GCR GLOBAL CREDIT RATING CO.
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United Bank for Africa Plc

Nigeria Bank Analysis **October 2018**

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Long-term	National	AA-(NG)	Stable	September 2019
Short-term	National	A1+(NG)		
Long-term	International scale	B+	Stable	

Financial data:

(USD'm comparative)ǂ

	31/12/16	31/12/17
NGN/USD (avg.)	252.7	305.3
NGN/USD (close)	304.5	305.5
Total assets	11,355.9	13,222.2
Primary capital	1,428.1	1,673.3
Secondary capital	282.4	215.2
Net advances	4,943.6	5,403.9
Liquid assets	2,620.4	3,045.2
Operating income	1,072.0	1,069.7
Profit after tax	286.0	257.4
Market cap.*	N277.0bn/USD905.7m	
Market share**	11.8%	

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

*As at 24 September 2018.

**As a % of industry assets at 31 December 2017.

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 (October 2017)
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
UBA rating reports (2000-17)
Glossary of Terms/Ratios, February 2016

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Summary rating rationale

- United Bank for Africa Plc's ("UBA" or "the bank") ratings reflect its established franchise, significant domestic market share (being one of the top-tier banks in Nigeria) and status as a systemically important bank. Further rating support is derived from the bank's risk appropriate capitalisation, comfortable liquidity, as well as geographic and earnings diversification, with operations in twenty African countries and offices in three global financial centres (London, Paris and New York).
- UBA's capitalisation is considered satisfactory for the current risk level, with a risk weighted capital adequacy ratio ("CAR") of 20% and 18.4% at FY17 and 3Q FY18 respectively, above the regulatory minimum of 15%. Supported by strong internal capital generation, shareholders' funds grew consistently over the years and stood at N529.4bn at FY17, representing a compounded annual growth rate ("CAGR") of 22.5% over a five-year review period.
- The gross non-performing loans ("NPL") almost doubled (rising by 89.8%) to N114.8bn at FY17, largely impacted by the downgrade of a single large exposure, underpinning the gross NPL ratio rise to 6.7% at FY17, from 3.9% at FY16. According to management, remedial action on the loan has commenced and recovery prospects are considered high. Specific provision coverage of impaired loans stood at 22.0% at FY17 (FY16: 36.0%). Consequently, capital value at risk (NPLs net of provisions to capital) was a higher 9.7% at FY17 (FY16: 1.9%). At 3Q FY18, NPL ratio stood at 7.2%.
- Although the contractual and behavioural mismatch of assets and liabilities in FY17 reflected a liquidity gap of N1,631.7bn and N712.7bn respectively within the critical 'less than one-month' maturity bucket (equivalent to 3.1x and 1.3x of shareholders' funds respectively), liquidity risk is mitigated through maintaining of a sizeable portion of liquid assets. The bank's liquidity profile is further supported by USD500m Eurobond facility raised during the year, as well as available credit lines from other financial institutions. UBA's statutory liquidity ratio ranged between 33.8% and 55.5% in FY17, against the regulatory minimum of 30%.
- The bank reported a pre-tax profit of N105.3bn in FY17, representing a 16.1% year-on-year growth. While net interest income was largely supported by improved investment yields and funding costs, non-interest income was driven by increase in transaction related income and foreign exchange gains. Operating expenses rose by 23.7% on the back of increase in staff costs, IT and other administrative expenses, resulting in a cost to income ratio of 57.8% at FY17 (FY16: 56.3%). Overall, the return on average equity and assets ("ROaE" and "ROaA") stood at 16.6% (FY16: 19.0%) and 2.1% (FY16: 2.3%) respectively in FY17. In 3Q FY18, the bank delivered a pre-tax profit of N79.1bn, comparing favourably with the corresponding period in FY17 and in line with budget on annualised basis.

Factors that could trigger a rating action may include

Positive change: Substantially improved asset quality, positive earnings profitability, and capitalisation metrics, as well as further enhancement of geographic and earnings diversification benefits, would be positively considered.

Negative change: Downward ratings movement may emanate from a significant deterioration in asset quality, liquidity, capital and profitability 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 20 African 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)	FY16	FY17
By earnings:		
Nigeria	268.8	314.5
Rest of Africa	121.9	150.7
Rest of the World	9.8	12.6
Eliminations	(16.9)	(16.3)
Total	**383.6**	**461.6**
By pre-tax profit:		
Nigeria	58.5	53.8
Rest of Africa	31.4	47.8
Rest of the World	3.4	5.3
Eliminations	(2.7)	(1.6)
Total	**90.6**	**105.3**
By assets:		
Nigeria	2,601.8	2,957.0
Rest of Africa	1,144.9	1,316.3
Rest of the World	102.0	110.7
Eliminations	(344.2)	(314.5)
Total	**3,504.5**	**4,069.5**

Source: UBA AFS.

Ownership structure

UBA enjoys a well-diversified ownership structure, with a significant 77.3% of the shareholders individually owning less than 5% of the issued and fully paid up share capital at FY17. Furthermore, the holding of Stanbic Nominee is in fiduciary capacity on behalf of several investors. Table 2 outlines the ownership structure at the balance sheet date. A major change in the ownership structure occurred in FY17 which involved the cancellation of the unvested shares held under the Staff Share Investment Trust, following the agreement of Shareholders in April 2016 and subsequent regulatory approvals in 2017. As a result, the outstanding shares of the bank reduced by over two billion units in FY17.

Table 2: Shareholding structure	% Holding	
	FY16	FY17
Stanbic Nominees Nigeria Ltd	11.3	10.9
Consolidated Trust Funds	4.8	5.2
UBA Staff Share Investment Trust Scheme	6.2	-
Mr. Tony O. Elumelu, CON*	5.7	6.6
Others (all < 5%)	72.0	77.3
Total	**100.0**	**100.0**

*Direct and indirect holdings. Source: UBA AFS.

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

Strategy and operations

UBA remains committed to its digitalisation strategy, aimed at leveraging technology to improve customer acquisition and satisfaction, drive cost efficiency, and enhance earnings. In this regard, the bank launched the industry's first artificial intelligence virtual banking chatbot ("LEO"). This platform provides customers with a convenient means of carrying out transactions through social media (Facebook and WhatsApp) chats.

In a bid to further strengthen operations and consolidate its presence in the African market as well as capture broader business opportunities, UBA's African subsidiaries were restructured along four monitoring blocs (increased from two blocs). Each bloc was grouped based on the geographical location of subsidiaries and headed by the bank's Regional Chief Executive Officer ("CEO"), who reports directly to the Group Managing Director ("GMD"). During the review period, the bank extended its operations to the Republic of Mali, thus increasing its African presence to twenty countries.

As at 31 December 2017, the Group had 1,000 branches and customer touch points, 2,300 (FY16: 1,738) ATMs, 13,500 (FY16: 13,452) point of sale terminals and a direct staff complement of 11,955 (FY16: 12,285).

Governance structure

UBA is governed in line with the provisions of CBN's Code of Corporate Governance for Banks in Nigeria and the Securities and Exchange Commission code for publicly quoted companies. 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 four Independent directors)
Number of Executive Directors	9 (including the GMD/CEO)
Tenure of Directors	3- 5years per tenure (with maximum of 10 years)
Number of board committees	5 (namely: Audit, Risk Management, Finance and General Purpose, Nominations and Governance, and Credit Committees).
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

Financial reporting

The bank's financial statements are prepared in accordance with all relevant and applicable laws, provisions and guidelines, and International Financial Reporting Standards ("IFRS"). The external auditor, PWC, issued an unqualified opinion on the FY17 financial statements as well as audited 2018 half-year financial statements.

Operating environment[2]

Economic overview

The Nigerian economy returned to growth (albeit slowly) in 2Q 2017, after five consecutive quarters of contraction since 1Q 2016. Available data from the National Bureau of Statistics reflects real annual growth rate for 2017 at 0.8% compared to -1.6% at 2016. This was largely driven by improved global oil prices and production volumes (due to reduced vandalism on oil and gas pipelines in the Niger Delta region). As such, while global oil prices rose above the USD44.5 a barrel benchmark of the government, crude oil production also averaged 1.91million barrels per day ("mbpd") against 1.76mbpd the previous year, impacting positively on government revenues and overall economic activities. The non-oil sector grew 0.5% in 2017, compared to -0.22% in 2016. Other initiatives resulting in the quick economic rebound were CBN policies implemented during the period. These include the effort towards boosting liquidity in the FX market, as well as reducing the gap between the parallel market and official exchange rates through the establishment of a special window for investors, exporters and end-users known as Investors'& Exporters' FX Window (I&E window). Furthermore, CBN maintained its tight monetary policy stance by leaving the benchmark monetary policy rates and cash reserve ratio for commercial banks unchanged at 14% and 22.5% respectively throughout 2017. As a result, the Nigerian Naira exchanged at N306.3/USD and N362.8/USD at the official and parallel market rates respectively by December 2017 (December 2016: N305.2/USD and N493.3/USD at official and parallel exchange rates respectively). Also, headline inflation slowed to 15.4% in December 2017, from a peak of 18.7% in January 2017 (December 2016: 18.6%) and this has further improved to 11.28% at September 2018.

On the back of improved macroeconomic conditions, The Nigerian Stock Exchange All-Share Index for equities closed at 38,243 points at 2017 (2016: 26, 874points), with banking stocks among the most improved. Similarly, market capitalisation stood at N22.9tn compared to N16.2tn at end-2016.

Based on the foregoing, revised forecast from the World Bank indicates a GDP growth of 2.5% for 2018. This is based on the expectation that government's effort to stimulate domestic demand through huge investments in infrastructure and the economic recovery and growth plan ("ERGP"), launched by the Presidency in April 2017 will be implemented successfully. The ERGP is a medium term plan for 2017-2020, with focus on key sectors such as agriculture and food security, energy, transportation and manufacturing.

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

Industry overview

Despite the challenging operating environment in 2016 and 2017, performance (in terms of profitability) improved for most of the players in 2017, albeit with increasing NPLs. Total assets for the industry grew by 9.2% to N34.6tn at 2017, partly reflecting exchange rate difference and the ability of banks to mobilise more deposits. As such, total loans to the private sector stood at N20.4tn, albeit NPLs for the industry rose significantly from 5.3% at end-2015 to 12.8% and 15% at end-2016 and at 1H 2017 respectively. A major factor impacting on banks asset quality is the high exposure to the oil and gas sector (accounting for 29% of the industry loans at 1H 2017), and this is more likely to affect the large and mid-sized banks.

The average CAR for the industry moderated to 11.5% at 1H 2017 from 14.8% at end- 2016. The decline in CAR was attributed to the slow economic recovery and the rise in NPLs, which resulted in capital deterioration. To ascertain the viability of the players, CBN conducted a stress test for banks during 2017 and the outcome reflects that only the large banks could withstand further deterioration of up to 50% of their NPLs. To combat deterioration in banks capitalisation, CBN issued a circular in January 2018, which prioritises internal capital generation and limit dividend payout ratios. The new circular takes into cognisance the composite risk rating of a bank, NPLs, and CAR ratios in arriving at the maximum allowable dividend payout ratio (which takes effect immediately).

Going forward, banks capitalisation is likely to be further impacted by the implementation of IFRS 9, which commenced in January 2018. IFRS 9 prescribes new guidelines for the classification and measurement of financial assets and liabilities, making fundamental changes to the methodology for measuring impairment losses, by replacing the 'incurred loss' model with a more forward looking 'expected loss' model. Thus, impacting NPLs and capital adequacy.

As at 31 December 2017, the commercial banking space comprised 22 players, with 10 authorised as international banks, 9 licensed as national, 2 regional and 1 non-interest bank with national license. However, on 21 September 2018, Skye Bank Plc's operating license was revoked due to sustained dependence on CBN for liquidity support and constrained capitalisation metrics since July 2016. As a result, its assets and liabilities were transferred to a bridge bank "Polaris Bank Limited (Polaris)" under the management of Asset Management Company of Nigeria ("AMCON"). To this end, Polaris is expected to remain under the management of AMCON pending the availability of suitable investors.

Competitive position

UBA remains a leading financial services group in Sub-Saharan Africa, with a market share of 11.8% (FY16: 10.9%) by total industry assets in Nigeria. The bank compares favourably with top-tier banks in terms of product offerings, balance sheet size, geographical spread and profitability metrics. Table 3 outlines selected ratios of UBA with peers at FY17.

Financial profile

Likelihood of support

Given UBA's status as a systemically important bank in Nigeria, there is likelihood of support from the government should it be required. Also, the bank enjoys adequate support from its shareholders as demonstrated during capital raising initiatives undertaken in the past.

Funding composition

UBA is predominantly funded by customer deposits, which constituted 69.1% (FY16: 73.5%) of total funding base at FY17. Other sources of funds include equity, subordinated debt, borrowings, and interbank funding, representing 13.4%, 1.7%, 12.7% and 3.4% of total funding respectively at FY17. These are discussed in the sections which follow.

Deposits (including interbank funding)

Customer deposits grew by 10% to N2,733.3bn at FY17, as the bank continued to leverage on its enlarged branch network, digital channels and strong franchise to deepen retail segment penetration. As a result, retail deposits expanded by 21.3% and constituted a higher 40.6% (FY16: 37.0%) of total deposits at FY17. The deposit mix displayed a shift towards term deposits, reducing the proportion of low-cost deposits to 71.1% of total deposits at FY17 (FY16: 75.5%). Interbank funding also increased at the balance sheet date, rising by 23.1% to N134.3bn. Despite the foregoing, weighted average cost of funds remains relatively flat at 3.7% at FY17.

The maturity profile of deposits is largely short-dated, as all deposits contractually mature within one year. Cognisance is taken of the fact that a significant portion of deposits are typically rolled-over at maturity. The deposit base remains fairly diversified, with the single and twenty largest depositors accounting for 1.2% and 6.6% of total deposit respectively at FY17 (FY16: 3.7% and 9.8%). Management projects 10% growth in customer deposits for FY18, to be driven by improved mobilisation of low-cost deposits via its virtual banking platforms and other alternate channels. Accordingly, customer deposits increased by 16.2% to N3,177.3bn at 3Q FY18.

Table 4: Deposit book characteristics at FY17 (%)			
By type:		**By source:**	
Current	50.5	Retail	40.6
Savings	20.6	Corporate	54.7
Term	24.2	Financial institution	4.7
Interbank borrowings	4.7		
Concentration (%):			
Single largest	1.2	Ten largest	5.4
Five largest	3.7	Twenty largest	6.6
Maturity (%):			
< 1 month	51.7	3-12 months	21.0
1-3 months	27.3	> 1 year	-

Source: UBA.

Capital adequacy

Table 5: Capitalisation (N'bn)	FY16	FY17
Total qualifying Tier 1	214.5	217.2
Total qualifying Tier 2	47.9	37.8
Total regulatory capital	**262.4**	**255.0**
Total risk weighted assets	**1,331.9**	**1,265.1**
CAR (%)	**19.7**	**20. 2**

Source: UBA AFS.

UBA's capitalisation is considered satisfactory for the current risk level, with a CAR of 20% and 18.4% at FY17 and 3Q FY18 respectively, above the regulatory minimum of 15%. Supported by strong internal capital generation, shareholders' funds grew consistently over the years and stood at N529.4bn at FY17, representing a CAGR of 22.5% over a five-year review period. However, shareholders' funds dipped by 3.8% to N509.3bn at 3Q FY18, mainly attributable to implementation of IFRS 9 impairment model (which became effective on 1 January 2018), resulting in charge of additional impairment loss

Table 3: Competitive position* UBA vs. selected banks	Zenith	FirstBank	UBA	Access	GTBank
Year end 31 December 2017					
Shareholders' funds (N'bn)	821.7	627.6	529.4	515.4	625.2
Total assets (N'bn)†	5,525.9	4,929.7	4,039.4	4,037.5	3,322.5
Net loans to customers (N'bn)	2,100.4	2,026.0	1,650.9	1,996.0	1,448.5
Net profit after tax (N'bn)	177.9	51.5	78.6	62.0	170.5
Total capital/Total assets (%)	14.9	17.8	14.5	12.7	18.6
Liquid and trading assets/Total short-term funding (%)	64.6	40.6	17.6	24.0	30.6
Gross bad debt ratio (%)	4.7	22.5	6.7	4.8	7.7
Net interest margin (%)	6.4	9.0	10.0	6.9	11.8
Cost ratio (%)	42.9	51.4	57.8	62.1	36.7
ROaE (%)	23.4	9.0	16.6	12.8	36.1
ROaA (%)	3.5	1.1	2.1	1.7	6.2

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

against the bank's reserves.

Borrowings

UBA's total borrowings stood at N567.9bn at FY17, representing 64.2% growth over FY16. This liability pool, comprised subordinated debt and borrowings from international and domestic financial institutions. Outstanding subordinated debt declined by 23.6% to N65.7bn at FY17, on the back of the maturity and redemption of seven-year tenured N20bn Medium Term Notes. However, other borrowings increased substantially by 93.2% to N502.2bn at FY17, driven by the issuance of USD500m Eurobond in June 2017. This facility has a tenor of five years, with coupon accrued at the rate of 7.75% per annum, payable semi-annually and a bullet payment of the principal at maturity. Borrowings from CBN and Bank of Industry represent intervention funds granted under the agriculture, power, aviation, micro, small and medium enterprise and manufacturing sectors credit scheme for on-lending to qualified customers. Subordinated debt declined by 52.7% to N31.1bn at end-3Q FY18, following the redemption of N35bn Notes, which matured during the period. The impact of this on total borrowings was partly absorbed by increase in other long term borrowings during the period, with the borrowings book contracting marginally 1.8% to N557.6bn at end-3Q FY18.

Table 6: Borrowings	FY16 N'bn	FY17 N'bn
Subordinated Debt*	86.0	65.7
Other borrowings	**259.9**	**502.2**
Central Bank of Nigeria	43.2	53.8
Bank of Industry	11.0	9.2
Standard Chartered Bank	-	24.9
European Investment Bank	2.0	22.3
Syndicated facility	27.5	-
Africa Trade Finance	15.1	60.4
AFREXIM	30.4	-
Africa Development Bank	36.2	50.3
Credit Suisse	94.5	100.3
Eurobond debt security	-	164.4
Standard Bank of South Africa	-	16.6
Total	**345.9**	**567.9**

*qualifying Tier 2 Capital
Source: UBA AFS.

Liquidity positioning

Liquidity position appears sound at FY17, as the statutory liquidity ratio ranged between 33.8% and 55.5% during the year, against the regulatory minimum of 30%. However, the contractual and behavioural mismatch of assets and liabilities reflects a liquidity gap of N1,631.7bn and N712.7bn respectively within the critical 'less than one-month' maturity bucket (representing 3.1x and 1.3x of shareholders' funds respectively). Nevertheless, the rollover nature of deposits and the fact that the bank covers its liquidity shortfalls via short-term marketable securities and available credit lines from other financial institutions provide some liquidity comfort.

Table 7: Net liquidity gap profile (N'bn)	<1 month	1-3 months	3-12 months	>1 year
Assets	1,209.6	267.5	477.9	2,638.5
Liabilities	(2,841.3)	(406.9)	(238.6)	(914.8)
Net liquidity gap	**(1,631.7)**	**(139.4)**	**239.3**	**1,723.7**
Cumulative liquidity	**(1,631.7)**	**(1,771.1)**	**(1,531.8)**	**191.9**

Source: UBA AFS.

Operational profile

Risk management

UBA continues to monitor potential risks, across its various geographical locations, given the spread and diversity across operating environments. The enterprise risk management framework covers all aspects of risk the bank is exposed to, from credit origination to recovery. Furthermore, the bank reviewed its credit risk management to ensure adequate tracking and monitoring of customers' cash flow through Bank Verification Number ("BVN") in a view to minimising loan default rate.

Asset composition

Total assets grew by 16.8% to N4,039.4bn at FY17, underpinned by improved funding profile (particularly Eurobond facility raised during the year). Cash and liquid assets expanded by 16.6% to N930.3bn on the back of increase in mandatory deposits with CBN and money market placements. Similarly, net loans and advances increased by 9.7%, albeit constituting a lower 40.9% (FY16: 43.5%) of the assets mix at FY17, reflecting moderate credit risk. Investment securities largely made up of risk-free government securities (treasury bills and bonds) rose by a notable 44.0%, as the bank continued to take advantage of the attractive yields on these securities.

Table 8: Asset Mix	FY16		FY17	
	N'bn	%	N'bn	%
Cash and liquid assets	**797.9**	**23.1**	**930.3**	**23.1**
Cash	*71.5*	*2.1*	*67.6*	*1.7*
Liquidity reserve deposits	*322.0*	*9.3*	*390.5*	*9.7*
Treasury bills and bonds	*52.3*	*1.5*	*31.9*	*0.8*
Balances with other banks	*352.1*	*10.2*	*440.3*	*10.9*
Net advances to customers	1,505.3	43.5	1,650.9	40.9
Investments securities	**567.0**	**16.4**	**816.3**	**20.2**
Equity investment	*80.7*	*2.3*	*94.0*	*2.3*
Available for sale investment	*119.4*	*3.5*	*350.0*	*8.7*
Held to maturity investment	*366.9*	*10.6*	*372.3*	*9.2*
Pledged assets	403.5	11.7	399.8	9.9
Investment in associates	2.9	0.1	2.9	0.1
Property, Plant and	93.9	2.7	107.6	2.7
Other assets	87.4	2.5	131.6	3.3
Total*	**3,457.9**	**100.0**	**4,039.4**	**100.0**

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

Contingencies

Off-balance sheet assets grew by 6.0% to N626.7bn at FY17, albeit constituting a lower 13.4% (FY16:14.6%) of the total on and off-balance sheet assets. This comprised; performance bonds and guarantees (48.4%) and letter of credits (51.6%).

Loan portfolio

Gross loans and advances rose by 9.8% to N1,708.9bn at FY17. Sectoral distribution of the book reflects a level of diversification across key economic sectors, albeit the bank maintained preference for the oil and gas, power, general commerce and manufacturing sector, which jointly accounted for 62.8% of the total loan portfolio. Concentration risk by obligor is moderately low, as the single largest obligor constituted 3.9% and 12.7% of total loans and shareholders' funds respectively at the balance sheet date. Maturity profile of the book is relatively short, with 54.6% maturing within one-year. While management projects 5% growth in the loan book for FY18, performance as at 3Q FY18 reflects a marginal (0.3%) growth.

Table 9: Loan book characteristics (%)			
By sector:		**FY16**	**FY17**
Agriculture		3.9	2.7
Oil and gas		23.3	21.6
Construction		8.8	5.4
General commerce		9.7	15.5
Consumer credit		9.1	6.4
Public sector		4.7	8.4
Power		10.1	10.0
Manufacturing		14.9	15.7
IT and Telecommunication		6.5	5.9
Financial Institutions		4.3	5.5
Others		4.6	3.0
Largest exposures:	**%**	**By Product:**	**%**
Single largest	3.9	Overdrafts	20.6
Five largest	15.2	Term loans	78.1
Ten largest	26.8	Others	1.3
Twenty largest	42.0		

Source: UBA.

Asset quality

The gross NPL ratio almost doubled (rising by 89.8%) to N114.8bn at FY17, largely impacted by the downgrade of a single large exposure, underpinning the gross NPL ratio rise to 6.7% at FY17, up from 3.9% at FY16. According to management, remedial action on the loan has commenced and recovery prospects are considered high. An analysis of impaired loans reflects the majority to be in telecommunication and the oil and gas sectors accounting for 72% of impaired loans at FY17.

Table 10: Asset Quality (N'bn)	FY16	FY17
Gross Advances	**1,555.7**	**1,708.9**
Performing	*1,495.2*	*1,590.8*
Impaired	*60.5*	*114.8*
Provision for impairment	**(50.4)**	**(58.0)**
Individually impaired	*(21.8)*	*(25.2)*
Collectively impaired	*(28.6)*	*(32.8)*
Net NPLs	**10.1**	**56.8**
NPL ratio (%)	3.9	6.7
Net NPL ratio (%)	0.7	3.3
Net NPL/Capital (%)	1.9	9.7

Source: UBA AFS.

Specific provision coverage of impaired loans stood at 22.0% at FY17 (FY16: 36.0%). Consequently, capital value at risk (NPLs net of provisions to capital) was a higher 9.7% at FY17 (FY16: 1.9%). At 3Q FY18, the NPL ratio stood at 7.2%.

Foreign currency exposure

UBA is exposed to foreign exchange risks through its foreign currency ("FCY") denominated borrowings, deposits and advances. This is however managed through an effective matching of related assets and liabilities. Overall, the foreign currency risk is considered moderate.

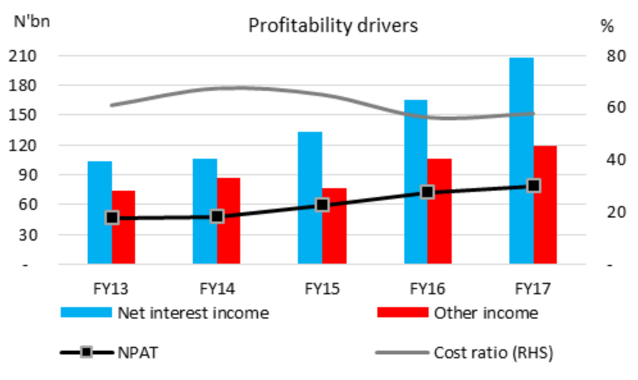
Table 11: Net FCY position (FY17)	USD N'bn	EUR N'bn	GBP N'bn	Others N'bn	Total N'bn
Financial assets	879.9	37.7	7.8	1,147.3	2072.7
Financial liabilities	(903.6)	(22.7)	(7.9)	(925.1)	(1,859.3)
Net	**(23.7)**	**15.0**	**(0.1)**	**222.2**	**213.4**

Source: UBA AFS.

Financial performance and prospects

A five-year financial synopsis, together with nine months audited management accounts to 30 September 2018, is reflected on page 8 of this report, supplemented by the commentary below.

UBA's interest income grew by 23.4% in FY17, underpinned by high yields on investment securities and improved risk asset pricing. On the other hand, interest expense rose at a slower pace (19.5%), aiding net interest income growth by 25.7% to N207.6bn. Non-interest income grew by 12.5% in FY17 largely driven by transaction related income and foreign exchange gains. Overall, total operating income grew by 20.6% in FY17.



However, profitability was constrained by increase in impairment charge and operating expenses, which rose by 18.8% and 23.7% respectively. While impairment charge increased due to the bank's prudent provisioning on delinquent assets, operating expenses was driven by increase in staff-related costs, IT, statutory cost and other administrative expenses. As a result, the cost to income ratio increased to 57.8% in FY17 (FY16: 56.3%). Pre-tax profit grew by 16.1% to N105.3bn in FY17 (FY16: 32.4%). Overall, the ROaE and ROaA moderated to

16.6% and 2.1% in FY17 from 19.0% and 2.3% in FY16 respectively.

Management projects a pre-tax profit of N113.9bn for FY18, representing 8.2% growth over FY17 level. This is expected to be driven by reduction in impairment charge and improvement in transaction volume on virtual banking platforms and other alternate channels. Operating expenses is anticipated to remain elevated in FY18, as the bank continues to invest in IT to drive its digitalisation initiatives.

Table 12: Budget FY18 Vs Actual (N'bn)	Actual FY17	Budget FY18	Actual 3Q FY18	% of * Budget
Income statement				
Net int. income	207.6	185.9	150.7	108.1
Other income	119.0	180.8	87.7	64.6
Total income	**326.6**	**366.7**	**238.4**	**86.7**
Impairment charge	(32.9)	(13.7)	(10.7)	78.1
Operating exp.	(188.4)	(239.1)	(148.6)	82.8
NPBT	**105.3**	**113.9**	**79.1**	**92.6**
Statement of financial position				
Net advances	1,650.9	1,721.5	1,595.9	92.7
Deposits	2,733.3	3,254.5	3,177.3	97.6
Shareholders' funds	529.4	546.3	509.3	93.2
Total assets ǂ	4,039.4	4,656.5	4,465.4	95.9

ǂ Excludes balances held in respect of letter of credit. *Annualised
Source: UBA

Unaudited result as at 3Q FY18 compare favourably with the corresponding period in FY17 and are in line with budget on annualised basis across key performance metrics. Given the current performance trend and the relative stability in the general operating environment, management remains optimistic and expects to achieve the full year budget.

United Bank for Africa Plc

(Naira in millions except as noted)

Year end: 31 December

Statement of Comprehensive Income Analysis	**2013**	**2014**	**2015**	**2016**	**2017**	**3Q 2018**
Interest income	185,700	196,680	229,629	263,970	325,657	268,937
Interest expense	(82,469)	(90,547)	(96,030)	(98,770)	(118,025)	(118,239)
Net interest income	**103,231**	**106,133**	**133,599**	**165,200**	**207,632**	**150,698**
Other income	73,762	86,322	76,658	105,689	118,933	87,666
Total operating income	**176,993**	**192,455**	**210,257**	**270,889**	**326,565**	**238,364**
Impairment charge	(13,078)	(6,578)	(5,053)	(27,683)	(32,895)	(10,674)
Operating expenditure	(107,851)	(129,686)	(136,640)	(152,501)	(188,610)	(149,085)
Share of profit/(loss) of equity-accounted investee	(6)	9	(110)	(63)	204	506
Net profit before tax	**56,058**	**56,200**	**68,454**	**90,642**	**105,264**	**79,111**
Tax	(9,457)	(8,293)	(8,800)	(18,378)	(26,674)	(17,413)
Net profit after tax	**46,601**	**47,907**	**59,654**	**72,264**	**78,590**	**61,698**
Profit/(loss) from discontinued operations	-	-	-	-	-	-
Other after-tax income / (expenses)	7,101	(2,562)	6,168	65,886	27,769	(11,343)
Total Comprehensive Income	**53,702**	**45,345**	**65,822**	**138,150**	**106,359**	**50,355**

Statement of Financial Position Analysis						
Subscribed capital	124,423	124,423	135,514	135,514	115,815	115,815
Reserves (incl. net income for the year)	103,226	135,507	190,313	299,337	395,388	372,988
Hybrid capital (incl. eligible portion of subordinated term debt)	55,653	85,315	85,620	85,978	65,741	31,081
Minority interest	7,387	5,476	6,794	13,218	18,231	20,483
Less: Intangible assets (incl. goodwill)	(5,673)	(5,673)	(5,673)	(8,522)	(9,792)	(9,646)
Total capital and reserves	**285,016**	**345,048**	**412,568**	**525,525**	**585,383**	**530,721**
Bank borrowings (incl. deposits, placements & REPOs)	60,582	59,228	61,066	109,080	134,289	133,530
Deposits	2,161,182	2,169,663	2,081,704	2,485,273	2,733,348	3,177,318
Other borrowings	3,762	6,755	73,542	167,569	202,180	526,480
Short-term funding (< 1 year)	**2,225,526**	**2,235,646**	**2,216,312**	**2,761,922**	**3,069,817**	**3,837,328**
Deposits	-	-	-	337	-	-
Other borrowings	45,104	107,042	56,354	92,358	300,029	-
Long-term funding (> 1 year)	**45,104**	**107,042**	**56,354**	**92,695**	**300,029**	**-**
Payables/Deferred liabilities	55,701	53,709	53,031	77,717	84,152	97,363
Other liabilities	**55,701**	**53,709**	**53,031**	**77,717**	**84,152**	**97,363**
Total capital and liabilities	**2,611,347**	**2,741,445**	**2,738,265**	**3,457,859**	**4,039,381**	**4,465,412**
Balances with central bank	246,262	310,710	276,668	321,971	390,520	475,854
Property, Plant and Equipment	75,409	89,517	88,825	93,932	107,636	112,852
Derivative financial assets	3,265	6,534	1,809	10,642	8,227	37,629
Receivables/Deferred assets (incl. zero rate loans)	62,308	66,930	79,352	76,748	123,394	106,588
Non-earnings assets	**387,244**	**473,691**	**446,654**	**503,293**	**629,777**	**732,923**
Short-term deposits & cash	127,584	185,191	166,369	71,522	67,601	96,653
Loans & advances (net of provisions)	937,620	1,071,859	1,036,637	1,505,319	1,650,891	1,595,909
Bank placements	343,932	349,096	218,250	352,113	440,301	401,389
Marketable/Trading securities	784	1,099	11,249	52,295	31,898	37,760
Other investment securities	811,206	657,523	856,870	970,392	1,216,053	1,595,367
Investments in equity-accounted investee	2,977	2,986	2,236	2,925	2,860	5,411
Total earning assets	**2,224,103**	**2,267,754**	**2,291,611**	**2,954,566**	**3,409,604**	**3,732,489**
Total assets†	**2,611,347**	**2,741,445**	**2,738,265**	**3,457,859**	**4,039,381**	**4,465,412**
Contingencies	**483,982**	**586,669**	**226,518**	**591,006**	**626,747**	**799,402**

Ratio Analysis (%)						
Capitalisation						
Internal capital generation#	23.6	17.4	20.2	31.8	20.8	10.3
Total capital / Net advances + net equity invest. + guarantees	12.8	14.9	19.5	17.1	16.8	13.3
Total capital / Total assets	10.9	12.6	15.1	15.2	14.5	11.9
Liquidity‡						
Net advances / Deposits + other short-term funding	42.1	47.9	46.8	54.5	53.8	41.6
Net advances / Total funding (excl. equity portion)	41.3	45.8	45.6	52.7	49.0	41.6
Liquid & trading assets / Total assets	18.1	19.5	14.5	13.8	13.4	12.0
Liquid & trading assets / Total short-term funding	21.2	23.9	17.9	17.2	17.6	14.0
Liquid & trading assets / Total funding (excl. equity portion)	20.8	22.9	17.4	16.7	16.0	14.0
Asset quality						
Impaired loans / Gross advances	1.2	1.6	1.7	3.9	6.7	7.2
Total loan loss reserves / Gross advances	2.0	1.9	2.1	2.9	1.2	1.3
Bad debt charge (income statement) / Gross advances (avg.)	1.6	0.6	0.5	2.1	2.0	0.6
Bad debt charge (income statement) / Total operating income	7.4	3.4	2.4	10.2	10.1	4.5
Profitability						
Net income / Total capital (avg.)	20.4	14.4	17.4	29.5	19.1	9.0
Net income / Total assets (avg.)	2.2	1.7	2.4	4.5	2.8	1.2
Net interest margin	8.5	7.7	9.8	10.2	10.0	9.3
Interest income + com. fees / Earning assets + guarantees (a/avg.)	5.3	4.6	6.0	6.7	6.7	4.4
Non-interest income / Total operating income	41.7	44.9	36.5	39.0	36.4	36.8
Non-interest income / Total operating expenses (or burden ratio)	68.4	66.6	56.1	69.3	63.1	58.8
Cost ratio	60.9	67.4	65.0	56.3	57.8	62.5
OEaA (or overhead ratio)	4.4	4.8	5.0	4.9	5.0	3.5
ROaE	22.4	19.7	20.4	19.0	16.6	16.5
ROaA	1.9	1.8	2.2	2.3	2.1	1.9
Nominal growth indicators						
Total assets	15.8	5.0	(0.1)	26.3	16.8	10.5
Net advances	36.4	14.3	(3.3)	45.2	9.7	(3.3)
Shareholders funds	20.4	14.2	25.4	33.5	17.6	(4.4)
Total capital and reserves	18.5	21.1	19.6	27.4	11.4	(9.3)
Deposits (wholesale)	25.6	0.4	(4.1)	19.4	10.0	16.2
Total funding (excl. equity portion)	20.0	3.2	(3.0)	25.6	18.0	13.9
Net income	(3.5)	(15.6)	45.2	109.9	(23.0)	(36.9)

† 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 ratings was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the ratings 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 United Bank for Africa Plc with no contestation of/changes to the ratings.

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 2017 (plus four years of comparative numbers), unaudited financial statements for the period ended 30 September 2018, latest internal and/or external audit report to management, full year detailed budgeted financial statements for 2018, reserving methodologies and capital management policies. In addition, information specific to the rated entity and/or industry was also received.