United Bank for Africa Plc.

2018 Rating Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

UNITED BANK FOR AFRICA PLC

Rating Assigned:
Aa-

Outlook: Stable
Issue Date: 11 July 2018
Expiry Date: 30 June 2019
Previous Rating: Aa-

Industry: Banking

Analysts:
Yomi Akinola
yomiakinola@agusto.com

Yinka Adelekan
yinkaadelekan@agusto.com

Agusto & Co. Limited
UBA House (5th Floor)
57, Marina
Lagos
Nigeria

www.agusto.com

This is financial institution with good financial condition and strong capacity to meet its obligations as and when they fall due

RATING RATIONALE

Agusto & Co. maintains the rating of United Bank for Africa Plc. ("UBA" or "the Bank"). This rating is underpinned by the Bank's strong domestic franchise, strong liability generation capabilities, good capitalisation and competent management team. The rating also reflects the fragile macroeconomic climate in which the Bank operates and the threat on asset quality, as well as its high cost of operations.

UBA's total assets and contingents amounted to ₦3.3 trillion as at 31 December 2017. Gross loans, the largest asset class totalled ₦1.2 trillion also as at year-end 2017. Though asset quality was largely preserved in the review period, UBA's non-performing loan ratio stood somewhat elevated at 4.5%, just below the 5% regulatory ceiling, so did past due but not impaired loans at 6.1% of gross loans. This elevation is on account of the presence of concentration risks in the Bank's loan portfolio, exposing it to asset quality volatilities in a fragile macroeconomy. Nonetheless, holistically, credit risks have remained largely controlled, particularly in view of the industry's average NPL of 11.5% for the same period.

Having built a strong brand over the years with an expansive business footprint in Nigeria and presence in 19 other countries supporting liability generation for asset creation, UBA's strategy has sought to leverage on low cost liability generation for lending to corporate customers. This is in addition to investing in risk free government securities (particularly in periods of macro-driven elevations in obligor credit risk). Thus, the Bank's net interest spread (NIS) for the 2017 financial year stood at 58.2%. Charge-offs to UBA's provisioning account as well as persistently elevated operating expenses have however impacted the Bank's profitability profile. UBA's cost-to-income ratio (CIR) stood high at 69.9% for the 2017 financial year compared to an industry average of 66.1% for banks in Agusto & Co.'s coverage, for the same period. UBA's profitability indicators declined in the review period, nonetheless remaining acceptable by industry standards. Pre-tax return on average assets stood at 1.7% (FY2016: 1.8%) while return on average equity stood at 16.3% (FY 2016: 18.1%).

UBA maintains a good level of capitalisation for its business risks. Tier 1 capital amounted to ₦328 billion as at 31 December 2017 - well above the regulatory requirement of ₦50 billion minimum for Nigerian banks licensed to operate internationally. The Bank's Basel II capital adequacy ratio (CAR) also stood above the 15% minimum for Nigerian banks with international licenses, at 20%. We expect UBA's capital to remain good for its business risk upheld by continued profitability, and sufficient to withstand adjustments stemming from the adoption of IFRS 9 standards. In Q1 2018, the Bank maintained a CAR of 20%.

The rating assigned reflects UBA's strong ability to refinance, most recently tested by the Bank's debut $500 million Eurobond issuance in July 2017, which was 240% oversubscribed. This is in addition to previous successful bond issuances over the last decade.

We hereby maintain the "Aa-" rating assigned to United Bank for Africa Plc.

Strengths

- Strong pan-African franchise
- Good liquidity profile
- Experienced management team
- Good business footprint and market share

Weaknesses

- High cost-to-income ratio
- Degree of concentration by obligor in loan portfolio

Challenges

- Maintaining good asset quality as UBA grows, particularly given the fragile state of the Nigerian economy
- Cost management

Table 1: Background Information

Financial Data	FY 2017	FY2016
Total assets & contingents	₦3.3 trillion	₦2.8 trillion
Net earnings	₦178.8 billion	₦164.7 billion
Pre-tax return on average assets & contingents (ROA)	1.7%	2.2%
Pre-tax return on average equity (ROE)	16.3%	18.1%

PROFILE

United Bank for Africa Plc ("UBA" or "The Bank") was incorporated as a private limited liability company in Nigeria in February 1961, absorbing the assets of British and French Bank Limited. In August 2005, UBA merged with Standard Trust Bank Plc and acquired Continental Trust Bank Limited in December of the same year. UBA listed its shares on the Nigerian Stock Exchange in 1970. Over the years, UBA has evolved as a pan-African bank, and currently holds an international banking licence issued by the Central Bank of Nigeria (CBN). The Bank's operations spans 19 key African markets and it maintains offices in the United States of America, France and the United Kingdom (where regulatory permission to carry out wholesale banking activities was received in March 2018).

UBA operating strategy involves providing a variety of corporate, commercial and retail banking services to its customers as well as trade services, cash management, treasury and advisory services with a view to creating value for its shareholders. UBA is classified as a Tier 1 Bank and operates with an international banking licence.

UBA operates via 532 business offices in Nigeria with its head office located at 57 Marina, Lagos. The Bank has presence in 19 other African countries - UBA Ghana Limited, UBA Cameroun (SA), UBA Cote d'Ivoire, UBA Liberia Limited, UBA (SL) Limited, UBA Uganda Limited, UBA Burkina Faso, UBA Benin, UBA Kenya Bank Limited, UBA Chad (SA), UBA Senegal (SA), UBA Tanzania Limited, UBA Gabon, UBA Guinea (SA), UBA Congo DRC (SA), UBA Congo Brazzaville (SA), UBA Mali (SA) and UBA Mozambique (SA). The Bank also has one associate company – UBA Zambia Bank Limited. Under the group structure sit two non-bank subsidiaries namely UBA Pensions Custodians Limited –providing custody services of pensions assets and UBA FX Mart Limited – a licensed Bureau de Change. This is in addition to a subsidiary in the United Kingdom which is authorised by the Prudential Regulation Authority to carry out wholesale banking in the UK. These subsidiaries contributed 31.5% to the gross earnings of UBA Group in 2017.

UBA's governance structure is headed by a 19-member Board of Directors while the Bank's approved operating structure is headed by a Group Managing Director who oversees the Bank's day-to-day activities across several business units – Wholesale Bank, Lagos/West Directorate, East Directorate, North Directorate, Regional Blocs in Africa (ex-Nigeria), Consumer Banking, Operations & Technology, Risk & Compliance, Resources and Finance.

Track Record of Financial Performance

United Bank for Africa Plc's total assets & contingents grew by 17% year-on-year to stand at ₦3.3 trillion as at 31 December 2017. Gross loans and advances also grew by 7% to ₦1.2 trillion accounting for 37% of the Bank's total assets and contingents.

As a Nigerian bank licensed to operate internationally, Tier 1 capital (less revaluation reserves) amounted to at ₦328 billion as at 31 December 2017, well above the minimum ₦50 billion regulatory requirement for such licensed banks. The Bank's Basel II computed capital adequacy ratio stood at 20%, also above the regulatory minimum of 15% for internationally licensed commercial banks.

Profitability ratios for the review period, pre-tax return on average assets and average equity stood at 1.7% and 16.3% respectively (FY2016 - ROA: 2.2%, ROE: 18.1%).

Correspondent Banks

The Bank maintains correspondent banking relationships with the following 33 banks globally:

1.	ABSA	18.	ING
2.	Bank of Beirut UK	19.	Mashreq
3.	Bank of China	20.	Natixis Bank
4.	Bank of Tokyo	21.	NedBank
5.	BCGE Bank	22.	Nordea
6.	BCP Bank	23.	ODDO BHF
7.	BNP Paribas	24.	Societe Generale Bank
8.	Byblos Bank	25.	Standard Bank SA
9.	CitiBank	26.	Standard Chartered Bank
10.	CommerzBank	27.	Sumitomo Mitsui Banking Corporation
11.	Credit Suisse	28.	Svenska Handelsbanken
12.	Emirates NBD	29.	Swedbank
13.	FBN UK	30.	UBA UK
14.	First Rand Merchant Bank	31.	UBA New York
15.	First Abu Dhabi Bank	32.	UBS
16.	HSBC	33.	UniCredit
17.	ICICI Bank		

Technology

UBA's core banking application is Finacle, a universal banking software developed by Infosys (India). The Finacle 10x software is also adopted to address the treasury, consumer and corporate banking requirements of the Bank's operations through modules which include e-banking, mobile banking , trade finance, wealth management ,operational data store and payment. Also integrated with the Bank's Finacle software are payment and settlement systems such as NIBSS, Moneygram, Interswitch, Mastercard/Visa, Postilon, UBA Chat Banking, RemitOne (Africash) and others.

UBA has a strategic agreement with Original Equipment Manufacturers (OEM) for its hardware resources. The partnership allows for special pricing and support on all products purchased as well as direct knowledge expertise and transfer. The Bank also uses SWIFT system, FinnOne (Customer loan management), Infopool (Performance Management), Maxim (Management Information System), COGNOS (Financial Analytics), CDL (Customer Analytics) and Actimize (Anti Money Laundering).

UBA combines a number of technological systems in its network connectivity. These include, but are not limited to VSAT, Radio, DSL and fibres with MPLS and IPSEC tunnels. The risk of a system downtime is mitigated by maintaining dual network links with both the primary and redundant links provided by different service providers. The Bank's network is also protected by a De-Militarized Zone (DMZ) infrastructure which secures the network from third party interference and from the internet. The Bank has also made investments in solutions to address and contain threats such as Distributed Denial of Service (DDOS) attacks, zero day attacks, rogue device admission and phishing attacks.

CURRENT DIRECTORS		DIRECT & INDIRECT SHAREHOLDING
Mr. Tony Elumelu, CON	*Chairman*	6.6%
Mr. Kennedy Uzoka	*Group Managing Director/CEO*	0.1%
Mr. Victor Osadolor	*Deputy Managing Director*	0.05%
Amb. Joe Keshi, OON	*Non-Executive Director/Vice Chairman*	<0.01%
Chief Kolawole B. Jamodu, CFR	*Non-Executive Director*	<0.01%
Mrs. Foluke K. Abdulrazaq	*Non-Executive Director*	0.06%
Mr. Yahaya Zekeri	*Non-Executive Director*	<0.01%
Mrs. Rose Okwechime	*Non-Executive Director*	0.06%
Alhaji Ja'Afaru Aliyu Paki	*Non-Executive Director – Independent*	0.07%
Mr. Adekunle A. Olumide, OON	*Non-Executive Director – Independent*	<0.01%
Mrs. Owanari Duke	*Non-Executive Director – Independent*	<0.01%
High Chief Samuel Oni, FCA	*Non-Executive Director – Independent*	<0.01%
Mr. Dan Okeke	*Executive Director*	0.09%
Mr. Emeke Iweriebor	*Executive Director*	0.02%
Mr. Oliver Alawuba	*Executive Director*	<0.01%
Mr. Uche Ike	*Executive Director*	0.03%
Mr. Puri Ibrahim	*Executive Director*	<0.01%
Mr. Chukwuma Nweke	*Executive Director*	<0.01%
Mr. Ayoku Liadi	*Executive Director*	<0.01%

MANAGEMENT TEAM

Mr. Kennedy Uzoka is the Group Managing Director/Chief Executive Officer, appointed effective August 2016. Mr. Uzoka has over two decades of experience in core banking, corporate marketing and communications strategic business advisory and resource management. Mr. Uzoka is the immediate past Chief Executive Officer of UBA Africa overseeing the Group's operations across its African markets and Group Deputy Managing Director. As the Group Deputy Managing Director, he also supervised two key strategic support areas in e-Banking and Information Technology, as well as the Bank's businesses in New York and London. Mr. Uzoka is a graduate of Mechanical Engineering from University of Benin and holds a Master's Degree in Business Administration from University of Lagos. He is also an alumnus of Harvard Business School Boston USA, the International Institute of Management Development Lausanne, Switzerland and London Business School, United Kingdom.

Mr. Victor Osadolor is the Group's Deputy Managing Director, appointed effective June 2016. Mr. Osadolor is also a Director on the Board of UBA Capital Europe and the Chairman of UBA Pensions Custodians Limited. He has cognate banking experience spanning over two decades. He was formerly the Group Director-Heirs

Holdings Limited, Managing Director-UBA Capital, Deputy Managing Director of UBA (South Bank), Executive Director-Risk and Finance in UBA. He left UBA in 2012 and became the Chief Strategy Officer at Ecobank Transnational Incorporation. He holds a Bachelor of Science degree in Accounting and is a Fellow of the Institute of Chartered of Accountants of Nigeria (ICAN). He also holds the Advanced Management Programme Certificate from the Harvard Business School.

Other members of UBA's senior management team include:

Mr. Ugo Nwaghodoh	*Group Chief Finance Officer*
Mr. Emmanuel Onokpasa	*Group Treasurer*
Ms. Kubi Momoh	*Group Head, Risk Management*
Mr. Gboyega Sadiq	*Group Chief Internal Auditor*
Mr. Franklyn Bennie	*Group Chief Compliance Officer*
Mr. Bili Odum	*Group Company Secretary*

Analysts' Comments

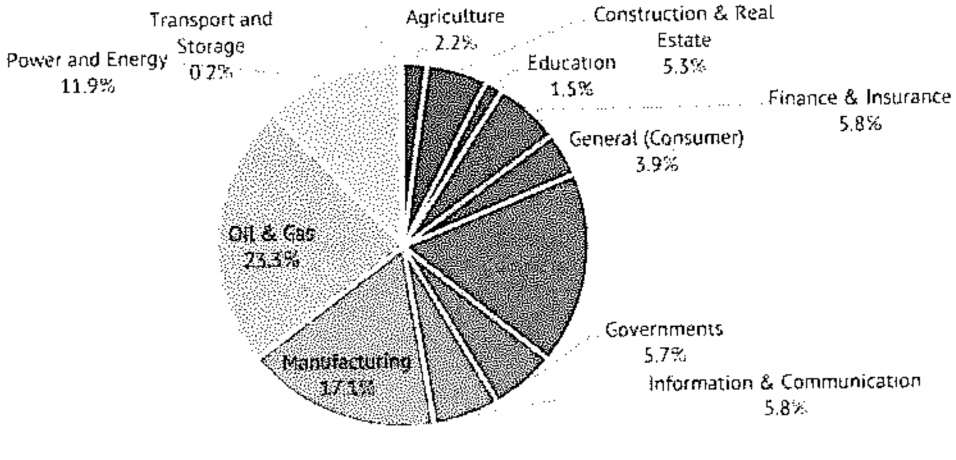
Asset Quality

United Bank for Africa Plc's total assets and contingents amounted to ₦3.3 trillion as at 31 December 2017, 17% higher than the prior year and bringing the Bank up one place to stand as the fourth largest Nigerian bank on this criteria. The structure of UBA's statement of financial position was indicative of cautious lending activity - as seen with the modest 7% expansion of its loan portfolio, whilst leveraging on favourable rates offered by risk-free government securities - as seen in the 19.5% increase in government securities. Total assets and contingents as at 31 December 2017 comprised liquid assets (accounting for 25.1%), placements with banks outside Nigeria (accounting for 4.8%), loans and advances (accounting for 35.9%), restricted funds with the CBN, other assets and receivables (accounting for 19.5%), fixed assets and intangibles (accounting for 2.9%) and contingent assets – including performance bonds, guarantees and letters of credits (accounting for 11.8%).

Examining the currency split of total assets, we note that following the June 2016 liberalization of the naira, approximately 68.3% of the Bank's total assets have been denominated in naira for both FYE 2016 and 2017, with the remainder of 31.7% denominated in foreign currencies, most notably the US dollar. The depreciation of the domestic currency by approximately 7.85% in the 2017 financial year has accentuated the FCY component of the Bank.

UBA's loan portfolio, the Bank's largest earning asset, amounted to ₦1.2 trillion as at 31 December 2017, representing a modest 7% growth over the prior year This growth was largely attributable to the general commerce lending segment on the back of availability of foreign currency for imports, as well as improved purchasing power, following Nigeria's exit from recession in the review period. Further reviewing lending segments, UBA top three lending segments oil & gas, general commerce and manufacturing collectively accounted for 57.6% of the Bank's loan portfolio. We note that exposures to these sectors, which are largely denominated in foreign currency, have been impacted by devaluation, bloating their original values in naira terms.

Figure 1: Loan Portfolio by Economic Sector (FY 2017)



Oil and Gas stood as the largest lending sector as at 31 December 2017, accounting for 23.3% of the Bank's loan portfolio, tempered against 24.9% recorded in the prior year. Oil & Gas exposures were a combination of upstream, select midstream, trading and downstream obligors - with upstream obligors accounting for the bulk at approximately 70%. The Oil & Gas sector remains susceptible to volatilities in oil prices, as well as restrictive policies in the downstream segment. The second largest lending sector was General Commerce accounting for 17.2% of gross loans, followed by Manufacturing accounting for 17.1%, all higher than the prior year. Allocations to Power and Energy lending also increased year-on-year to account for 11.9% of gross loans, due to devaluation of the domestic currency to a large extent. In our opinion, this segment will continue to grapple with cost unreflective tariff issues, constraining the cash-flow capacity of power companies, despite intervention funds from the Federal Government and Development Agencies. We also note that UBA has lien on cash flows from other businesses of obligors in the power sector. Lending to other segments were however well diversified in the review period.

Further, 81.5% of the Bank's gross loans were to corporate obligors while 16.8% were to retail and commercial obligors including SME's, reflective of the Bank's strategy leanings in favour of asset creation to corporates.

Figure 2: Loan Portfolio by Business Segment

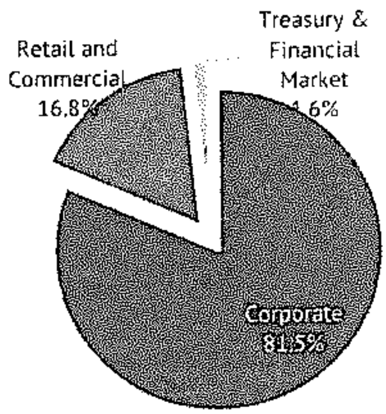
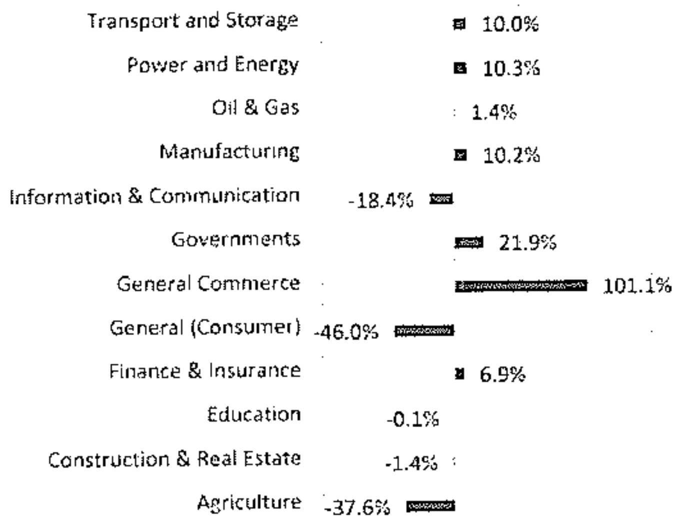


Figure 3: Lending Segments year-on-year growth

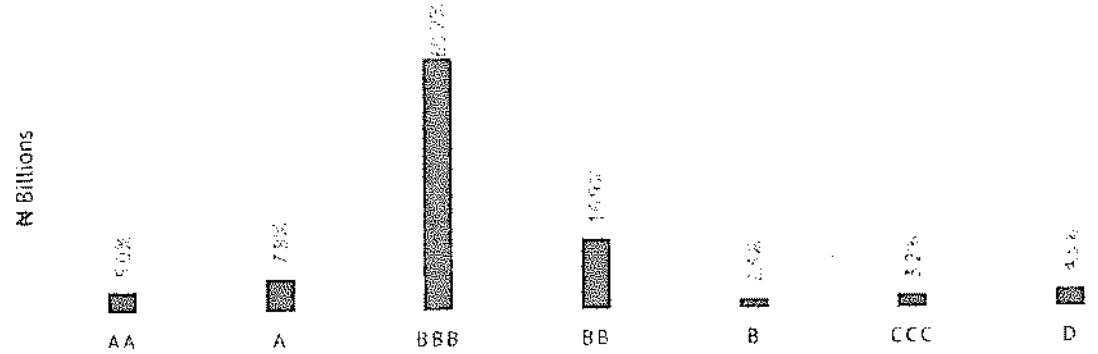


UBA's top 20 obligors, with operations spanning financial services, power, telecommunications, real estate, oil & gas and manufacturing accounted for 52.5% of the Bank's loan portfolio as at 31 December 2017, reflecting a degree of concentration. Consequently, classification of one or more of these exposures ranging from ₦18 billion to ₦65 billion, may impact the Bank's non-performing loan ratio by up to 500 basis points.

Following the 2016 liberalisation of the foreign exchange market, UBA's foreign currency (FCY) exposures have remained somewhat elevated, largely in US Dollars. FCY loans accounted for 50.3% of the Bank's loan portfolio as at 31 December 2017 (FY 2016: 46.1%, FY 2015: 33.1%). These exposures were concentrated in oil & gas and power sectors, which typically require foreign currency funding for expansion and operations. Other foreign currency obligors include general commerce customers as well as manufacturing sector customers, who require FCY for raw materials and equipment.

The bulk of UBA's obligors reside in the BBB rating bucket according to the Bank's internal rating model - 93,538 obligors out of a total of 96,883 obligors and 60.2% of gross loans, indicative of an acceptable risk profile. UBA also maintained 12.8% of exposures to obligors rated higher than the BBB profile (AA and A), whilst being 27.0% exposed to obligors rated BB and below.

Figure 4: Exposure by Risk Rating (FY 2017)



In view of the risk ratings and performance of UBA's obligors we highlight key asset quality characteristics of the Bank's loan portfolio as at 31 December 2017 on two fronts – non-performing loans and past due but not impaired loans.

1. Firstly, UBA's non-performing loans (NPLs) amounted to ₦55.3 billion as at 31 December 2017, just above the prior year's ₦54.9 billion but remaining below the regulatory ceiling of 5% of gross loans at 4.5%. At this level, UBA's NPL ratio stands better than select industry peer Guaranty Trust Bank's (GTBank: 7.7%) and the industry average of 11.5% for banks in Agusto & Co.'s coverage, but marginally higher than other industry peer Zenith Bank Plc's non-performing loan ratio (Zenith: 4.3%).

   Though we note that the overall level of the Bank's non-performing loans is elevated in terms of quantum value, improvements in asset quality were seen in the review period. UBA classified exposures to the fourth largest telecommunications provider in Nigeria in H2 2017, which had experienced funding constraints from 2015. This exposure, a combination of foreign and local currency loans, amounts to approximately ₦41 billion. When this obligor is excluded, UBA's non-performing loans total ₦14.3 billion, an NPL ratio of 1.2%, comparing favorably with the ₦54.9 billion (or 4.8%) recorded in the prior year where the telecommunication exposure was performing. We note that the obligor remains a going concern and is in the process of being sold. In view of encouraging operating fundamentals and infrastructure investments that the obligor controls, recoveries from this obligor is highly likely.

   Asides the large telecommunications delinquency, the Bank's non-performing loans are in the hands of a few obligors with the top 20 NPLs accounting for 95.7% of total non-performing loans.

Figure 5: NPL by Economic Sector

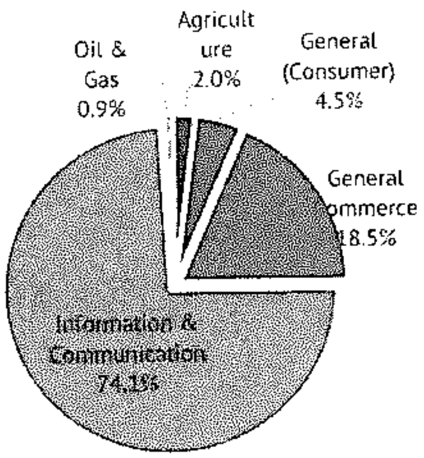
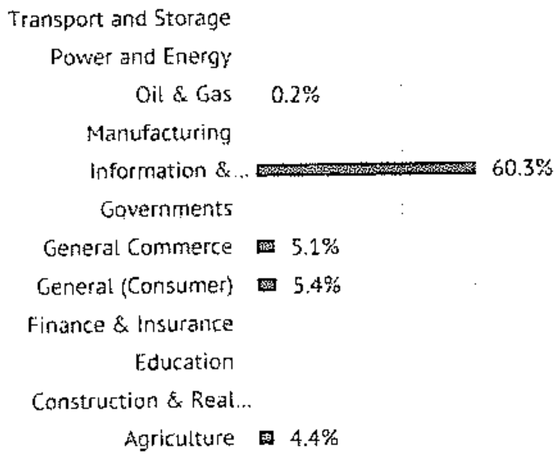


Figure 6: Delinquency rates per sector



In 2017, the Bank declassified non-performing loans totaling ₦23 billion and wrote off an additional ₦20.6 billion in the same review period, largely pertaining to the general commerce sector. UBA also restructured loans and advances totaling approximately ₦70 billion in the 2017 financial year under review (5.7% of gross loans). These loans have been restructured due to their constrained cash-flows. The performance of these restructured loans are thus largely contingent on the upward recovery of the economy.

The Bank's coverage ratio in accordance with IFRS, stood at 56.6%, better than the prior year's 54.8% on account of increased level of provisioning in the review period. When we factor in the provisions made in line with prudential requirements, the Bank's coverage ratio stood good at 136.8% above our benchmark of 100%.

2. Secondly, examining exposures classified as past due but not impaired, we note that the elevated level of this category continued, as such classified exposures increased to a total of ₦74.1 billion from ₦59.9 billion. These exposures were largely relating to overdrafts availed to corporate obligors with a marginal portion on account of overdrafts to individuals. Key vulnerabilities continue to be noted with the Bank's NPL ratio being at risk of further deterioration. We nonetheless highlight that, translation to fully impaired loans has been largely mitigated. Past due but not impaired loans for the Bank stood at 6.1% of total loans, comparing unfavorably with peers GTBank (<0.1%) and Zenith (3.9%) as at 31 December 2017, an indication that further controls are required to keep this in check.

In our opinion, UBA's asset quality is satisfactory.

RISK MANAGEMENT

United Bank for Africa Plc's risk management functions form the bedrock of the Bank's day to day operations, as well as growth plans. UBA's risk appetite though moderate, varies depending on aspects of its business. UBA implements a group-wide integrated enterprise risk management (ERM) framework. The Bank's Board of Directors define the overall risk appetite through defined target market criteria, product risk acceptance criteria, portfolio limits and risk-return requirements as outlined in the Bank's risk management policy framework. Furthermore, board committees – the Board Credit Committee (chaired by non-executive director Mrs Foluke Abdulrazaq) and the Board Risk Management Committee (chaired by Chief Kola Jamodu, CFR), have particular high-level risk management responsibilities. These responsibilities are supported by the Executive Credit Committee and other board and management committees.

Day-to-day risk management functions spanning information security control, risk measurement, credit risk management, credit monitoring, market risk management and operational risk management are managed by dedicated teams who form the Bank's risk management division. These teams work alongside a credit support office and a credit recovery office. Unit Heads report to the Group Chief Risk Officer who in turn reports to the Group Managing Director and Executive & Board Committees. In addition, all of the Bank's operational units serve as risk managers for mitigating inherent day-to-day threats. The Executive Director, Risk/Group Chief Risk Officer alongside the Group Head, Risk Management are responsible for development, implementation and monitoring policies and processes that form the tenets of UBA's risk management framework. The risk management framework defines the Bank's strategy, risk appetite and resultant business processes adhering to the principles of Basel II and the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) framework. The ERM framework encompasses Credit, Market, Operational and IT risks structured under the following units: Risk Measurement, Credit Risk Management, Credit Monitoring, Credit Support, Credit Recoveries, Market Risk units and Operational Risk Management.

An independent Risk Management Directorate also exists, headed by the Executive Director, Risk.

Credit Risk: UBA's credit risks arise from the potential non-fulfilment of obligations by banking business obligors or other counterparties. The Bank maintains a Credit Risk Management (CRM) division as the custodian of credit risks as well as credit monitoring, credit concentration management, credit risk measurement groups with dedicated functions. UBA also has a Criticized Assets Committee- a management committee dedicated to monitoring Past Due Obligations. Furthermore, UBA employs an internal rating model which takes into account financial and non-financial parameters for obligors, as well as sets concentration limits on lending to obligors and to economic sectors. In view of emerging and often volatile macroeconomic headwinds, as well as industry specific challenges, we note that UBA's internal rating model must consistently reflect same.

Market Risk: UBA market risk mitigants are via a number of methodologies which are tailored to the nature of trading and non-trading exposures. Specifically, the Banks deploys measurement methodologies spanning mark to market valuations, sensitivity/scenario analysis, value at risk (VAR), earnings at risk (EAR), duration/convexity analysis/maturity ladder and risk ratios all analysed periodically through a market risk profile report. The Bank maintains quarterly stress testing and back testing processes which are also performed when significant market events occur or are expected to occur.

In mitigating foreign exchange risks, the Bank focuses on trading limits, open positions, overnight limits and intraday positions in line with regulatory provisions, all monitored daily. The Bank also implements maturity gap limits, stop loss limits, position valuation a as well as counterparty and cross border limits, also monitored daily.

Operational Risk: UBA's operational risk unit uses the Standardized Approach for measuring and monitoring operational risk under Basel II. With a policy framework that is reviewed every three years, emerging issues such as regulatory changes, business environment changes, internal control factors and external environmental factors are continually monitored for compliance. Given emerging risks as related to recent significant investments in electronic banking services, the Bank has had to enhance its operational risk management process with particular focus on information technology/cyber risks. For the 2017 financial year, the Bank's expected losses from internal and external fraud totaled ₦79.3 million. This was better than ₦156.9 million recorded in the prior year despite a larger number of fraud attempts noted for electronic banking, as IT security infrastructure and other risk management initiatives have been strong mitigants.

Furthermore, UBA was fined a total of ₦75 million for a number of contraventions, the bulk of which was attributable to:

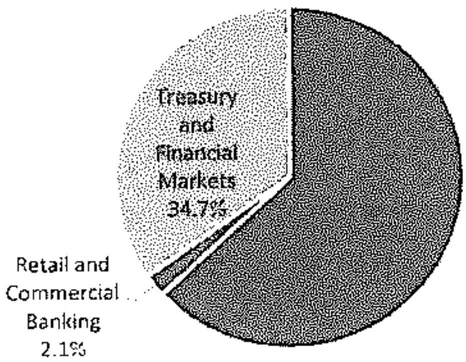
1. Failing to detect single BVN wrongly linked to accounts owned by different individuals ₦40 million
2. Failing to promptly refund excess charges against the accounts of a customer ₦10 million
3. FX examination - April to September 2016 ₦10 million

In our opinion, United Bank for Africa Plc.'s risk management practices are satisfactory. We note the need to constantly evolve risk management practices in view of the fragile macroeconomic climate and deepening of electronic banking services.

EARNINGS

In the financial year ended 31 December 2017, United Bank for Africa Plc's core earning streams – corporate banking, retail and commercial banking as well as treasury and financial markets generated interest income totaling ₦227.3 billion, a marked 28.2% increase over the 2016 financial year. Interest income was particularly buoyed by loans and advances to corporate customers and interest earned on investment securities – primarily treasury bills and bonds in accordance with the Bank's asset allocation and taking advantage of prevailing favourable rates in the first half of 2017. Interest income on loans and advances amounted to ₦150.0 billion while interest income on investment securities amounted to ₦72.1 billion with income on cash and bank balances accounting for the remainder. Interest from loans and advances grew by 23.2% while interest income on investment securities grew by a marked 48.6%. In our opinion, such level of income on treasury bills is subject to volatilities given the expected decline in yields in the first half of 2018, and expected uptick in H2 2018.

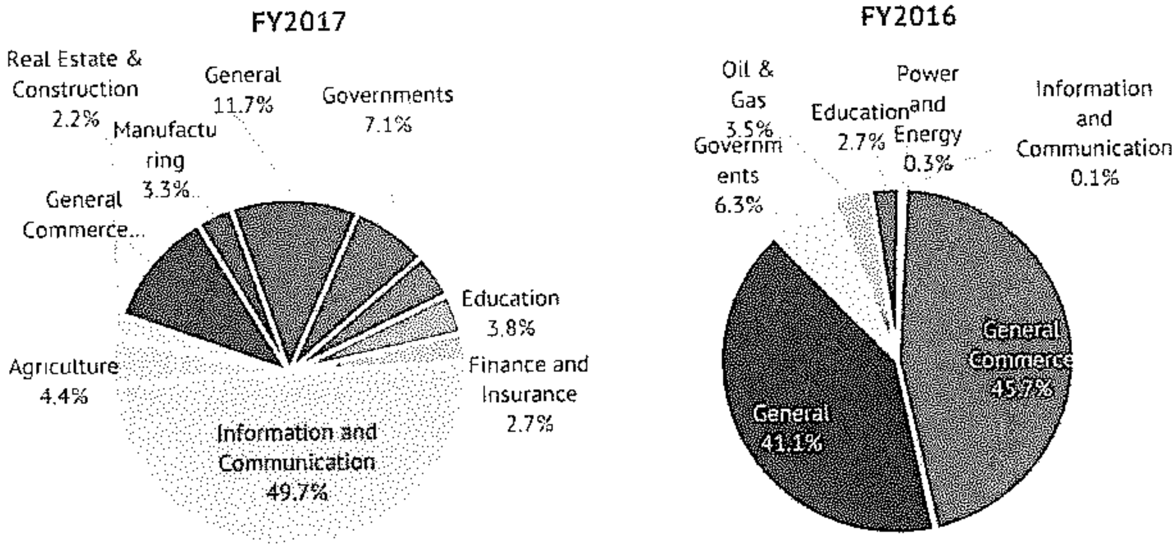
Figure 7: Breakdown of Interest Income



In a similar trend, interest expenses, comprising interest paid on interbank takings, customer deposit, borrowing and subordinated liabilities jumped 38.8% to ₦95.1 billion. This growth was particularly noted in interest expense on customer deposits and borrowings, a combined effect of increased liability generation and elevated interest rates on tenured funds. UBA's net interest spread (NIS) thus dipped to 58.2% from 61.4% recorded in the prior year. This is reflective of UBA's focus on large corporates who are largely interest rate sensitive, with the Bank charging obligors an average interest rate of 16%-17% in the review period. At this level, the Bank's NIS stood better than peer Zenith (52.2%), but lower than GTBank (76.5%). In view of the issuance of a debut Eurobond in June 2017, the Bank's interest expense profile is expected to trend up as the full year's coupon is reflected, but attendant revenue growth is expected to stem the impact of this on profitability.

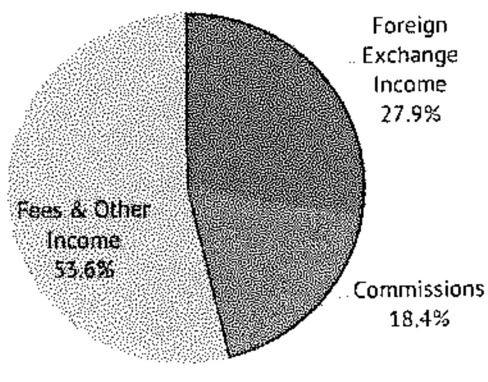
UBA charged off 13.4% (or ₦30.4 billion) of interest income to its loan loss provisions account due to elevated credit risks in some sectors. This was 19.2% higher than 2016's ₦25.5 billion charge-off and the highest recorded in recent years for the Bank. We noted that this charge-off was largely on account of the Information and Communication sector non-performing loan aforementioned. Over 49% of loan loss expense was on account of this exposure. In view of IFRS 9 transitions, the Bank's regulatory provisions have stemmed the impact of this on UBA's statement of comprehensive income but we expect loan loss expense to remain elevated in short term should it increase provisions in relation to the largest non-performing loan and as the full year impact of IFRS 9 is reflected. UBA's cost of risk stood better than peers at 2.6% compared to GTBank's 4.5% and Zenith's 6.5%.

Figure 8: Loan Loss Expense by Economic Sector



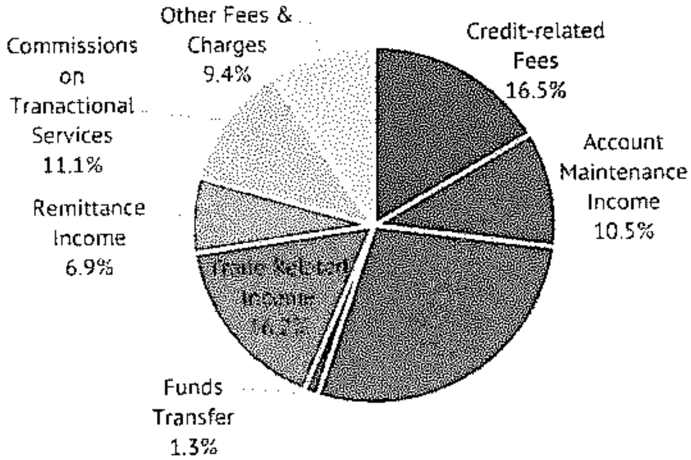
The Bank generated net non-interest income (comprising trading and foreign exchange income, fees and commissions and other income including dividend income from subsidiaries) totaling to ₦77 billion, 5.4% lower than the prior year largely on account of lower FX gains and lower income from e-banking (as charges on cards used abroad declined in the period). Included in other income is dividend income which yielded ₦5.6 billion in the period (FY 2016: ₦9.5 billion). The perceived decline in dividend income was as a result of UBA's management decision not to collect dividend from its Ghana subsidiary, rather opting to use this to recapitalize the subsidiary following the increase in capital requirements for banks in Ghana.

Figure 9: Breakdown of Net Non-Interest Income



It is worthy of note that in terms of fee and commission income, the Bank recorded better overall earnings. However this was undermined by the reduction in earnings on cards used abroad following improved FX liquidity and consequently impacted e-banking banking income. E-banking income however continues to be a significant contributory factor to the Bank's earnings at ₦14.5 billion for the 2017 financial year and the third largest earner from digital banking in the industry. UBA continues to invest in innovative technology (Internet, Mobile and Chat) and we expect these targeted investments to yield results in the mid-term, particularly in the retail space.

Figure 10: Breakdown of Fee & Commissions Income



UBA's operating expenses comprising staff costs, depreciation & amortization and other operating expenses, totaled ₦125.0 billion for the 2017 financial year, a reflection of the Bank's expansive business footprint and extensive operations. Operating expenses grew by 16.8% year on year. Staff costs accounted for 33.9% of total operating expenses, declining by 2.7% year on year to ₦42.3 billion, as staff numbers declined by 5.0% to 8,827 persons. Depreciation and amortization costs grew by 12.4% to account for 5.6% of operating expenses at ₦7.1 billion. Other operating expenses jumped 32% outpacing the average inflation rate for the review period of 16.6%, to amount to ₦75.6 billion. Notable increases were seen in fuel, repairs and maintenance expenses as well as banking sector resolution costs paid to Asset Management Corporation of Nigeria (AMCON), occupancy & premises maintenance costs, printing, stationery and subscriptions. In addition, business travels and information technology related expenses grew markedly in view of their behaviorally foreign currency nature and attendant effects of naira devaluation.

We observe that unavoidable costs such as banking sector resolution deductions and NDIC contributions continue to be a drag on operating expenses industry-wide. For UBA, these contributions amounted to ₦19.2 billion in 2017. UBA's cost-to-income ratio (CIR) thus increased to 69.9%, much higher than peers, GTBank (33.7%) and Zenith (54.0%) as well as the industry average of 66.1%. The Bank's strategy to invest in and leverage on technology is still in a gestation period and we expect that operating expenses may not moderate in the short-term given investments in digitalisation.

Pre-tax profit dipped to ₦53.8 billion from ₦57.6 billion recorded in the prior year. Profitability indicators, pre-tax return on average assets and average equity also dipped to 1.7% and 16.3% respectively (FY2016 – ROA: 2.2 %, ROE: 18.1%).

UBA's business segment reporting continues to show comparatively stronger returns from its corporate banking business with a pre-tax return on segment assets of 3.3% for the review period. Financial markets and retail & commercial banking nonetheless recorded upticks in profitability, yielding pre-tax returns of 3.0% and 1.9% respectively. We expect the Bank's corporate banking business to remain profitable, upheld by low cost funds and increased demand for trade transactions as the economy recovers, albeit frailly.

Figure 11: Return on Business Segment Assets

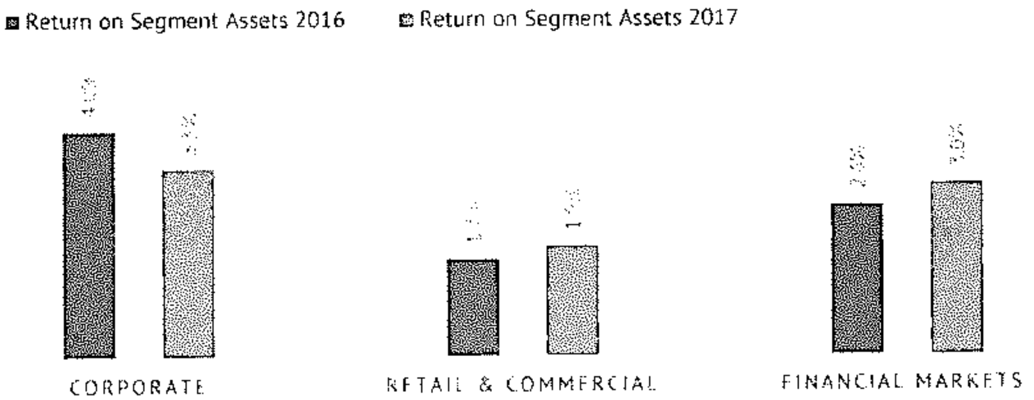
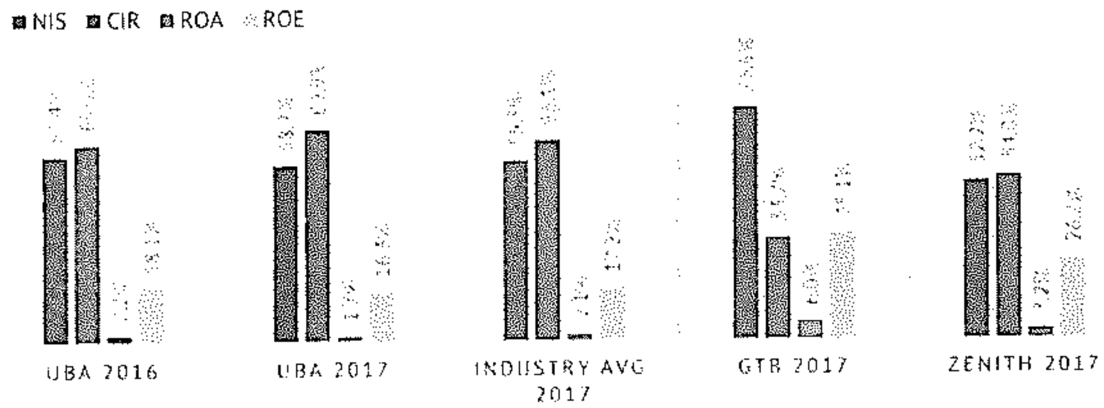


Figure 12: Comparative Profitability Indicators



Subsequent to year-end, the Bank's net interest spread stood at 56.1% for the three months to 31 March 2018, while annualised returns on average assets and average equity stood marginally higher at approximately 1.9% and 18.3% respectively.

In our opinion, United Bank for Africa Plc's overall profitability is acceptable by industry standards. The Bank must however continually monitor cost management efforts, in order for profitability to be preserved and improved on.

CAPITAL ADEQUACY

United Bank for Africa's Tier 1 (core) capital amounted to ₦328.0 billion as at 31 December 2017, 1.2% lower than the prior year as the Bank's Staff Share Investment Trust Scheme (SSIT) was cancelled resulting in a reduction in share capital and share premium. The Bank's revenue reserves also dipped by 9.8% on account of increased transfers to credit risk reserves. Nonetheless core capital remained well above the regulatory minimum of ₦50 billion for Nigerian commercial banks licensed to operate internationally. The Bank's core capital stood sufficient to fund 9.9% of total assets and contingents (FY2016: 11.7%). Furthermore, Tier 1 capital to adjusted capital of 111.7% was well above the regulatory minimum requirement of 75%.

UBA's Tier II capital comprising the Bank's fair value reserves (71.5%) and other long term borrowings (28.5%) totaled ₦104.3 billion as at 31 December 2017. Tier II capital grew in the review period on account of fair value gains on available-for-sale financial assets held as at 31 December 2017 to a total of ₦74.5 billion while long term borrowings comprised the recognised value of a medium term note maturing 2021 - ₦29.7 billion.

UBA has maintained a stable capital adequacy ratio (CAR) of 20% over the last three years as computed in line with Basel II Accords. This was also above the regulatory minimum of 15% for Nigerian commercial banks licensed to operate internationally. Though UBA's capital adequacy ratio stood lower than peers GTBank (26%) and Zenith (24%), we consider the Bank's capitalization adequate for current business risks.

In view of the adoption of IFRS 9 provisions, UBA's Q1 2018 disclosures indicate that buffers from the regulatory credit risk reserve were adequate, thus preventing a negative impact on CAR.

In our opinion the Bank's capitalization is good for current business risks.

LIQUIDITY AND LIABILITY GENERATION

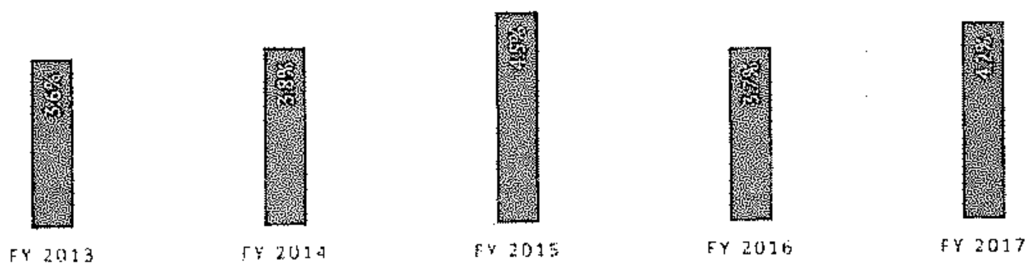
United Bank for Africa Plc's liability generation strategy leverages on its expansive retail and corporate business footprint within Nigeria and across Africa. The Bank's total deposits amounted to ₦1.9 trillion as at 31 December 2017, 9.5% higher than the corresponding 2016 period. Deposit liabilities have grown steadily over the last three years, particularly less expensive retail deposits from over 10 million customers in Nigeria, and stood sufficient to fund 56.9% of total assets and contingents.

Examining the composition of the Bank's total deposits, 87.1% of which were denominated in local currency, while 12.9% were in foreign currency. Local currency deposits grew by 12.1% to ₦1.6 trillion in the review period. At this level, the Bank's local currency deposits accounted for approximately 10.6% of the Nigerian banking Industry's local currency deposit pool. The Bank's pool of foreign currency deposits declined by 5.5% year on year to ₦244.1 billion as at 31 December 2017. This is despite devaluation of naira reporting from 305NGN/USD to 331 NGN/USD in the review period.

We note that low cost demand and savings deposits accounted for 68.9% of local currency deposits while more expensive tenored deposits accounted for 30.2%, all recording growth in the 2017 financial year. Deposit mobilization was aided by improving purchasing power as macroeconomic headwinds eased as well as recent investments in e-channels, which is attracting customers from the retail segment, particularly the millennials. Concurrently, deposits from individuals jumped to ₦973.2 billion from ₦634.3 billion in the prior year, accounting for 51.8% of total deposits, compared with 36.7% in the prior year. Deposits from corporate customers, largely current account deposits, accounted for the remainder.

UBA's estimated weighted average cost of funds (WACF) increased by 29bps to 4.19% in the review period (FY2016: 3.9%), comparatively better than peers GTBank (5.3%) and Zenith (5.0%). We attribute this increase to the rise in interest rates in the domestic market elevating funding costs on deposits as well as foreign currency borrowings impacted by devaluation. Borrowings amounted to ₦538.2 billion as at 31 December 2017, availed from a number of development, and multilateral financial institutions to further support the Bank's balance sheet growth in both local and foreign currency, and provide longer tenored funds where needed. Borrowings also reflect UBA's successful issuance of a debut $500 million Eurobond in June 2017 with a tenor of 5 years and coupon of 7.75%, which was raised for cautious asset creation across the UBA Group.

Figure 13: Weighted Average Cost of Funds (WACF)



UBA's liquid assets amounted to ₦834.3 billion as at 31 December 2017 (FY2016: ₦704.4 billion). Liquid assets comprised largely government securities (72.4%) as the Bank sought some safety in risk free instruments, cash & equivalents (10.4%), quoted investments (11.2%) and placements (6.0%). Liquid assets stood at 50.6% of local currency deposits, remaining above the regulatory minimum of 30% and higher than the prior year's 47.9%. We also note that UBA held balances with banks outside Nigeria amounting to ₦160.7 billion as at 31 December 2017, given a variety of correspondent banking relationships.

Foreign currency (FCY) denominated liabilities as at 31 December 2017 also stood at approximately 147.0% of FCY denominated loans to customers. This was supported by FCY borrowings from multilaterals and the 2017 debut $500 million Eurobond issue, all totaling ₦439.2 billion as at 31 December 2017.

Overall, the Bank's borrowings totaled ₦538.2 billion and included local currency borrowings from the Central Bank of Nigeria and Bank of Industry for on-lending based on schemes designed to spur growth in sectors such as agriculture, as well as foreign currency borrowings comprising the amortised value of term loans and trade finance facilities.

Table 2: Borrowings as at 31 December 2017

Institution	Amortised Value	Maturing	Currency
Central Bank of Nigeria – Commercial Agriculture Scheme	₦21.7 billion	2025	NGN
Central Bank of Nigeria- State Government Bail-out	₦25.6 billion	2035	NGN
Central Bank of Nigeria- Real Sector Support Facility	₦5.0 billion	ND	NGN
Central Bank of Nigeria- Anchor Borrower Programme	₦1.5 billion	ND	NGN
Bank of Industry	₦9.2 billion	ND	NGN
Standard Chartered Bank	₦24.9 billion	2018	USD
European Investment Bank	₦22.3 billion	2020, 2025	USD
Africa Trade Finance Limited	₦60.4 billion	2018	USD
African Development Bank	₦50.3 billion	2024, 2025	USD
Credit Suisse	₦100.3 billion	2018	USD
Standard Bank	₦16.6 billion	2018	USD
Eurobond	₦164.4 billion	2022	USD
TOTAL	₦ 502.2 billion		

ND-Not Disclosed

UBA's funding was also upheld by the outstanding two tranches of local currency bonds issued to fund medium term loans (Series 2 and Series 3), amounting to ₦65.7 billion. Series 2 (₦36.0 billion, principal plus accruing interest) matures in 2018 with a coupon of 14% while Series 3 (₦29.7 billion) matures in 2021 with a coupon of 16.45% qualifying as Tier 2 capital.

We consider UBA's liquidity profile to be good sustained by its pool of investments in low risk government instruments, and expect this to remain so in the short-medium term. In addition, further planned investments in digitalisation will continue to support the Bank's deposit mobilization strategy while UBA keeps abreast of its customer needs.

We consider UBA's liability generation strategy to be good, upheld by its strong brand and extensive branch network. With plans to grow funding by over 15% in 2018 and in view of the 2017 Eurobond issuance coupon[1], we expect the Bank's WACF to increase by an estimated 15 – 30 bps for FY 2018.

[1] *Subsequent to the July 2017 Eurobond issuance, the full annual impact of the bond coupon was not reflected in FY2017.*

OWNERSHIP, MANAGEMENT & STAFF

United Bank for Africa Plc. is a public limited liability company quoted on the Nigerian Stock Exchange, with 271,849 shareholders as at 31 December 2017 (FY 2016: 275,926 shareholders).The Group's Staff Share Investment Trust Scheme (SSIT) was cancelled in the review period. Consequently, key shareholders with stakes exceeding 5% of total shareholding changed as follows:

Figure 14: Shareholding Structure

FY 2017		FY 2016	
Stanbic Nominees	10.9%	Stanbic Nominees	11.3%
Consolidated Trust Funds	5.2%	UBA Staff Investment Trust	6.2%
Heirs Holdings	5.1%	Mr. Tony Elumelu	5.7%

The Bank's activities are governed by a 19-member Board of Directors, headed its Chairman Mr. Tony Elumelu, CON. The Board also comprised nine other Non-Executive Directors (including four independent directors) and seven Executive Directors. Mr. Kennedy Uzoka, the Group Managing Director and Chief Executive Officer of United Bank for Africa Plc and Mr. Victor Osadolor the Group Deputy Managing Director also sit on the Bank's board.

UBA's staff strength as at 31 December 2017 stood at 8,827 persons, a 5.0% decline over the prior year. The Bank has over the last three years embarked on a drive to right-size operations through reallocation of resources, whilst further deploying technology driven banking products. Management and directors accounted for 1% of total staff while non-management staff accounted for 99%. Total staff costs amounted to ₦42.3 billion accounting for 33.9% of the UBA's total operating expenses.

Staff productivity measured by net earnings per staff improved year-on-year to ₦20.3 million (FY2016: ₦17.6 million) while staff costs per employee also increased to ₦4.8 million (FY2016: ₦4.6 million). UBA's net earnings per staff remained sufficient to cover staff costs per staff approximately 4.2 times though lower than the industry average of 4.7 times[2].

Table 3: Staff Productivity Indicators

Indicators	UBA FY 2016	UBA FY 2017	[illegible]	[illegible]	[illegible]
Average number of employees	9,383	8,827	3,284	5,881	[illegible]
Staff cost per employee	₦4.6 million	₦4.8 million	₦6.8 million	₦9.5 million	[illegible]
Net earnings per staff	₦17.6 million	₦20.3 million	₦85.6 million	₦64.2 million	[illegible]
Staff costs/Operating expenses	40.6%	33.9%	23.6%	27.3%	[illegible]
Net earnings per employee / Staff cost per staff	3.8 times	4.2 times	12.6 times	6.8 times	[illegible]

In our opinion, the Bank's management is competent and experienced. We consider staff productivity to be satisfactory by industry standards and expect further deployment of automated processes to improve productivity.

[2] *Agusto & Co.'s 2018 Banking Industry Report*

Market Share

As a Tier 1 Nigerian bank, United Bank for Africa Plc continues to rank within the top 5 commercial banks in Nigeria on various parameters. Market share of total assets and contingents places the Bank as the fourth largest Nigerian bank, while market share of local currency deposits also places UBA as having the fourth largest pool leveraging on its expansive branch network and digital banking strides. These positions stand better year on year from being fifth respectively. UBA was also the fourth largest lender as at 31 December 2017.

On indicators such as net earnings and share of profit before tax, UBA maintained firm positioning within the Top 5 cadre.

Figure 15: Market Share Indicators

Indicators	UBA FY 2016	UBA FY 2017	GTBank FY 2017	Zenith FY 2017
LCY Deposits (excluding interbank takings)	10.0%	10.6%	8.2%	13.9%
Total Assets & Contingents	8.9%	9.4%	9.1%	16.2%
Total Loans & Leases (net)	8.3%	8.9%	9.4%	14.7%
Net Earnings	8.7%	8.3%	13.0%	17.5%
Profit before Tax	9.1%	7.0%	24.0%	22.4%

We consider the Bank's market share to be good. We also positively view investments in digital banking channels to attract customers and improve efficiency. The significant technology strides are expected to place UBA Plc ahead of the curve in terms of acquisition and retention of customers, as well as operational efficiency in the medium term. Particularly, the Bank's digital drive is expected to markedly increase market share of the retail market.

Outlook

Against the backdrop of a country recovering from recession, United Bank for Africa Plc has nonetheless maintained stability on various fronts. Agusto & Co.'s forward looking assessment of the financial condition of the fourth largest bank in Nigeria (by total assets and contingents), is premised on satisfactory asset quality and profitability, as well as good capitalisation for current business risk, strong liability generation capabilities, a good liquidity profile and an experienced management team. We also note some susceptibility to concentration risks in the Bank's loan portfolio. Particularly for foreign currency denominated assets, elevated credit and liquidity risks exist industry-wide. However credit risks are mitigated by risk management processes requiring the obligor to have FCY receivables while liquidity risks are largely mitigated by matching FCY liabilities.

Given lingering macroeconomic challenges and impending political risks in an election year, the Bank's strategy for operating in such a terrain is reflective of a cautious stance. We note that the following will dominate the Bank's profile in the near term, in view of internal yardsticks set, *vis a vis* the prevailing fragile economic environment:

- Enhanced level of deposit liabilities generated from new technology driven initiatives for both retail and corporate customers.
- Increased level of funding in the first 9 months of 2018 taking advantage of year-on-year comparatively lower interest rates, and an attendant rise in interest expenses especially as the Federal Government borrows more at higher rates in the latter part of 2018 – a reflection of political risks and the rise in US interest rates.
- Cautious asset creation in a number of segments with elongated tenures for infrastructure related high-risk loans, and short cycles for trade, manufacturing related loans and advances, with stringent safeguards. This is with a view to maintain a sub 5% prudential ceiling for non-performing loans.

In view of the aforementioned, asset quality is expected to remain satisfactory baring no classification of large loans in the Bank's lending portfolio, given the current level of concentration risks and as seen with the large telecommunications exposure classified in 2017. We also expect the Bank's profitability to be largely preserved though growth may be impacted by elevated operating expenses. Profitability alongside any funding initiatives will nonetheless continue to uphold the currently good level of capitalisation, and provide additional buffers in view of provisioning adjustments in line with IFRS 9 principles.

The strength and experience of UBA's management team has also been taken into consideration alongside the Bank's expansive business footprint and an overall strong ability to refinance should the need arise. We hereby attach a ***stable*** outlook to the rating of United Bank for Africa Plc.

FINANCIAL SUMMARY

UNITED BANK FOR AFRICA PLC
STATEMENT OF FINANCIAL POSITION AS AT

		31-Dec-2017 ₦'000		31-Dec-2016 ₦'000		31-Dec-2015 ₦'000	
	ASSETS						
1	Cash & equivalents	86,600,000	2.6%	68,013,000	2.4%	50,365,000	2.1%
2	Government securities	604,020,000	18.2%	505,273,000	17.8%	530,940,000	22.2%
3	Money Market Placements	50,278,000	1.5%	51,101,000	1.8%	[illegible]	6.4%
4	Quoted investments	93,356,000	2.8%	80,038,000	2.8%	48,512,000	2.0%
5	Placements with discount houses	-	0.0%	-	0.0%	0	0.0%
6	LIQUID ASSETS	834,254,000	25.1%	704,425,000	24.8%	783,003,000	32.7%
7	BALANCES WITH NIGERIAN BANKS		0.0%		0.0%	0	0.0%
8	BALANCES WITH BANKS OUTSIDE NIGERIA	160,664,000	4.8%	150,140,000	5.3%	113,634,000	4.7%
9	Direct loans and advances - Gross	1,274,457,000	36.8%	1,144,241,000	40.2%	850,369,000	35.5%
10	Less. Cumulative loan loss provision	(31,269,000)	-0.9%	(30,036,000)	-1.1%	(13,084,000)	-0.5%
11	Direct loans & advances - net	1,193,188,000	35.9%	1,114,205,000	39.2%	837,285,000	35.0%
12	Advances under finance leases - net		0.0%	-	0.0%	-	0.0%
13	TOTAL LOANS & LEASES - NET	1,193,188,000	35.9%	1,114,205,000	39.2%	837,285,000	35.0%
14	INTEREST RECEIVABLE		0.0%		0.0%		0.0%
15	OTHER ASSETS	77,949,000	2.3%	31,192,000	1.1%	22,528,000	0.9%
16	DEFERRED LOSSES	27,178,000	0.8%	29,696,000	1.0%	31,853,000	1.3%
17	RESTRICTED FUNDS	430,004,000	12.9%	341,656,000	12.0%	273,589,000	11.4%
18	UNCONSOLIDATED SUBSIDIARIES & ASSOCIATES	105,547,000	3.2%	72,472,000	2.5%	67,537,000	2.8%
19	OTHER LONG-TERM INVESTMENTS	7,911,000	0.2%	10,642,000	0.4%	1,809,000	0.1%
20	FIXED ASSETS & INTANGIBLES	95,131,000	2.9%	85,157,000	3.0%	85,099,000	3.6%
21	**TOTAL ASSETS**	**2,931,826,000**	**88.2%**	**2,539,585,000**	**89.3%**	**2,216,337,000**	**92.5%**
22	TOTAL CONTINGENT ASSETS	393,803,000	11.8%	303,727,000	10.7%	178,581,000	7.5%
23	**TOTAL ASSETS & CONTINGENTS**	**3,325,629,000**	**100%**	**2,843,312,000**	**100%**	**2,394,918,000**	**100%**
	CAPITAL & LIABILITIES						
24	TIER 1 CAPITAL (CORE CAPITAL)	327,966,000	9.9%	332,019,000	11.7%	306,246,000	12.8%
25	TIER 2 CAPITAL	104,273,000	3.1%	88,479,000	3.1%	97,102,000	4.1%
26	Medium to Long-term Borrowings	538,226,000	16.2%	316,307,000	11.1%	150,399,000	6.3%
27	Demand deposits	662,836,000	19.9%	608,206,000	21.4%	541,700,000	22.6%
28	Savings deposits	472,766,000	14.2%	434,883,000	15.3%	351,982,000	14.7%
29	Time deposits	498,074,000	15.0%	397,584,000	14.0%	446,408,000	18.6%
30	Inter-bank takings	15,290,000	0.5%	30,484,000	1.1%	350,000	0.0%
31	TOTAL DEPOSIT LIABILITIES - LCY	1,648,966,000	49.6%	1,471,157,000	51.7%	1,340,440,000	56.0%
32	Customers' foreign currency balances	244,060,000	7.3%	258,186,000	9.1%	286,970,000	12.0%
33	TOTAL DEPOSIT LIABILITIES	1,893,026,000	56.9%	1,729,343,000	60.8%	1,627,410,000	68.0%
34	INTEREST PAYABLE		0.0%		0.0%		0.0%
35	OTHER LIABILITIES	68,335,000	2.1%	73,437,000	2.6%	35,180,000	1.5%
36	**TOTAL CAPITAL & LIABILITIES**	**2,931,826,000**	**88.2%**	**2,539,585,000**	**89.3%**	**2,216,337,000**	**92.5%**
37	TOTAL CONTINGENT LIABILITIES	393,803,000	11.8%	303,727,000	10.7%	178,581,000	7.5%
38	**TOTAL CAPITAL, LIABILITIES & CONTINGENTS**	**3,325,629,000**	**100%**	**2,843,312,000**	**100%**	**2,394,918,000**	**100%**
	Proof						
	BREAKDOWN OF CONTINGENTS						
39	Acceptances & direct credit substitutes	273,061,000	8.2%	168,600,000	5.9%	107,262,000	4.5%
40	Guarantees, bonds etc.	120,742,000	3.6%	135,127,000	4.8%	71,319,000	3.0%
41	Short-term self liquidating contingencies		0.0%		0.0%		0.0%

UNITED BANK FOR AFRICA PLC

	STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED	31-Dec-2017 ₦'000		31-Dec-2016 ₦'000		31-Dec-2015 ₦'000	
42	Interest income	227,335,000	74.7%	177,313,000	68.5%	190,259,000	79.1%
43	Interest expense	(95,093,000)	-31.2%	(68,525,000)	-26.5%	(83,161,000)	-34.6%
44	Loan loss expense	(30,433,000)	-10.0%	(25,521,000)	-9.9%	(3,491,000)	-1.5%
45	NET REVENUE FROM FUNDS	101,809,000	33.4%	83,267,000	32.2%	103,607,000	43.1%
46	ALL OTHER INCOME	77,037,000	25.3%	81,443,000	31.5%	50,365,000	20.9%
47	NET EARNINGS	178,846,000	58.8%	164,710,000	63.7%	153,972,000	64.0%
48	Staff costs	(42,343,000)	-13.9%	(43,501,000)	-16.8%	(42,033,000)	-17.5%
49	Depreciation expense	(7,058,000)	-2.3%	(6,281,000)	-2.4%	(6,281,000)	-2.6%
50	Other operating expenses	(75,608,000)	-24.8%	(57,279,000)	-22.1%	(54,923,000)	-22.8%
51	TOTAL OPERATING EXPENSES	(125,009,000)	-41.1%	(107,061,000)	-41.4%	(103,237,000)	-42.9%
52	PROFIT (LOSS) BEFORE TAXATION	53,837,000	17.7%	57,649,000	22.3%	50,735,000	21.1%
53	TAX (EXPENSE) BENEFIT	(11,399,000)	-3.7%	(10,108,000)	-3.9%	(3,093,000)	-1.3%
54	PROFIT (LOSS) AFTER TAXATION	42,438,000	13.9%	47,541,000	18.4%	47,642,000	19.8%
55	NON-OPERATING INCOME (EXPENSE) - NET	-	0.0%	-	0.0%	-	0.0%
56	DIVIDEND	(26,792,000)	-8.8%	(21,768,000)	-8.4%	(10,554,000)	-4.4%
57	GROSS EARNINGS	304,372,000	100%	258,756,000	100%	240,624,000	100%
58	AUDITORS	PWC		PWC		PWC	
59	OPINION	CLEAN		CLEAN		CLEAN	

	KEY RATIOS	31-Dec-2017	31-Dec-2016	31-Dec-2015
	EARNINGS			
60	Net interest margin	58.2%	61.4%	56.3%
61	Loan loss expense/Interest income	13.4%	14.4%	1.8%
62	Return on average assets & contingents (Pre - tax)	1.7%	1.8%	1.9%
63	Return on average equity (Pre - tax)	16.3%	18.1%	18.0%
64	Operating Expenses/Net earnings	69.9%	65.0%	67.0%
65	Gross earnings/Average total assets & contingents	9.9%	9.9%	9.2%
	EARNINGS MIX			
66	Net revenue from funds	56.9%	50.6%	67.3%
67	All other income	43.1%	49.4%	32.7%
	LIQUIDITY			
68	Total loans & leases - net/Total lcy deposits	58.8%	58.6%	43.9%
69	Liquid assets/Total lcy deposits	50.1%	46.8%	58.4%
70	Demand deposits/Total lcy deposits	40.2%	41.3%	40.4%
71	Savings deposits/Total lcy deposits	28.7%	29.6%	26.3%
72	Time deposits/Total lcy deposits	30.2%	27.0%	33.3%
73	Inter-bank borrowings/Total lcy deposits	0.9%	2.1%	0.0%
74	Interest expense - banks/Interest expense	3.4%	9.2%	3.0%
75	**NET FOREIGN CURRENCY ASSETS (LIABILITIES)**	(83,396,000)	(108,046,000)	(173,336,000)

UNITED BANK FOR AFRICA PLC

	KEY RATIOS CONT'D	31-Dec-2017	31-Dec-2016	31-Dec-2015
	ASSET QUALITY			
76	Performing loans (₦'000)	1,169,165,000	1,089,381,000	843,790,000
77	Non-performing loans (₦'000)	55,292,000	54,860,000	6,579,000
78	Non-performing loans/Total loans - Gross	4.5%	4.8%	0.8%
79	Loan loss provision/Total loans - Gross	2.6%	2.6%	1.5%
80	Loan loss provision/Non-performing loans	56.6%	54.8%	198.9%
81	Risk-weighted assets/Total assets & contingents	52.5%	52.8%	46.4%
	CAPITAL ADEQUACY			
82	Adjusted capital/risk weighted assets	17%	21%	27%
83	Tier 1 capital/Adjusted capital	100%	95%	90%
84	Total loans (net)/Adjusted capital	4.06	3.55	2.80
85	Capital unimpaired by losses (₦'000)	300,788,000	302,323,000	274,393,000
	STAFF INFORMATION			
86	Net earnings per staff (₦'000)	20,261	17,554	15,710
87	Staff cost per employee (₦'000)	4,797	4,636	4,289
88	Staff costs/Operating expenses	33.9%	40.6%	40.7%
89	Average number of employees	8,827	9,383	9,801
90	Average staff per office	17	18	16
	OTHER KEY INFORMATION			
91	Legal lending limit(₦'000)	60,157,600	60,464,600	54,878,600
92	Other unamortised losses(₦'000)	NONE	NONE	NONE
93	Unreconciled inter-branch items (₦'000) DR/(CR)	NIL	NIL	NIL
94	Number of offices	532	532	614
95	Age (in years)	68	67	66
96	Government stake in equity (Indirect)	Nil	Nil	Nil
	MARKET SHARE OF INDUSTRY TOTAL	Actual 2017	Actual 2016	Actual 2015
97	Lcy deposits (excluding interbank takings)	10.6%	10.0%	9.3%
98	Total assets & contingents	9.4%	8.9%	7.8%
99	Total loans & leases - net	8.9%	8.3%	6.7%
100	Non interest income	7.8%	8.9%	7.3%
101	Net interest income	7.7%	7.1%	7.3%

RATING DEFINITIONS

Aaa	A financial institution of impeccable financial condition and overwhelming capacity to meet obligations as and when they fall due. Adverse changes in the environment (macro-economic, political and regulatory) are unlikely to lead to deterioration in financial condition or an impairment of the ability to meet its obligations as and when they fall due. In our opinion, regulatory and/or shareholder support will be obtained, if required.
Aa	A financial institution of very good financial condition and strong capacity to meet its obligations as and when they fall due. Adverse changes in the environment (macro-economic, political and regulatory) will result in a slight increase the risk attributable to an exposure to this financial institution. However, financial condition and ability to meet obligations as and when they fall due should remain strong. Although regulatory support is not assured, shareholder support will be obtained, if required.
A	A financial institution of good financial condition and strong capacity to meet its obligations. Adverse changes in the environment (macro-economic, political and regulatory) will result in a medium increase in the risk attributable to an exposure to this financial institution. However, financial condition and ability to meet obligations as and when they fall due should remain largely unchanged. In our opinion, shareholder support should be obtainable, if required.
Bbb	A financial institution of satisfactory financial condition and adequate capacity to meet its obligations as and when they fall due. It may have one major weakness which, if addressed, should not impair its ability to meet obligations as and when due. Adverse changes in the environment (macro-economic, political and regulatory) will result in a medium increase in the risk attributable to an exposure to this financial institution.
Bb	Financial condition is satisfactory and ability to meet obligations as and when they fall due exists. May have one or more major weaknesses. Adverse changes in the environment (macro-economic, political and regulatory) will increase risk significantly.
B	Financial condition is weak but obligations are still being met as and when they fall due. Has more than one major weakness and may require external support, which, in our opinion, is not assured. Adverse changes in the environment (macro-economic, political and regulatory) will increase risk significantly.
C	Financial condition is very weak. Net worth is likely to be negative and obligations may already be in default.
D	In default.

A "+" (plus) or "-" (minus) sign may be assigned to ratings from Aa to C to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.

www.agusto.com

UBA House (5th Floor)
57 Marina Lagos
Nigeria.
P.O Box 56136 Ikoyi
+234 (1) 2707222-4
+234 (1) 2713808
Fax: 234 (1) 2643576
Email: info@agusto.com