254,556** | **2,611,347** | **2,741,445** | **2,738,265** | **3,457,859** | **3,631,139** |
| Balances with central bank | 119,697 | 246,262 | 310,710 | 276,668 | 321,971 | 342,190 |
| Property, Plant and Equipment | 70,746 | 75,409 | 89,517 | 88,825 | 93,932 | 98,944 |
| Derivative financial assets | - | 3,265 | 6,534 | 1,809 | 10,642 | 13,931 |
| Receivables/Deferred assets (incl. zero rate loans) | 113,680 | 62,308 | 66,930 | 79,352 | 76,748 | 93,455 |
| **Non-earnings assets** | **304,123** | **387,244** | **473,691** | **446,654** | **503,293** | **548,520** |
| Short-term deposits & cash | 162,353 | 127,584 | 185,191 | 166,369 | 71,522 | 60,673 |
| Loans & advances (net of provisions) | 687,435 | 937,620 | 1,071,859 | 1,036,637 | 1,505,319 | 1,560,337 |
| Bank placements | 419,371 | 343,932 | 349,096 | 218,250 | 352,113 | 321,238 |
| Marketable/Trading securities | 457 | 784 | 1,099 | 11,249 | 52,295 | 43,878 |
| Other investment securities | 680,817 | 811,206 | 657,523 | 856,870 | 970,392 | 1,093,464 |
| Investments in equity-accounted investee | - | 2,977 | 2,986 | 2,236 | 2,925 | 3,029 |
| **Total earning assets** | **1,950,433** | **2,224,103** | **2,267,754** | **2,291,611** | **2,954,566** | **3,082,619** |
| **Total assets†** | **2,254,556** | **2,611,347** | **2,741,445** | **2,738,265** | **3,457,859** | **3,631,139** |
| **Contingencies** | **401,312** | **483,982** | **586,669** | **226,518** | **591,006** | **697,958** |
| | | | | | | |
| **Ratio Analysis (%)** | | | | | | |
| ***Capitalisation*** | | | | | | |
| Internal capital generation# | 29.4 | 23.6 | 17.4 | 20.2 | 31.8 | 11.4 |
| Total capital / Net advances + net equity invest. + guarantees | 13.6 | 12.8 | 14.9 | 19.5 | 17.1 | 16.7 |
| Total capital / Total assets | 10.7 | 10.9 | 12.6 | 15.1 | 15.2 | 15.4 |
| ***Liquidity‡*** | | | | | | |
| Net advances / Deposits + other short-term funding | 37.5 | 42.1 | 47.9 | 46.8 | 54.5 | 57.3 |
| Net advances / Total funding (excl. equity portion) | 36.3 | 41.3 | 45.8 | 45.6 | 52.7 | 52.2 |
| Liquid & trading assets / Total assets | 25.8 | 18.1 | 19.5 | 14.5 | 13.8 | 11.7 |
| Liquid & trading assets / Total short-term funding | 33.0 | 21.2 | 23.9 | 17.9 | 17.2 | 16.3 |
| Liquid & trading assets / Total funding (excl. equity portion) | 30.8 | 20.8 | 22.9 | 17.4 | 16.7 | 14.2 |
| ***Asset quality*** | | | | | | |
| Impaired loans / Gross advances | 1.9 | 1.2 | 1.6 | 1.7 | 3.9 | 4.2 |
| Total loan loss reserves / Gross advances | 2.3 | 2.0 | 1.9 | 2.1 | 2.9 | 1.4 |
| Bad debt charge (income statement) / Gross advances (avg.) | 0.7 | 1.6 | 0.6 | 0.5 | 2.1 | 0.6 |
| Bad debt charge (income statement) / Total operating income | 2.9 | 7.4 | 3.4 | 2.4 | 10.2 | 5.8 |
| ***Profitability*** | | | | | | |
| Net income / Total capital (avg.) | 25.2 | 20.4 | 14.4 | 17.4 | 29.5 | 9.8 |
| Net income / Total assets (avg.) | 2.7 | 2.2 | 1.7 | 2.4 | 4.5 | 1.5 |
| Net interest margin | 9.4 | 8.5 | 7.7 | 9.8 | 10.2 | 10.3 |
| Interest income + com. fees / Earning assets + guarantees (a/avg.) | 5.7 | 5.3 | 4.6 | 6.0 | 6.7 | 3.4 |
| Non-interest income / Total operating income | 42.5 | 41.7 | 44.9 | 36.5 | 39.0 | 37.3 |
| Non-interest income / Total operating expenses (or burden ratio) | 65.9 | 68.4 | 66.6 | 56.1 | 69.3 | 63.7 |
| Cost ratio | 64.4 | 60.9 | 67.4 | 65.0 | 56.3 | 58.6 |
| OEaA (or overhead ratio) | 4.9 | 4.4 | 4.8 | 5.0 | 4.9 | 2.7 |
| ROaE | 30.7 | 22.4 | 19.7 | 20.4 | 19.0 | 18.7 |
| ROaA | 2.5 | 1.9 | 1.8 | 2.2 | 2.3 | 2.4 |
| ***Nominal growth indicators*** | | | | | | |
| Total assets | 18.9 | 15.8 | 5.0 | (0.1) | 26.3 | 5.0 |
| Net advances | 6.2 | 36.4 | 14.3 | (3.3) | 45.2 | 3.7 |
| Shareholders funds | 28.3 | 20.4 | 14.2 | 25.4 | 33.5 | 7.7 |
| Total capital and reserves | 19.7 | 18.5 | 21.1 | 19.6 | 27.4 | 6.7 |
| Deposits (wholesale) | 19.0 | 25.6 | 0.4 | (4.1) | 19.4 | (1.5) |
| Total funding (excl. equity portion) | 18.1 | 20.0 | 3.2 | (3.0) | 25.6 | 4.8 |
| Net income | n.a | (3.5) | (15.6) | 45.2 | 109.9 | (23.0) |

† Excludes client balances held in respect of letters of credit.

‡ Please note that for these ratios, liquid assets exclude the mandatory reserves deposits with CBN.

**SALIENT FEATURES OF ACCORDED RATINGS**

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

The ratings were solicited by, or on behalf of, United Bank for Africa Plc, and therefore, GCR has been compensated for the provision of the ratings.

United Bank for Africa Plc participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings above were disclosed to and contested by United Bank for Africa Plc, and were reconsidered, and accorded following the provision of further material information by the entity.

The information received from United Bank for Africa Plc and other reliable third parties to accord the credit ratings included the latest audited annual financial statements as at 31 December 2016 (plus four years of comparative numbers), audited financial statements for the period ended 30 June 2017, latest internal and/or external audit report to management, full year detailed budgeted financial statements for 2017, reserving methodologies and capital management policies. In addition, information specific to the rated entity and/or industry was also received.