

Management Presentation Audited 2016 Half Year Results



August 2016



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Presentation Outline

- ⊙ Evolution of UBA

- ⊙ Macroeconomic Update

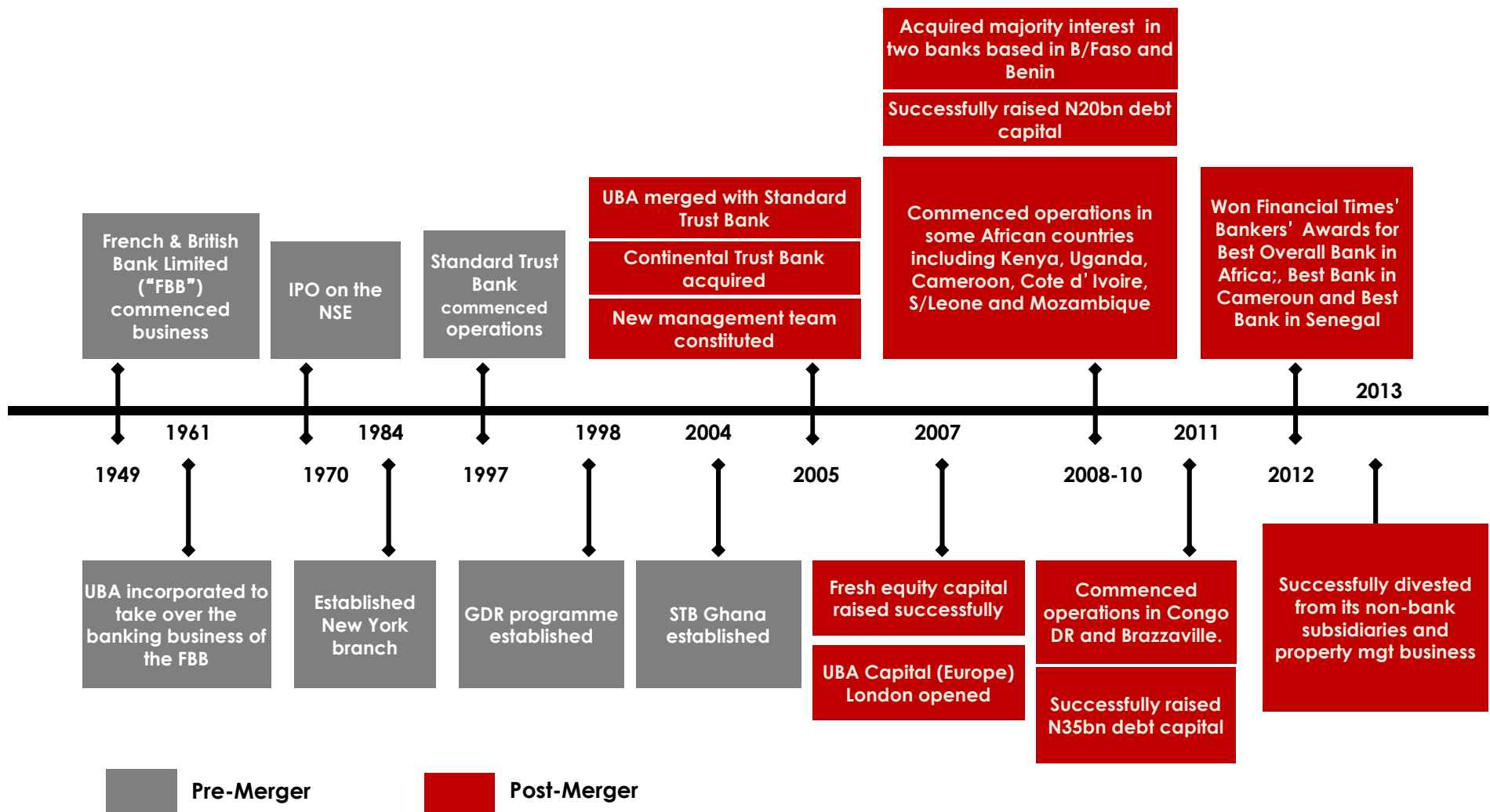
- ⊙ Regulatory environment

- ⊙ 2016 Half Year Performance Review

- ⊙ Review of 2016FY Performance Guidance

- ⊙ Questions

Evolution of UBA Plc



UBA Profile at a Glance



A truly Pan-African Bank, with operations across 19 key un(der)banked African markets

A unique and scalable platform to take full advantage of growth opportunities in all sectors of the African economy

- Third largest bank in Nigeria (the biggest economy), with an estimated c.10% market share
- The Nigerian bank with the largest earnings diversification and footprints across the African continent
- Full scale exposure to key growth poles of the African economy; consumer, commodities and infrastructure
- Meeting customers' global transaction need through its presence in London, New York and Paris
- Serving c.9million customers, through one of the most revered diverse channels in Africa;
615 business offices, 1,750 ATMs, 13,500 PoS, robust online and mobile banking platforms and social media.

Moderate risk appetite, with a good balance between profitability and sustainability

- Enhanced risk management and control framework, with clear definition of risk appetite
- Well diversified loan book with compelling quality ratios: 2.4% NPL with 114% coverage & c.1%% cost of risk.
- Minimal exposure to volatile sectors and segments of the market
- Strong governance structure and oversight, with zero tolerance for regulatory and internal policy infractions

Funding, Liquidity and Capital

- Strong 76% stable CASA funding
- Relatively low 3.4% cost of funds
- Headroom for lower CoF, on growing African retail penetration
- Liquid balance sheet to take advantage of emerging opportunities
- Adequate BASEL II CAR of 18.5%

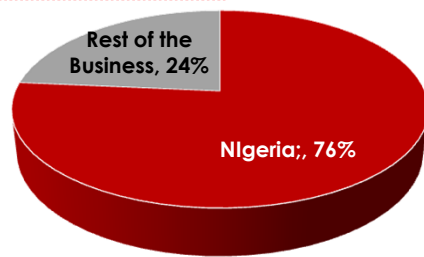
Asset Creation and Quality

- over N3 trillion balance sheet size
- Focused loan exposure to lower risk corporate and commercial markets
- Bouquet of holistic financial solutions to regional businesses
- Target to formalize the unbanked >USD30bn intra-Africa trade

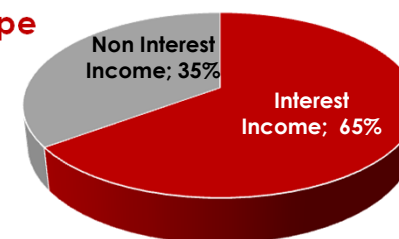
Profitability

- RoAE of 18% in 2016H1; ahead of peer average
- Notable upside to NIM, as asset yield rises and CoF moderates
- Moderating CIR of 63%, with benign outlook
- Profitability target built on sustainability and long term value creation

Profit By Geography (2016H1)

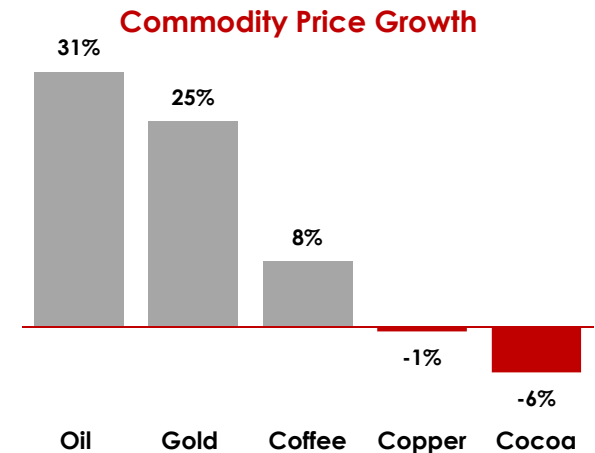


Earnings By Type (2016H1)



Operating Environment...All eyes on recovery

- The International Monetary Fund (IMF) revised downward the global growth outlook by 10bps to 3.1%, largely due to the downside risk that “Brexit” presents; uncertainties about trade and capital flows
- Africa’s GDP is expected to grow barely 1.6%, the lowest in decades; as Nigeria and South Africa (the two biggest economies) battle against recession
- Even so commodity prices have stabilized, with crude oil and coffee gaining 31% and 8% YTD, current price of most commodities are still relatively low to stimulate growth in the mono-cultural economies of Africa, where export of primary commodities is the mainstay of the economy
- More so, weak capital flows and public finance, internal economic dislocations, governance and currency weakness continue to slow down economic activities in most African countries.

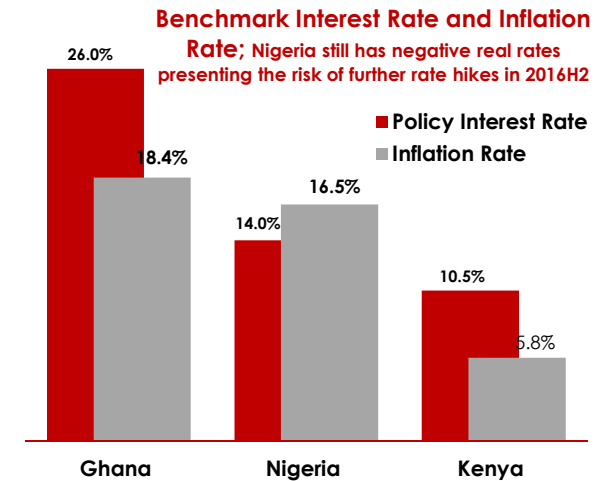


❖ Exchange Rate: New concerns as Brexit takes a toll on commodity prices

- Whilst most Africa’s local currencies have stabilized in 2016 (following notable depreciation in 2015), Nigeria’s Naira has seen a 60% depreciation thus far in the year, as the monetary authority adopts a flexible exchange rate system.
- The Mozambique Metical and the Ghanaian Cedi have also respectively depreciated 50% and 4% YTD.
- Whilst the Zambian Kwacha and the CFA (XOF and XAF) have appreciated 9% and 4% respectively, “Brexit” and attendant risk of lower commodity prices are downsides to currency stability in Africa.

❖ Interest Rate: Tight monetary policies to stem FX and inflation pressures

- Except for Kenya and Uganda which lowered respective benchmark rates by 100bps, SSA monetary policies have been broadly hawkish in the year, as authorities seek stable currencies and lower inflation rate.
- In 2016, policy makers have hiked interest rates by 300bps in Nigeria, Mozambique and Zambia, putting their benchmark interest rates at 14%, 17.25% and 15.5% respectively; purposely to stem rising inflation.



Source: Bloomberg, Country Central Banks

❖ Inflation and Politics: Lag effect of currency weakness feeding into inflation

- Consumer goods prices are rising, largely reflecting cost-push inflation, as the lag effect of currency weakness takes toll on import dependent African economies. Ghana – 18.4%; Nigeria – 16.5% (from 9.6% in Dec 2015 – out of CBN upper target of 9%), 17.8% in Mozambique and 21.0% in Zambia ;
- Consumer prices are however stable in the CFA countries and easing in Kenya and Uganda, where inflation rates moderated to 5.8% and 5.9% respectively.
- In Zambia, President Lungu has been declared winner of the keenly contested election

Policy and regulatory environment

❖ Nigeria

- 300bps hike in MPR (+100bps in March and +200bps in July).
- Adoption of flexible exchange rate on June 20
- Launch on FX Future OTC market on June 27
- Forbearance for the 12months minimum waiting period to write-off fully provisioned NPLs
- Resumption of sales of FX to BDCs (initially USD30,000 per week and later increased to USD50,000 per week for each BDC)
- Upward review of transaction limits of the Levels 1 and II of the Tiered KYC Accounts

Implications

- Raises yields on assets, as sovereign yields spikes to new highs; albeit funding cost has risen, with savings deposit rate rising by 90bps to 4.2%
- Returning confidence to the Nigerian FX interbank market and allowing the forces of demand and supply to dictate the price of Naira, which has seen some 60% depreciation since the adoption of flexible exchange rate regime; from N119/USD to N325/USD
- This is helping to smoothen out demand, thus reducing the speculative pressure on the Naira at the spot market
- The helps to prevent the accounting effect of Naira depreciation on erstwhile fully provisioned loans, which would require additional impairment charge, as Naira depreciates
- This is aimed at increasing FCY supply to parallel market, with the aim of narrowing the spread between interbank and parallel market rates
- This policy review is aimed at improving financial inclusion

❖ Other African Markets

- Ghana: MPR held at 26%, on more benign inflation and Cedi outlook IMF facility provided support to Cedi stability
- Kenya:
 - 100bps reduction in policy rate to 10.5%, as inflation eases
 - President signs the Bill to regulate maximum lending and minimum deposits rates for banks at 400bps above CBK rate and 70% of CBK rate respectively (i.e 14.5% and 7.35% respectively).
 - CBK appoints 15 bank supervisors and mutes 3 year tenure limits for CEO.
- Francophone West African markets: Relatively stable economies

- Stable interbank but appetite for credit creation still low
- Enhanced liquidity management
- FCY liquidity and improved energy is helping to stimulate economic activity and stem inflationary pressures
- Could stimulate credit in the economy
- This policy will reduce credit spreads and NIMs and could exclude some segments of the market from credit accessibility
- Expected to improve confidence in bank's reporting, improve governance and reduce key man risk in the sector
- Stable operating margins

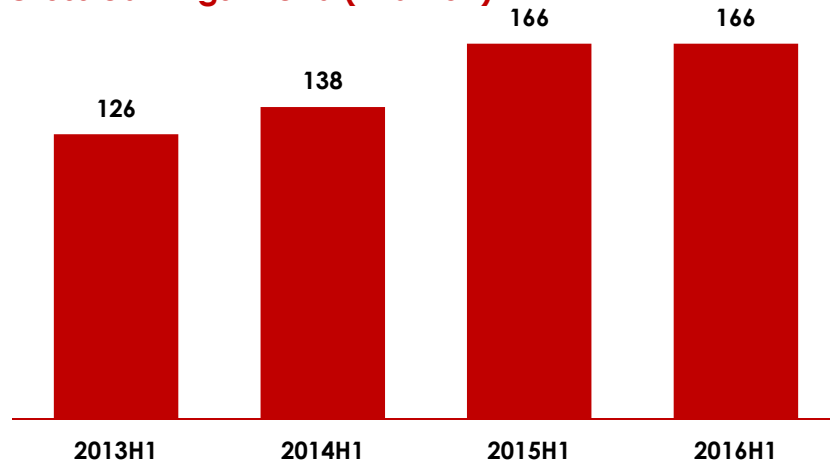
2016 Half Year Results Snapshot ::: Proven Resilience



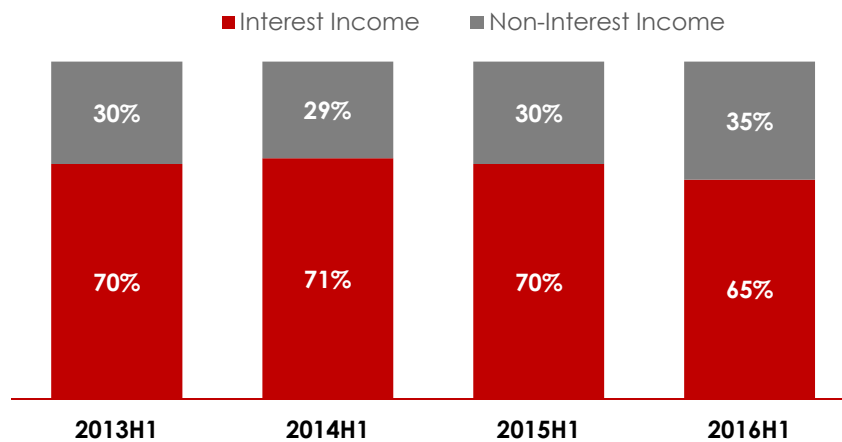
		30-June-16	30-June-15	% Change
COMPREHENSIVE INCOME & PROFIT TREND (N'million)	Gross Earnings	165,580	165,743	-0.1%
	Net Interest Income	64,132	64,390	-0.4%
	Net Operating Income	109,367	108,776	+0.5%
	Operating Expenses	(69,026)	(69,678)	-0.9%
	Profit Before Tax	40,270	39,046	+3.1%
	Profit After Tax	32,621	31,999	+1.9%
EFFICIENCY AND RETURN	Cost-to-Income Ratio	63%	64%	
	Post-Tax Return on Average Equity	18%	22%	
	Post-Tax Return on Average Assets	2%	2%	
		30-June-16	31-Dec-15	% Change
FINANCIAL POSITION TREND (N'million)	Total Assets	3,289,981	2,752,622	+19.5%
	Customer Deposits	2,412,015	2,081,704	+15.9%
	Net Loans to Customers	1,290,675	1,036,637	+24.5%
	Total Equity	407,901	332,621	+22.6%
BUSINESS CAPACITY AND ASSET QUALITY RATIOS	Total Loan-to-Deposit Ratio	54%	49%	
	Capital Adequacy Ratio (BASEL II)	18.5%	20.0%	
	Non-Performing Loan Ratio	2.4%	1.7%	

2016 Half Year Results Snapshot ::: Proven Resilience

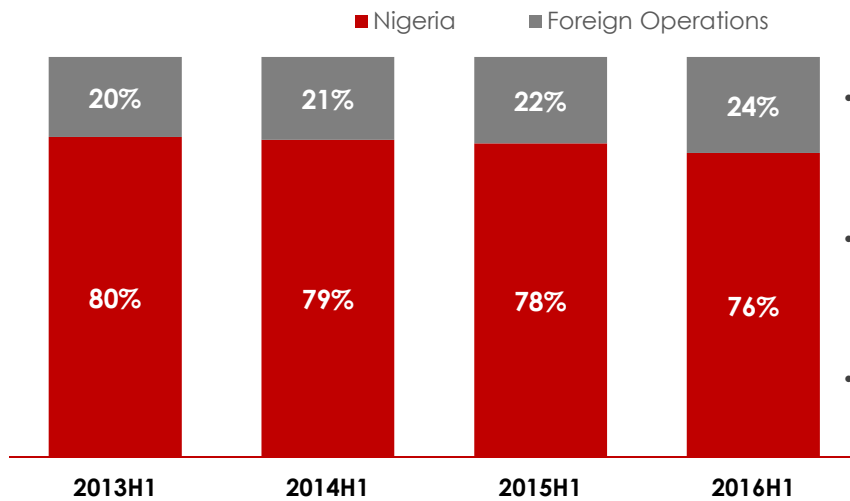
Gross earnings Trend (N'billion)



Gross earnings by source



Gross earnings split by geography

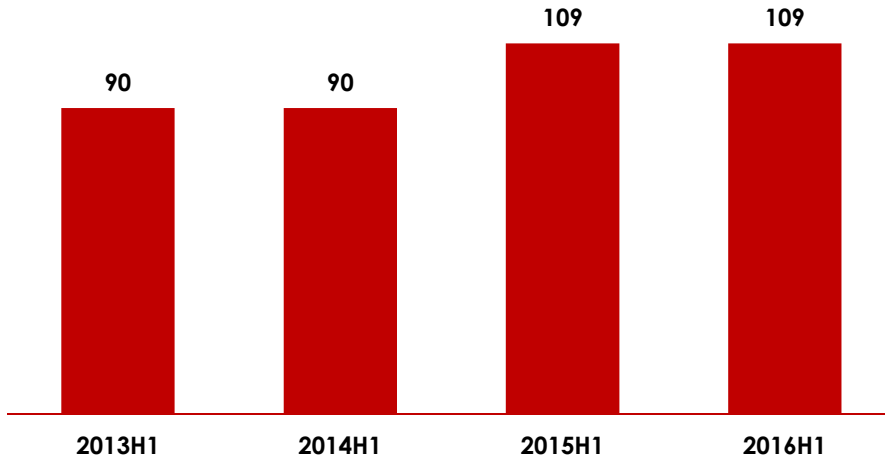


- We achieved a strong 12% year-on-year growth in non-interest income in the period, thus compensating for the slight moderation in interest income.
- Notwithstanding the mixed bag of macro events in a number of African countries, for our business; Africa is rising, with our business outside of Nigeria contributing a quarter of earnings in the first half of the year
- With transaction banking fees and related income representing 35% of gross earnings in the period, we are confident of building a strong annuity base that will sustainably grow our earnings base in the future.
- As technology revolutionizes payments and broad banking penetration, we are increasingly bullish on the opportunities for transaction-based banking across our chosen markets, thus reinforcing our optimism on earnings growth.

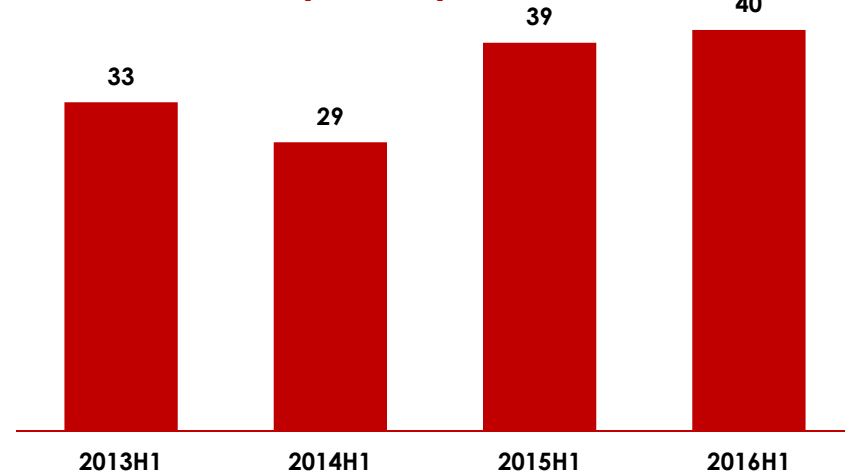
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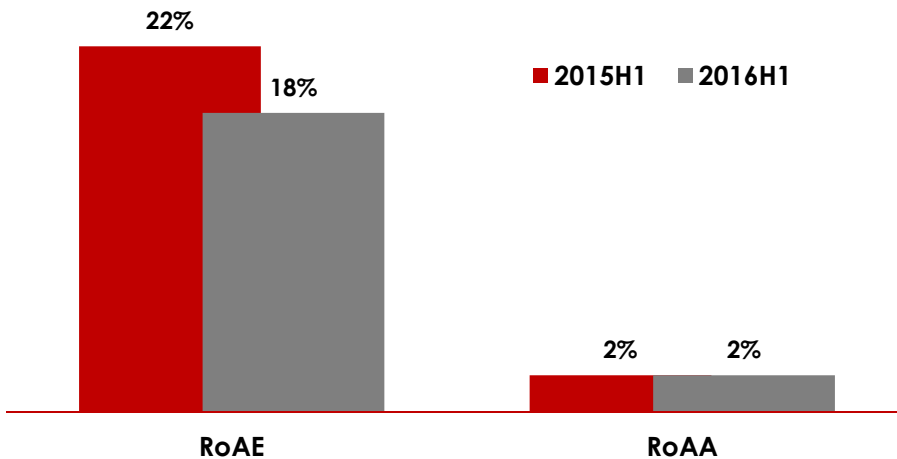
Operating Income (N'billion)



Profit Before Tax (N'billion)



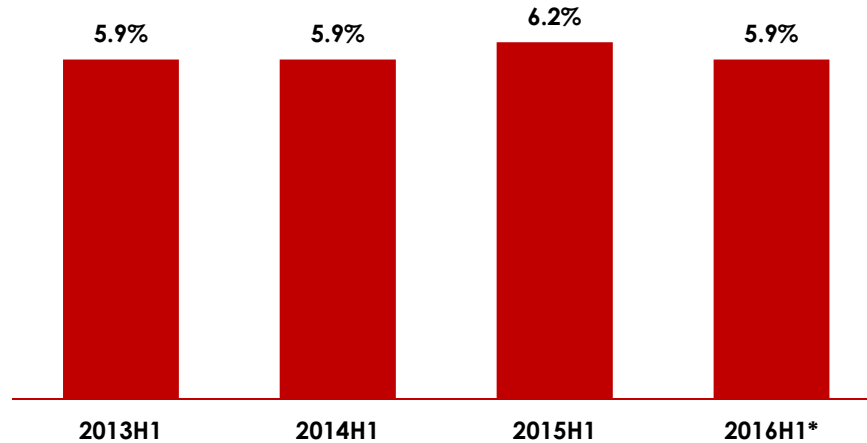
Return on Average Equity/Assets (%)



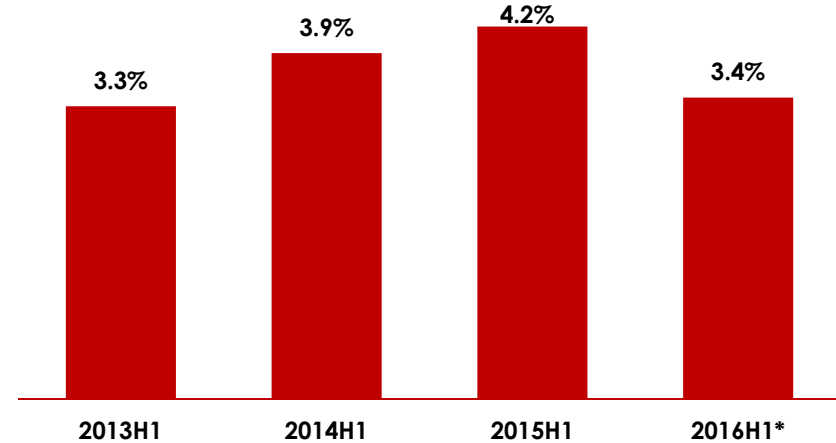
- Our operating income remained stable year-on-year at ₦109 billion.
- Notably, two erstwhile loss making subsidiaries broke even in 2016H1, thus supporting our outlook on earnings diversification, as we see progress towards our desired geographic earnings mix.
- Notwithstanding the double-digit growth in assets and continued balance sheet deleveraging, we achieved a 2.2% return on average assets in the period; a validation of our improving operational efficiency amidst the odds of waning macro fundamentals in Africa
- Overall, the post-tax profit translates to an annualized return on average equity of 18%, which is on-track the ~20% target for the year

2016 Half Year Results Snapshot ::: Proven Resilience

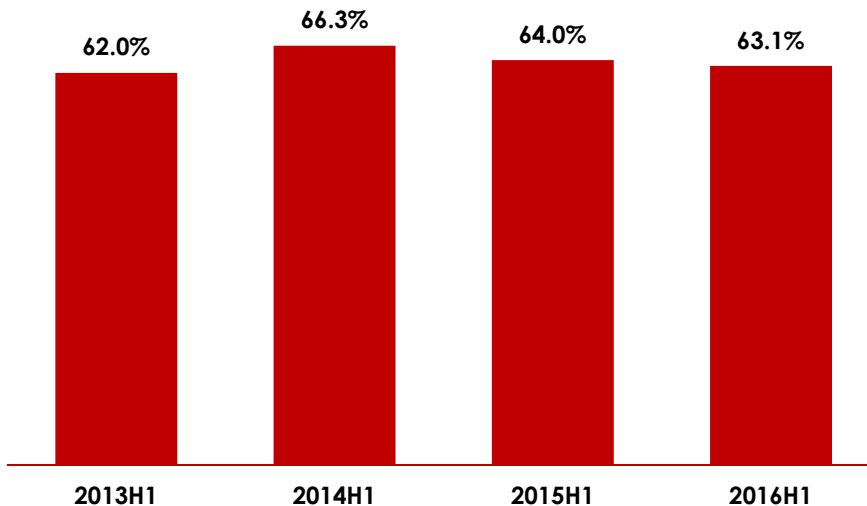
Net Interest Margin (%)



Cost of Funds (%)



Cost-to-Income Ratio (%)



- Net interest margin settled at 5.9% in the period, reflecting our biased exposure to relatively lower risk assets and “devaluation-induced” increase in the proportion of FCY-based assets.

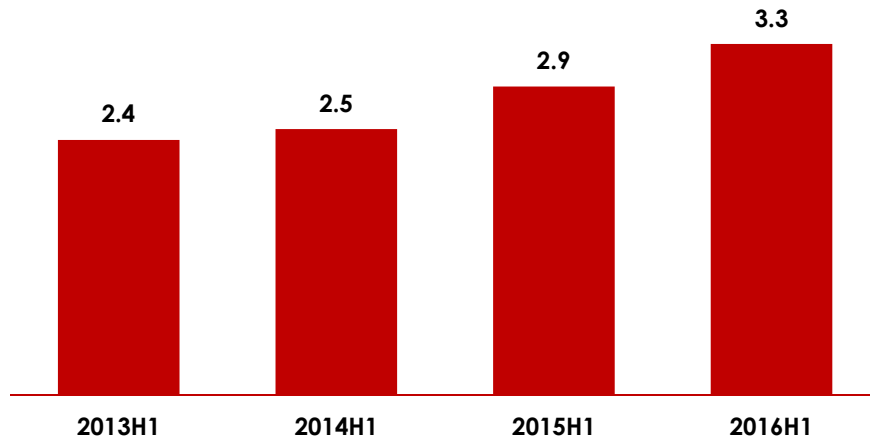
We see upside on treasury asset yield in H2, as interest rate remains in strong double digits in most of our markets.

Our strategic mobilization of low cost deposits continues to pay-off, as we achieved 80bps and 60bps YoY and QoQ moderation in funding cost respectively. Whilst the hike in MPR has raised savings deposit rate by 90bps to 4.2%, we have intensified the execution of our deposit mix drive to minimize the impact of this policy change on funding cost

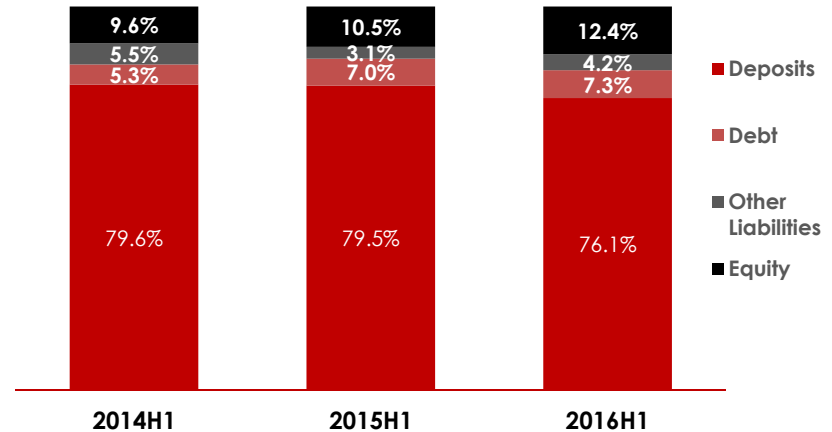
Amidst inflationary pressure and Naira devaluation, we achieved a 90bps moderation in cost-to-income ratio.

2016 Half Year Results Snapshot ::: Proven Resilience

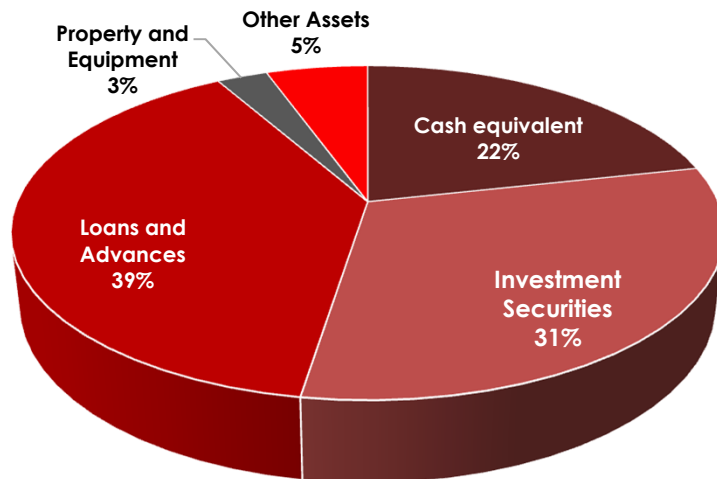
Total Assets (N'trillion)



Funding Structure



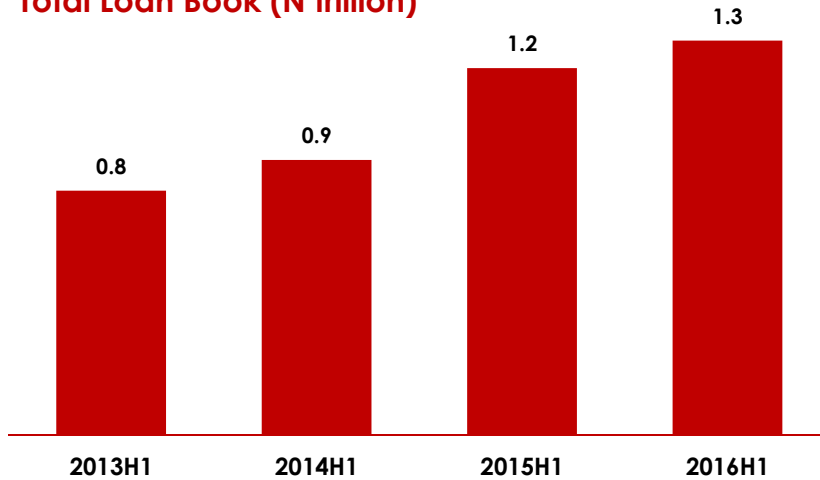
Composition of Total Asset Portfolio



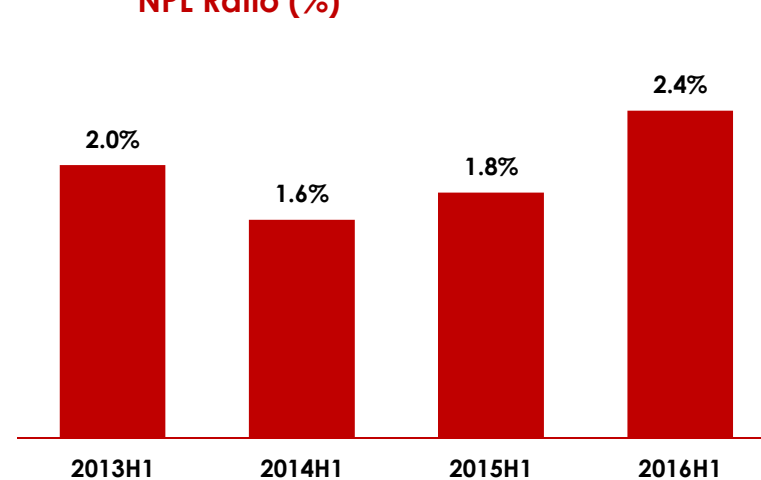
- Driven mostly by Naira devaluation and growth of our African business (ex-Nigeria), we recorded 20% year-to-date growth in total assets to cross the N3 trillion mark.
- The rich pool of stable deposits remains a veritable funding source for the Group.
- The balance sheet remains well diversified, with liquid, quality assets. Liquidity ratio stood at 45% as at 2016H1; far in excess of regulatory requirement.

2016 Half Year Results Snapshot ::: Proven Resilience

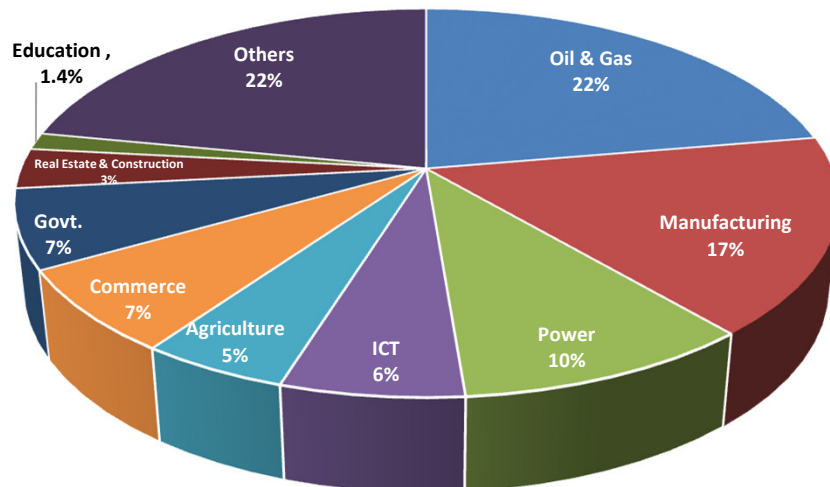
Total Loan Book (N'trillion)



NPL Ratio (%)



Sector Split of Loan Book

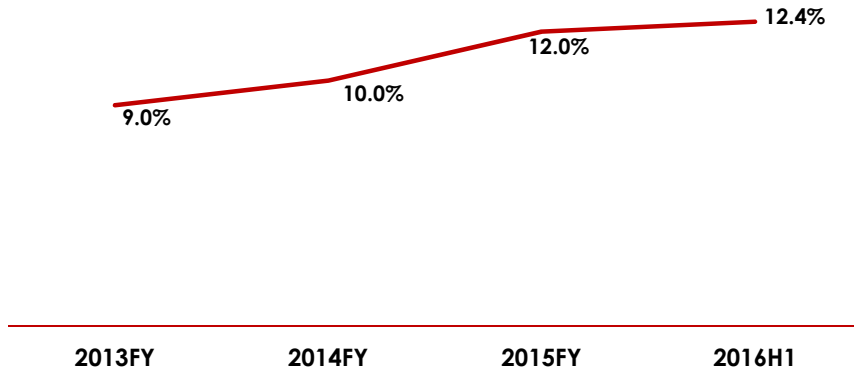


- Largely driven by Naira devaluation, the loan book grew by 25% year-to-date, albeit still leaving significant headroom for growth, as the loan-to-deposit ratio remains conservative at 54%.
- Asset quality remains strong, even as NPL ratio increased moderately to 2.4%, as we prudently classified some exposures which are affected by the eventful business environment in Nigeria and a few subsidiary operations.
- Driven by a prudent risk management culture, we increased collective/portfolio impairment on our risk assets to reflect and hedge against probable impact of weakening macro fundamentals on our portfolio. Thus, the Group ended 2016H1 with 1.1% cost of risk, still broadly in line with our target
- The loan book remains well diversified across market segments, sectors, and geographies

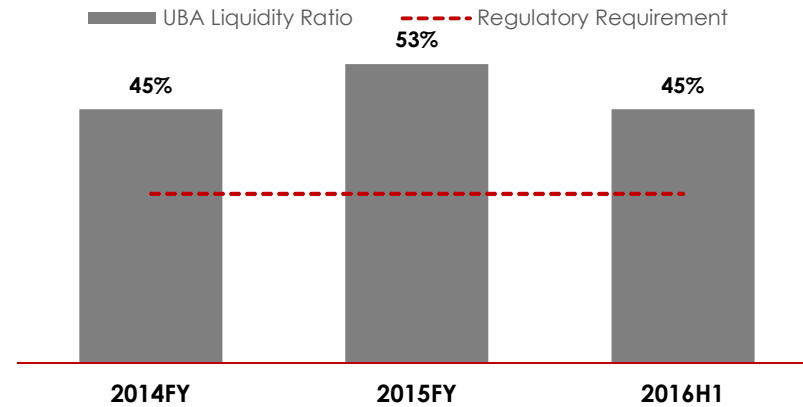
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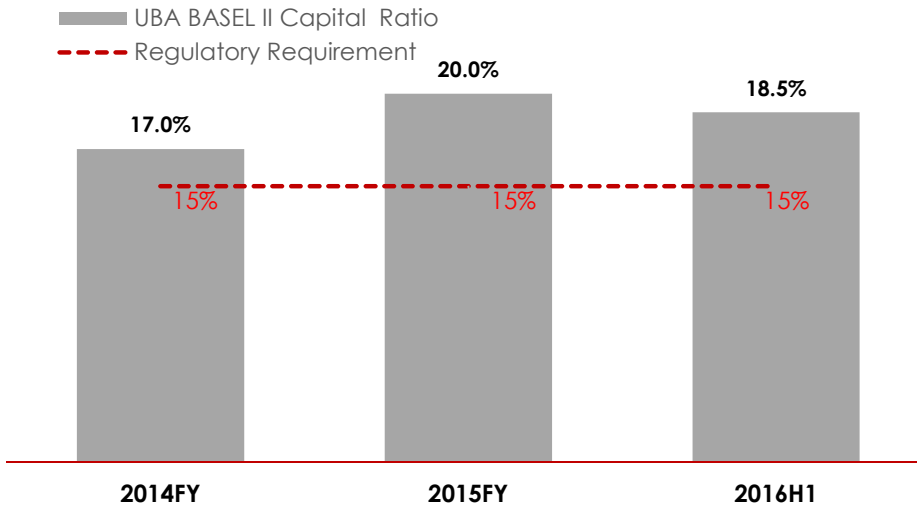
Equity-to-Total Assets Ratio (%)



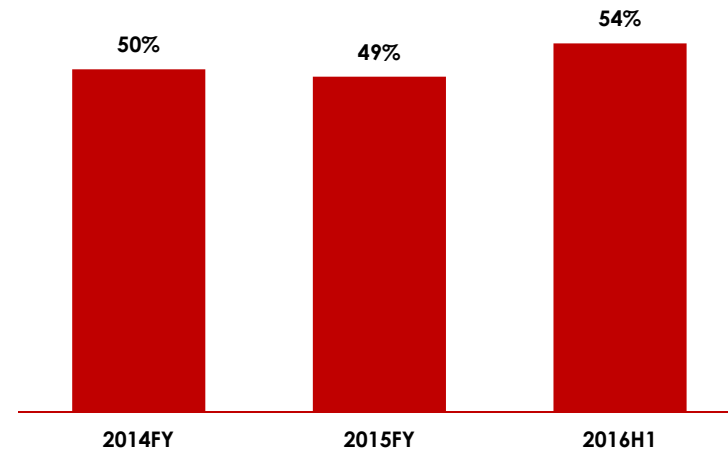
Liquidity Ratio (%)



Capital Adequacy Ratio (%)



Loan-to-Deposit Ratio (%)



Year-end Outlook



The Four Tactical Strategic Thrusts



1 Earnings Optimization

- Achieve higher yields on assets, through (right) pricing; new mix of LCY/FCY assets, and asset allocation
- Increase transaction banking income through captive volume, increased share of customer wallet and enhanced service offerings
- Grow market share in e-banking and trade services and reinvigorate the drive for remittance offerings
- Leverage e-banking (U-Direct, U-Mobile, U-Social, ATMs, Cards products etc) and new corporate solutions to grow non-funded income lines.
- Take advantage of improved service quality to increase collection accounts and pricing power

3 Asset Quality and Capital Management

- Sustain focus on quality obligors with strong and sustainable fundamentals in stable growth sectors
- Enhanced portfolio monitoring and consistent sensitivity to macro/industry variables to pick up early warning signals and take proactive measures for safety
- Continuous investment in human capital, risk management framework and tools and governance structure
- Increase internally generated capital to fund growth outlook
- Optimize RWA mix to further sweat capital

2 Cost Efficiency

- Improve efficiency of centralized operations
- Continuous migration of customers to low cost alternative channels to achieve lower cost/customer
- Improved knowledge sharing and performance management to drive staff productivity
- Leverage technology to service a wider customer base at lower cost and achieve better vendor management
- Re-engineer the drive for low cost deposits using service quality and value adding services to moderate cost of funds

4 Leveraging Africa Platform

- Achieve scale and scope in Africa, with a target to replicate the success story we achieved in Ghana, Senegal and Cameroon across all our African subsidiaries
- Deepen share of trade flows in Africa, and achieve 5% additional trade formalization using technology
- Turnaround East Africa businesses, with focus of breaking even by year-end, through increased penetration
- Leverage e-banking success in Nigeria to deepen brand penetration and customer acquisition

Review of 2016 Guidance



Headlines	2015FY	2016H1 Actual	2016FY Target	Scorecard	Revised 2016FY Target
Net Interest Margin (NIM)	6.3%	5.9%	≈6.3%	Underperform	≈6.3%
Cost-to-Income Ratio (CIR)	66.7%	63.1%	≈65%	Achieved	≈65%
Cost of Risk	0.5%	1.1%	≈1%	Achieved	≈1%
NPL Ratio	1.7%	2.4%	≈2.5%	Achieved	≈2.5%
Loan Growth	-3.3%	24.5%	10% - 15%	Outperform	>25%
Deposit Growth	-4.1%	15.9%	10% - 15%	Outperform	>20%
Return on Average Assets	2.2%	2.2%	≈2.2%	Achieved	≈2.2%
Return on Average Equity (RoAE)	20%	18%	≈20%	On Track	≈20%

Questions & Answers