Union Bank of Nigeria Plc.

2019 Final Rating Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

Union Bank of Nigeria Plc

A financial institution of good financial condition and strong capacity to meet its obligations as and when they fall due

Rating Assigned:

A-

Outlook: Stable
Issue Date: 03 May 2019
Expiry Date: 30 June 2020
Previous Ratings: A-

Industry: Banking

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RATING RATIONALE

The rating assigned to Union Bank of Nigeria Plc ('**UBN'** or '**the Bank'**) reflects its good brand equity and shareholders' support that has upheld capitalisation over the years. The rating recognises a significant decline (65.2% year on year) in the Bank's impaired credits on the back of major write offs and some repayments during the year. UBN maintained a good liquidity profile and displayed good refinancing capacity as evidenced in the 165% subscription of its debut bond issuance in 2018. However, the assigned rating is constrained by subpar profitability and declining market share across major indicators. We believe there are lurking legacy issues in UBN's loan book that could impair asset quality and future earnings. The fragile macroeconomic environment and tightened regulatory oversight also threaten performance in the near term.

UBN is one of Nigeria's oldest commercial banks with over 10 decades of experience in the Nigerian market having survived several economic cycles. With an asset base of ₦1.5 trillion, UBN held an estimated 3.68% of the Industry's total assets & contingents as at FYE2018 and ranked 9th amongst the 26 banks operating in Nigeria. UBN has an extensive reach across the country with over 300 branches & cash centres, 9,600 POS terminals and 1,032 automated teller machines, supporting liability generation. The Bank's renewed digital drive and upgrade of its e-banking platforms also support deposits mobilisation. As at 31 December 2018, customer deposits (excluding interbank takings) stood at ₦844.4 billion, up by 6% year on year. The deposit mix was better in 2018 with low cost savings and demand deposits dominating LCY deposit base at 64.5% (FYE2017: 60.4%). Therefore, weighted average cost of funds moderated to 5.7%, as against 7.1% recorded in the prior year. Moderated funding cost was also supported by a lower interest rate regime during the review year. Liquidity position was also good as liquid assets accounted for 54.1% of total local currency (LCY) deposits, above the regulatory benchmark of 30% for commercial banks.

In 2018, UBN took a major decision to sterilise its loan portfolio of legacy exposures that had weakened asset quality over the years. Subsequently, more than a quarter (28%) of the loan book was written off. Loan work outs in terms of restructurings worth ₦72 billion were also recorded during the year to reflect improvement in cash flows of some obligors. Subsequently, non-performing loans as a percentage of gross loans (NPL ratio) improved to 8.1% from 20.8% in 2017. However, "Stage 3" loans as a percentage of gross loans at 26.1%, reflects pending asset quality issues. The Bank's management has disclosed that approximately ₦58 billion (or 47%) of the "Stage 3" loans will be re-classified to "Stage 2" or "Stage 1" in the short term based on syndicate-wide classifications of these loans and expected improvement in performance. In addition, UBN has projected an NPL ratio of 5% by 2020 which can be achieved by recoveries or further write offs.

Given the clean-up exercise as well as the implementation of IFRS 9 accounting standards as prescribed by the Central Bank of Nigeria (CBN), UBN's core capital reduced by a third (33.4% y/y) to ₦186.8 billion as at FYE2018. However, with the intervention of CBN through a transitional arrangement where banks are allowed to spread additional credit losses in excess of regulatory risk reserves over a four-year period, UBN's capital adequacy ratio at 16.4% stood above the regulatory minimum of 15% for commercial banks with international operations. Without the transition arrangement, UBN's CAR would have been 11.6% in 2018. We note positively strong shareholders' support that has upheld the Bank's capital base over the years particularly with the recent capitalisation via a ₦50 billion rights issue in 2017 which was successful with a 120% subscription rate. The Bank plans to raise ₦30 billion Tier 2 capital which we expect to bolster its Basel ratio by 300 basis points. However, should pending asset quality issues further impair capitalisation and earnings in the short term, this will have adverse rating implications.

Driven by reduced credit losses due to write offs as well as lower funding costs and stronger non-interest income from the Bank's e-banking platforms, UBN recorded a 61.2% growth in pre-tax profits to ₦18.7 billion. This translated to a return on average assets (ROA) of 1.3% (FY2017: 0.8%) and a return on average equity (ROE) of 8% (FY2017: 4.6%) in 2018. Despite year on year improvement in profitability, we consider the Bank's return to be subpar in view of its size and capacity. We expect an upward trajectory in profitability in the near term as the Bank's digital drive gains traction and the loan book grows and improves in quality. However, credit losses continue to threaten future profitability.

Agusto & Co maintains the rating of UBN at "**A-**". However, in the event that the Bank's management is unable to reclassify the syndicate loans as envisaged, and capital adequacy ratio falls below 16%, the assigned rating could be downgraded.

Strengths

- Good brand equity
- Shareholders' support
- Experienced management team
- Extensive digital offering

Weaknesses

- Sub par profitability
- Declining market share
- High level of 'Stage 3' loans as a percentage of shareholders' funds

Challenges

- Lingering weaknesses in the Nigerian macro economy which threatens asset quality
- Resolving legacy impaired loans

Table 1: Financial Data

	December 2018	December 2017 (Restated)
Total Assets & Contingents	₦1,486.2 billion	₦1,455.0 billion
Total Local Currency Deposits	₦660.8 billion	₦687.0 billion
Net Earnings	₦90.1 billion	₦74.5 billion
Return on Average Assets & Contingents (ROA)	1.3%	0.8%
Return on Average Equity (ROE)	8.0%	4.6%

PROFILE

Union Bank of Nigeria Plc ("UBN", "Union Bank" or "the Bank") was first established as a Colonial Bank in 1917. It became Barclays Bank DCO (Dominion, Colonial Overseas) as a result of its acquisition by Barclays Bank in 1925. Following Nigeria's independence and the enactment of the Companies Act of 1968, the Bank was incorporated as a private limited company in 1969 and renamed Barclays Bank of Nigeria Limited. In 1971, subsequent to the listing of its shares on the Nigerian Stock Exchange (NSE) and the acquisition of shares driven by the Nigerian Enterprises Promotion Act, Barclays Bank of Nigeria Limited became a public limited company and a wholly Nigerian owned entity. Subsequently, the name was changed to Union Bank of Nigeria Plc to reflect change in ownership structure.

After the 2009 banking crisis, the Central Bank of Nigeria through AMCON (Asset Management Company of Nigeria) acquired 85% of the Bank's equity. In 2012, a recapitalisation exercise was executed with the injection of $500 million by a consortium of local and foreign investors called the Union Global Partners Limited[1] (UGPL). As a result, the consortium acquired 65% of Union Bank's equity from AMCON. In the last quarter of 2014, Atlas Mara Limited acquired the remaining 20% equity from AMCON. Atlas Mara has progressively increased its stake in the Bank and currently holds about 49% of equity through direct and indirect shareholdings.

Atlas Mara Limited is an Africa focused financial services holding company, founded in November 2013 by the former Group Chief Executive Officer of Barclays Plc, Bob Diamond. Atlas Mara has an asset base of over $2.5 billion and has operations in seven African countries namely Botswana, Zimbabwe, Zambia, Tanzania, Mozambique, Rwanda and Nigeria.

Union Bank of Nigeria Plc is principally involved in the provision of banking and related financial services to corporate and individual customers. Such services include granting of loans & advances, acceptance of deposits and money market activities. In creating assets, UBN targets large corporates in key economic sectors as well as opportunities in the value chain. The Bank also leverages technology to extend credits to the retail segment via its electronic banking platforms. Liabilities are generated in over 300 sales and service centres across the country and are largely retail based. Union Bank's core banking business is structured into four divisions:

- **Retail Banking**: Targets mass market and mass affluent, elite (middle class) and royalty customers as well as small & medium enterprises with a turnover below ₦2 billion per annum.
- **Commercial Banking**: Caters to banking needs of local corporates, usually with a turnover between ₦2 billion and ₦10 billion in sectors such as general commerce, construction, oil & gas, manufacturing, education, health and public sector

[1] *UGPL comprises the following investors: Africa Capital Alliance, African Development Corporation (owned by Atlas Mara), Corsair Investments, FMO, PPF Holdings II Limited and Standard Chartered Private Equity*

- **Corporate Banking**: Targets large corporates with turnover above ₦10 billion in sectors such as oil & gas, telecommunications, manufacturing, FMCG, general commerce, agriculture, aviation and maritime.
- **Treasury**: Supports clients across all segments of the Bank such as affluent and high net worth individuals, commercial clients, corporates and non-banking financial institutions

Union Bank's head office is located at Stallion Plaza, 36 Marina Lagos, while its UK subsidiary is located at 1 King's Arms Yard, London.

Subsidiaries

During the FYE2018, Union Bank of Nigeria Plc had two subsidiaries namely UBN Property Company Limited (a property development firm) and Union Bank UK Plc (a licensed UK Bank). Investments in these subsidiaries stood at ₦10.6 billion as at 31 December 2018, similar to the prior year. While the Bank divested from all non-banking businesses in line with the CBN regulation on the scope of banking activities and ancillary matters, the sale of UBN Property Company Limited is suspended due to litigations initiated by two of the subsidiary's shareholders.

Table 2: UBN's Subsidiaries (FYE2018)

Name of Subsidiary	Principal Activities	Direct Ownership Interests
UBN Property Company Limited	Property Development	39%
Union Bank UK Plc	Licensed UK Bank	100%

Information, Communication & Technology (ICT)

Union Bank deploys a range of software, hardware and communication solutions for its daily operations. The Bank's core banking application (CBA) is the Flexcube Universal Banking System. Other centralized software used in the Bank are the Calypso Treasury Management System, Misys Trade Innovation Plus and Omni flow Business Process Management.

Hardware solutions comprise Oracle supercluster infrastructure and DELL EMC converged infrastructure. For offsite backups, the tape backup infrastructure is deployed. Union Bank also has two remote tier III datacenter sites in the country. For email correspondences, the Bank uses Microsoft Office 365 while Cisco's voice and video conferencing platforms assist for workforce collaboration and productivity as well as for extending internal telephony extension out of the physical office.

Correspondent Banks

Union Bank of Nigeria Plc had correspondent banking relationships with the following banks in 2018:

ABSA/Barclays Bank	Citibank	Zenith Bank UK	Svenska Handels Banken
Access Bank UK	Commerzbank	FBN UK	Union Bank UK
Bank of Beirut, UK	Credit Suisse	FCMB UK	Bank of Ireland
Oddo BHF Bank	Deutsche Bank	Mauritius Commercial Bank	United Bank Dubai
Byblos Bank Lebanon	Diamond Bank (now Access Bank Plc)	Standard Bank SA	AFREXIM Bank
UBA New York	CAIXA Bank Spain	BACB	BMCE
Byblos Bank Europe	EBI SA	Standard Chartered Bank, UK	

Track Record of Performance

With over a century of banking operations in Nigeria, Union Bank has survived several economic cycles. In 2015, the Bank rebranded in order to position the next growth phrase and deepen its footprint in the industry. As at 31 December 2018, UBN's total assets & contingents stood at ₦1.5 trillion and reflected a cumulative annual growth rate (CAGR) of 9.3% over the last five years. Gross loans & advances accounted for 31.9% (or ₦473.4 billion) of total assets & contingents and a non-performing loans (NPL) ratio of 8.1% was recorded during the period, down from 20.8% in 2017. Union Bank's shareholders' funds of ₦186.8 billion was well above the ₦50 billion regulatory minimum for Nigerian banks licensed to operate internationally and translated to a Basel II capital adequacy ratio of 16.4%. This was higher than the 15% regulatory threshold prescribed by the CBN. Customer deposits stood at ₦844.4 billion as at end of 2018FY and funded 56.8% of the Bank's activities.

UBN's profitability strengthened year on year in 2018 evidenced in a 64% rise in pre-tax profits to ₦18.4 billion. Thus, pre-tax return on average assets and pre-tax return on average equity improved to 1.3% (FY2017: 0.8%) and 8.0% respectively (FY2017: 4.6%) in the review period.

Table 3: Directors at Union Bank of Nigeria Plc

Directors	Position/Designation	Shareholding
Mr. Cyril Odu	*Chairman*	*0.00001%*
Mr. Emeka Emuwa	*Group Managing Director/CEO*	*0.25511%*
Mr. Kandolo Kasongo	*Executive Director/Chief Risk Officer/Compliance Executive*	*0.01720%*
Mr. Emeka Okonkwo	*Executive Director, Corporate Banking*	*0.01927%*
Mr. Adekunle Sonola	*Executive Director, Commercial Banking*	*0.01853%*
Mr. Nath Ude	*Executive Director, Service & Technology*	*0.000003%*
Mrs. Obafunke Alade-Adeyefa	*Independent Non-Executive Director*	*Nil*
Mr. John Botts*	*Non-Executive Director*	*Nil*
Mr. Richard Burrett	*Non-Executive Director*	*Nil*
Mr. Ian Clyne	*Non-Executive Director*	*Nil*
Mrs. Beatrice Hamza Bassey	*Non-Executive Director*	*Nil*
Mr Richard Kramer	*Non-Executive Director*	*Nil*
Mrs. Furera Isma Jumare	*Independent Non-Executive Director*	*Nil*
Mr. Taimoor Labib	*Non-Executive Director*	*Nil*

**Retired in 2019*

MANAGEMENT TEAM

Mr. Emeka Emuwa was appointed to the Board of Union Bank of Nigeria Plc as Group Managing Director/Chief Executive Officer (CEO) in November 2012. Prior to his appointment, he worked at Citibank Nigeria Limited for 25 years where he rose from management associate in 1986 to Managing Director, Citibank Nigeria Limited and Citi Country Officer, Nigeria. During his tenure at Citibank, he served in various capacities including Country Officer in Cameroon, Tanzania, Gabon, Congo, Ghana and Niger.

Mr. Emuwa has garnered extensive experience in credit risk management, strategy, negotiation, leadership and people management, treasury, corporate finance and cash management. He holds a Bachelor of Science (B.Sc.) degree in finance from the University of Lagos and a Master's Degree from the Krannert School of Management, Purdue University, U.S.A.

Other members of the senior management team are:

Mr. Emeka Okonkwo	*Head Corporate Banking & Treasury*
Mr. Adekunle Sonola	*Head, Commercial Banking*
Mr. Carlos Wanderley	*Head, Retail Banking*
Mr. Kandolo Kasongo	*Chief Risk Officer/Compliance Executive*
Mr. Joe Mbulu	*Chief Financial Officer (CFO)*
Mrs. Omolola Cardoso	*Chief Digital and Innovation Officer*
Mr. Nath Ude	*Head, Service and Technology*
Mr. Miyen Swomen	*Head, Human Resources*

Analysts' Comments

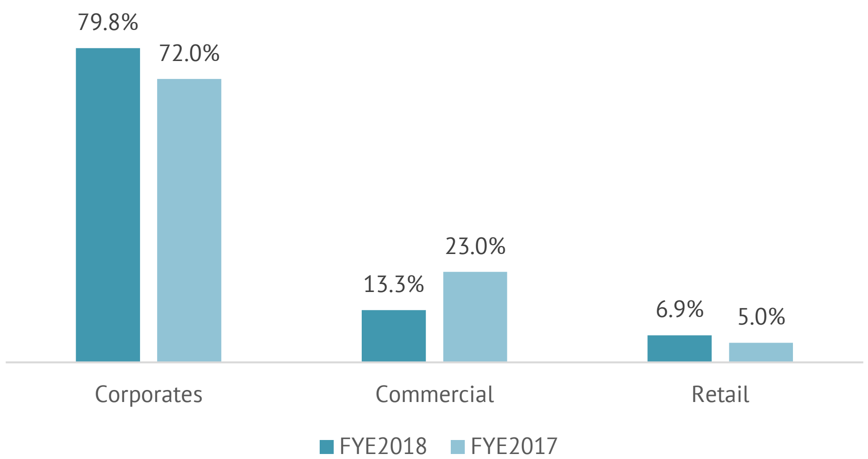
Asset Quality

The 2018 financial year was characterised by weak economic growth of 1.98% and the commencement of electioneering activities in preparation for the 2019 polls. Coupled with uncertainties around the geopolitical and macroeconomic climate, banks maintained overall conservative stance towards expansion during the review year.

Union Bank of Nigeria Plc's asset base (including contingents) inched up by a marginal 2.1% to ₦1.5 trillion as at 31 December 2018. While a 34.8% growth was recorded in the Bank's off-balance sheet portfolio (comprising performance bonds, acceptances, guarantees and letters of credit), on-balance sheet assets shrunk marginally. Assets remained predominantly in loans & advances (31.9%), long-term assets (26.8%) and liquid assets (24.1%).

UBN has a moderate risk appetite and its lending strategy focuses on top tier corporates, mid-sized commercial entities and retail customers (including small & medium enterprises). Over the last few years, the Bank's goal to be a leader in retail and transaction banking has driven activities in the retail segment, particularly via digitalisation. UBN now grants loans on all its digital banking platforms with the exception of the automated teller machines (ATM). As a result, the retail loan portfolio grew by circa 22.8% in 2018 to account for 6.9% of gross loans & advances. The Bank plans to grow risk asset contributions from the retail segment to 10% over the next three years. Loans to the commercial segment declined by 48.5%, largely due to write offs and accounted for 13.3%, (FYE2017: 23%) while the corporate segment remained the largest contributor to the Bank's loan portfolio at 79.8% (FYE2017: 72%).

Figure 1: Loans by Segment (FYE2018 & FYE2017)

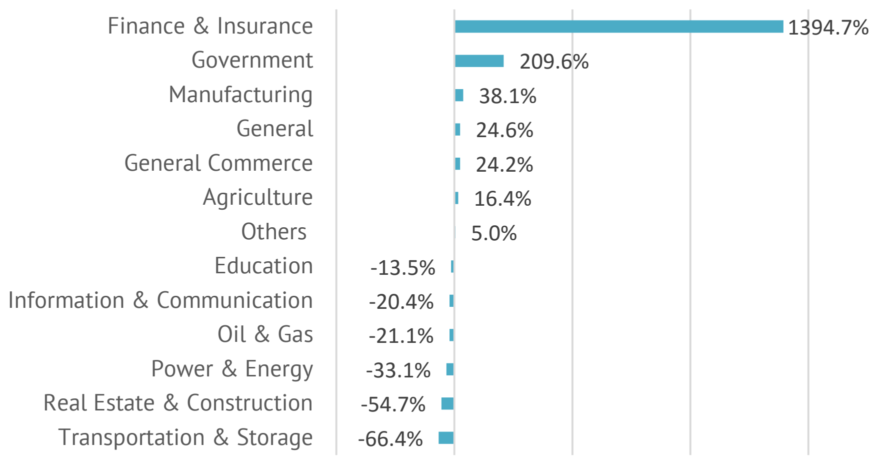


As at 31 December 2018, UBN's loan portfolio stood at ₦473.4 billion, reflecting an 11% decline year on year. Approximately 54.6% (FYE2017: 51.2%) of the loan book was naira denominated while the balance of 45.4%

(FYE2017: 48.8%) was in foreign currency. Most of the Bank's FX exposures are either naturally hedged (obligors have FX receivables) or import finance transactions (Letters of credits) that are valid for FX from the CBN, reducing foreign exchange risk.

The contraction in the loan book was driven by major write offs during the period, as part of the Bank's plan to sterilise the loan book of pending legacy exposures. Consequently, exposures to oil & gas, power & energy and real estate & construction declined by 21.1%, 33.1% and 54.7% respectively. However, additional loans were extended to obligors in the agriculture sector, on the back of government initiated on-lending facilities which use banks as a conduit, even though associated credit risks are borne by the banks. In this regard, UBN partnered with the CBN and NIRSAL to drive the Federal Government's diversification strategy through agriculture. The relatively stable foreign exchange market, backed by improved government FX earnings boosted activities in the general commerce sector which saw a 24.2% growth year on year. UBN also leveraged opportunities in the manufacturing and public sectors to grow its loan portfolio during the period. The 209.6% spike seen in public sector loans was driven by an on-lending facility initiated by CBN specifically for selected fertilizer blending companies. The disbursement by participating banks was to a special purpose vehicle (SPV) created by the Nigerian Sovereign Investment Authority (NSIA) which also guaranteed the facility. UBN therefore categorised this exposure as a public sector loan. Loans to finance/insurance sector grew to ₦3.7 billion from ₦246 million in the prior year, but represented a meagre 1% of the total portfolio. The spike in credits to this sector was on account of two major exposures which were fully secured by cash and shares.

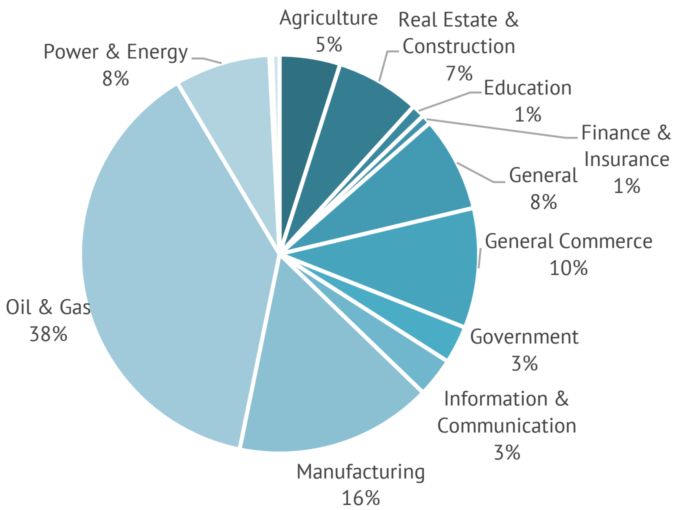
Figure 2: Loan Book Growth by Sector (FYE2018)



As at FYE2018, more than a third (38%) of gross loans & advances was concentrated in the oil & gas sector, which is notably lower than the prior year's 43.1%. Further breakdown of the oil & gas portfolio showed almost half (49.1%) in the upstream subsector, 23.4% in downstream and 27.4% in midstream/services. Although the upstream sector has recorded better cash flows due to stronger crude oil prices, downstream operators remain vulnerable to probable devaluation and market unreflective prices that stifle cash flows. The second largest portfolio by sector was manufacturing which accounted for 16% of gross loans and comprised loans to various industries such as food & beverages, breweries and fast-moving consumer goods (FMCG). UBN also had major exposures to general commerce, power & energy and real estate & construction sectors as at FYE2018. We note our concerns regarding power sector exposures which largely comprised unhedged FX denominated credits, rendering the Bank vulnerable to FX risks, particularly as these obligors have naira receivables. The power sector is plagued with major operational and technical challenges which have impaired performance over the years. As a result, UBN has proactively reduced exposures to the sector, writing off about 40% of total loans to the sector in 2018. Power credits accounted for 8% of gross loans (FY2017: 10.3%) and a marked 19.6% of shareholders' funds as at FYE2018.

Going forward, we expect growth in the Bank's loan book to moderate concentration in the oil & gas sector, albeit gradually given the large volume of loans to the sector.

Figure 3: Loan Book by Sector (FYE2018)



Obligor concentration in UBN's loan book was somewhat high as top 20 obligors accounted for 60.8% of gross loans as at FYE2018. Top 20 loans were dominated by the oil & gas obligors which collectively made up 65% of total top 20 exposures. Our concerns are exacerbated by the fact that a considerable portion of these loans was classified as 'Stage 3' under IFRS 9 showing major impairments with the Bank's top credits. The large volumes of these exposures make recoverability difficult in a remedial situation.

Union Bank uses a credit rating system based on international best practices (including Basel II recommendations) in the measurement of obligor and facility risks. According to the Bank's credit rating model, 36% of gross loans & advances were extended to investment grade names while 64% were to speculative (non-investment) grade obligors as at FYE2018, reflecting the Bank's moderate risk appetite. In managing credit risk, UBN adopts a number of credit risk management strategies including demanding collateral covers of various forms such as real estate, fixed & floating assets, quoted shares and cash. Loan to value ratio (LTV) of 85.4% as at 2018-year end was satisfactory.

During the 2018FY, UBN's non-performing loans declined considerably to ₦38.5 billion (FYE2017: ₦110.7 billion) due to write-offs and some repayments. The Bank wrote-off more than a quarter (or ₦132.6 billion) of the loan book and restructured loans totalling ₦72 billion. Despite these write-offs, new net classifications of about ₦60 billion were made during the year, implying lingering asset quality issues. UBN's NPL ratio improved to 8.1% from 20.8% in 2017, but remained above the regulatory threshold of 5%. When we compute 'Stage 3' loans as a percentage of gross loans, a higher percentage of 26.1% is observed which further exacerbates our concerns. The Bank's management has disclosed that approximately ₦58 billion (or 47%) of the "Stage 3" loans will be re-classified to "Stage 2" or "Stage 1" in the short term based on syndicate-wide classifications of these loans and expected improvement in performance. In our opinion, UBN's loan book requires further sterilisation to forestall an adverse impact on future earnings and capitalisation.

Figure 4: NPL Ratios (FYE2018)

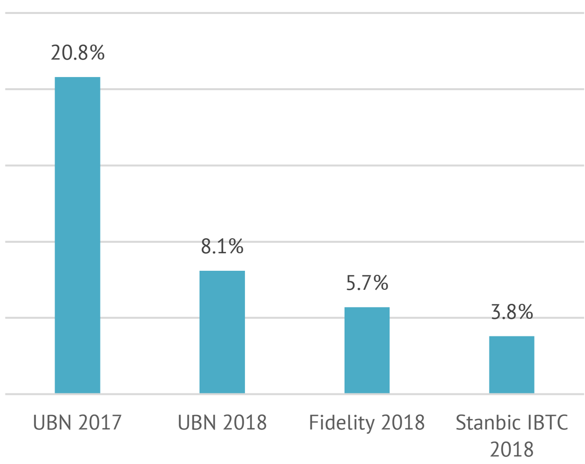
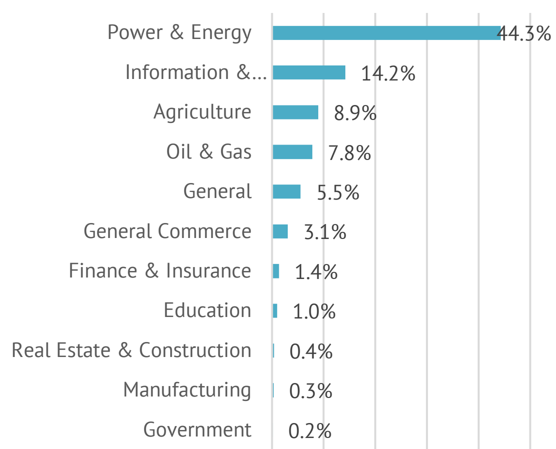


Figure 5: NPL Ratio by Sector[2] (FYE2018)



As at FYE2018, total related party loans stood at ₦36.6 billion (FYE2017: ₦39.3 billion). Approximately 66.3% of these loans were classified as 'Stage 3' exposures as at the same date with the delinquent portion accounting for 12.1% of shareholders' funds.

UBN's coverage ratio strengthened to 117.8% (FYE2017: 39.1%) given additional provisioning as required under IFRS 9. In addition, net impaired loans to equity at negative 3.7%, reflected excess provisions on impaired loans. The Bank used up its regulatory risk reserves to cushion the impact of IFRS 9 on retained reserves as permitted by the Central Bank of Nigeria. When we compute the coverage ratio of 'Stage 3' loans, it declines to 36.8%, which we consider to be low.

In our opinion, Union Bank's asset quality requires further improvement. The year on year improvement seen in the Bank's loan book in 2018 was largely driven by write-offs that had significant impact on capital. Management projects an NPL ratio of 5% by 2020 which we expect to be achievable with loan book growth, material recoveries and loan workouts. The Bank is also aggressive on recoveries. In 2018, a total of about ₦4

[2] *This measures non-performing loans in each sector as a percentage of total loans to the sector*

billion was recovered, which represented a low 3% of total amount written-off. However, the Bank anticipates about ₦14 billion in recoveries for 2019 and has achieved about ₦3 billion as at first quarter 2019. While we view positively the Bank's aggressive recovery stance, we note that a significant percentage of these exposures are large and have political undertones which may stall quick resolutions.

UBN's loan growth guidance for 2019 is 10-12%, targeting manufacturing, education, SME and agriculture sectors. We consider this growth projection to be achievable.

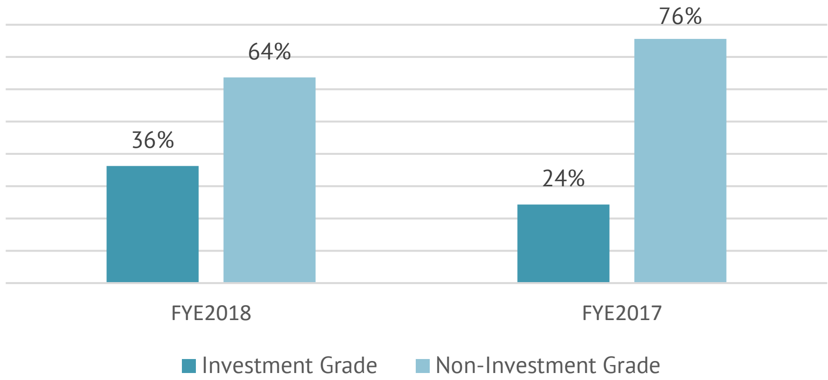
RISK MANAGEMENT

Union Bank of Nigeria Plc adopts a moderate risk appetite to ensure sustainable growth in shareholder value. The Bank operates a centralised risk management function headed by the Chief Risk Officer, who reports to the Managing Director/CEO with a dotted reporting line to the Board of Directors. The risk management team is split into six departments for efficiency. They include: credit risk management, operational risk management, market & liquidity risk management, business support & recovery, compliance and legal.

Credit Risk: Following the implementation of IFRS 9, UBN now uses the expected credit loss (ECL) method in measuring credit risk under the Basel II tenents. IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Impairment charges also apply to certain loan commitments and financial contracts, but not to equity investments. Changes in accounting policies resulting from the implementation of IFRS 9 were applied retrospectively, resulting in an additional impairment charge of about ₦133 billion on the loan book as at the beginning of the financial year.

In assessing credit risk, UBN uses an obligor risk rating (ORR) model for corporate and commercial clients and scorecards for retail risk management. Year on year, asset quality somewhat improved due to huge write offs. Therefore, non-performing loans (NPL) ratio improved to 8.1% from 20.8% in 2017. In addition, investment grade names accounted for a higher 36% of the loan book, compared to 24% in 2017. Nonetheless, the Bank's top 20 loans were predominantly (67%) to non-investments grade obligors.

Figure 6: Loan Book Credit Rating (FYE2017 & FYE2018)



As at 31 December 2018, UBN's exposures were 85% (FY2017: 91.1%) secured by fixed & floating assets as well as real estates, leased assets, cash, quoted shares and other acceptable securities by the Bank, which we consider satisfactory. Given IFRS 9 adoption, additional provisions and improved collateral coverage were recorded on some exposures. Notwithstanding, we believe that the Bank's credit risk management function needs to be adequately monitored with regular reviews of obligor performance in line with the macroeconomic environment and obligor financial condition. This will forestall further credit losses.

Market Risk: UBN's trading and non-trading (banking) books are impacted by changes in interest rates and exchange rates which expose it to pricing and currency risks. The Bank uses the Basel II standardized approach for market risk capital estimation. Internal models used for computing market risks include Value at Risk (VAR), Economic Value of Equity (EVE), Sensitivity Analysis and Price Value per basis point. Furthermore, the Bank's market risk portfolio is sensitised monthly for significant adverse movements in market risk factors. During the year under review, the Calypso Treasury Management System was implemented and plans are underway to introduce the ALM Module by end of April 2019.

Operational Risk: The Basic Indicator Approach (BIA) is adopted in measuring UBN's operational risk. Some tools used in managing operational risks include risk and control self-assessment, key risk indicators, loss data collection and business continuity & disaster recovery management, amongst others. Given the Bank's digital drive, the risk of attacks on its e-banking platforms is increased. This is evidenced in over ₦9 million lost by the Bank due to technology over the last two years. Though there has not been any attempted cyber fraud, we recognise that this is a rising Industry concern which needs to be addressed.

We note negatively increasing contraventions by the Bank year on year, with penalties of ₦27.95 million paid in 2018 (FY2017: ₦10.03 million) for regulatory infractions ranging from late submission of accounts to more specific contraventions involving corporate governance, foreign currency and staff related issues. While the Bank is engaging the regulators more frequently to improve clarity on regulatory requirements, it is also tightening its compliance function in terms of processing and automation to reduce to the barest minimum, frequency of infractions.

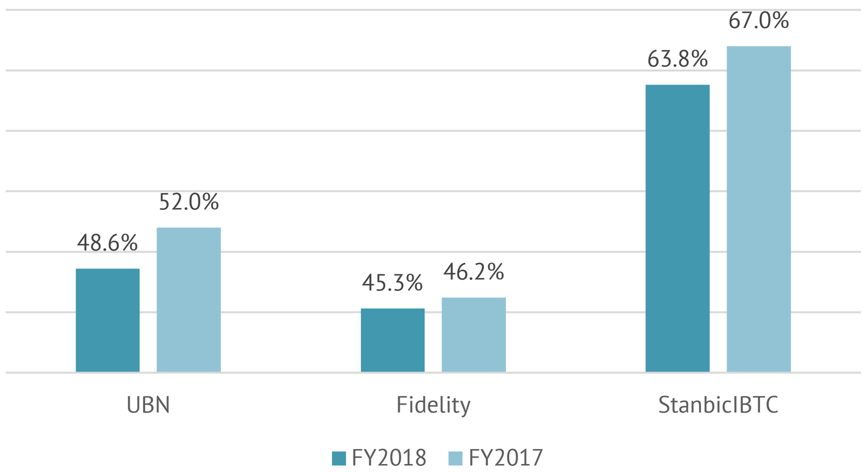
Overall, we believe UBN's risk management framework is adequate for its current business risks. Notwithstanding, periodic fortification is imperative across all segments of risk management to forestall losses in the future.

EARNINGS

In 2018, UBN's gross earnings declined by 11.1% to ₦140.1 billion, largely on account of a reduced earning asset base and lower yields on investments. With a 11% drop in the loan book and about 700 basis points decline in average yields on 364-day treasury bills, UBN's interest income shrunk to ₦104.8 billion (FY2017: ₦119.9 billion). The adoption of IFRS 9 also impacted interest income in 2018 as expected income from impaired loans (Stage 3) was excluded. Given lower interest rates and a better deposit mix during the year, UBN's interest expense moderated to ₦53.9 billion from ₦57.6 billion in the preceding year. Notwithstanding, Net Interest Spread[3] (NIS) weakened to 48.6% and was below the Industry's estimated average of 65.4% in the same period. UBN's NIS compared favourably with one of its peers- Fidelity Bank Plc at 45.3%, but was lower than Stanbic IBTC Bank's 63.8%.

Going forward, we expect CBN's disposition towards lowering interest rates to keep the Industry's funding costs moderated, although UBN's proposed bond issuance would increase funding costs slightly. Typically, a cut in the Monetary Policy Rate (MPR) as seen in March 2019 translates to stronger margins for banks as interest rates on deposits are repriced faster than interest rates charged on loans & advances. In addition, we believe that UBN's loan concentration in the corporate segment with less risks and corresponding lower returns may moderate NIS considering its relatively higher cost of funding compared to the Tier 1 banks.

Figure 7: Net Interest Spread (NIS)



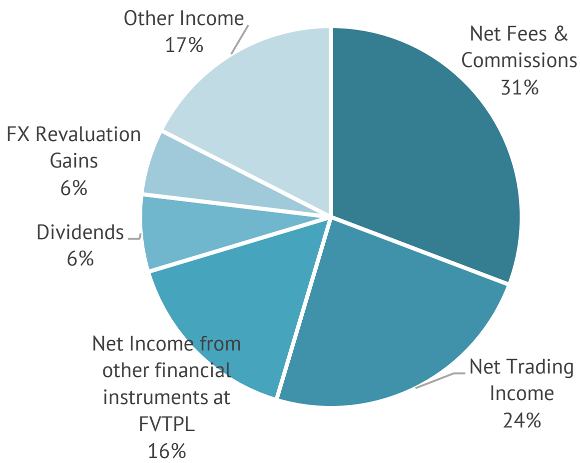
In 2018, UBN recorded a write back of ₦3.9 billion in 2018 vis a vis a loan loss expense of ₦25.5 billion in 2017. This contributed to higher net revenue from funds of ₦54.8 billion (FY2017: ₦36.8 billion).

Supporting the Bank's earnings during the period was non-interest income from auxiliary activities including electronic banking services, currency & securities trading, account maintenance, commission on letters of credit (LCs) and invisible trades & guarantees which collectively amounted to ₦35.3 billion. Year on year, non-interest income declined by 6.4%. Although most non-interest income lines improved in 2018, the non-recurrence of income totalling ₦6.8 billion in 2017 (recorded as "liabilities no longer required" representing legacy credit balances in the Bank's general ledger), dampened year on year comparison. Backing out this one-off income in 2017, UBN's non-interest income grew by about 14.2% y/y driven by income from financial instruments at FVTPL, fees & commissions on e-banking platforms as well as dividend on investments. Non-interest income as a percentage of total assets & contingents at 2.4% was satisfactory (Fidelity: 1.5%: Stanbic

[3] *Net Interest Spread is net interest income expressed as a percentage of interest income*

IBTC: 3.2%). In our opinion, UBN's auxiliary income is sustainable, with potentials for further growth given its headway in digitalisation which drives income from the usage of e-banking platforms.

Figure 8: Breakdown of Non-Interest Income (FYE2018)

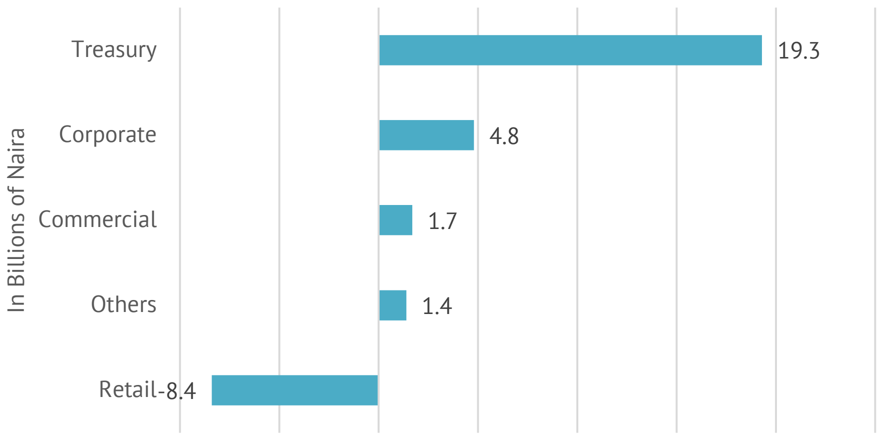


In the financial year ended 31 December 2018, UBN's operating expenses (OPEX) grew by 13.5%, above the closing inflation rate of 11.4% to ₦71.4 billion. Growth was notably driven by a rise in staff cost, regulatory charges (NDIC premiums and AMCON charges) and the impact of devaluation on FX based technology expenses. During the year, adjustments were made from entry to mid-level renumeration to reflect Industry standards. Repair & maintenance costs also rose due to branch revamping exercises. Furthermore, investments in technology in the last few years resulted in higher depreciation and amortization costs. Notwithstanding, operating expenses as a percentage of net earnings (less loan loss expense) improved to 79.3% from 84.5% in 2017 due to better earnings but remained higher than its industry peers - Fidelity (74.2%) and Stanbic IBTC (60%). Operational efficiency ratio, measured by OPEX to average total assets at 4.9% was worse than 2017's position of 4.3% and compared less favourably with Fidelity's 3.4% and Stanbic IBTC's 4.5%.

Subsequent to year end 2018, UBN introduced Project LEAP (Long term Efficiency Acceleration Programme), a cost management initiative aimed at imbibing a cost efficiency culture within the Bank. The project commenced in February 2019 and should run for a year. We expect UBN's cost to income ratio (CIR) to maintain its downward trend as earnings rise and cost is contained.

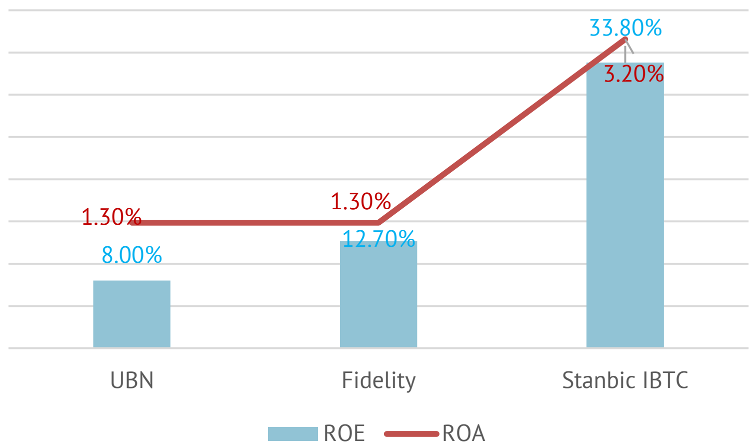
Overall, Union Bank's profitability strengthened year on year with a profit before tax (PBT) of ₦18.7 billion (FY2017: ₦11.6 billion). The largest contributor to profits was treasury with a PBT of ₦19.3 billion, followed at a distance by corporate segment with ₦4.8 billion. The retail segment maintained a loss position of ₦8.4 billion. While the retail segment recorded high operating expenses, additional costs arising from the cash reserve requirement (CRR) incremental regime (that was previously borne centrally) were also allocated to the segment. Given that the retail segment is a major source of deposits generation, its performance was significantly moderated by the CRR charge, though the fund transfer pricing model supported its earnings base in the review year. We believe that the retail segment's profitability will continue to be constrained by these factors, particularly the CRR incremental deposits as long as the CBN pursues its liquidity mopping stance. However, this should be moderated overtime with branch optimisation and leveraging digitalisation to drive down costs. Furthermore, as UBN extends more loans to retail (and SME) customers and improves product per customer, income should improve and strengthen profitability.

Figure 9: Pre-tax Profit by Business Segment (FY2018)



Profitability ratios, pre-tax return on average assets (ROA) and pre-tax return on average equity (ROE) improved to 1.3% (FY2017: 0.8%) and 8.0% (FY2017: 4.6%) respectively. However, these ratios were lower than UBN's industry peers, Fidelity (ROA: 1.3%, ROE: 12.7%) and Stanbic IBTC (ROA: 3.2%, ROE: 33.8%). We consider Union Bank's profitability ratios to be subpar compared to its industry peers. Although profitability has improved year on year, we believe that the Bank has capacity for higher returns considering its size and age. Going forward, we expect the Bank's profits to be upheld by a larger loan book, favourable yields on investments and moderated operating costs.

Figure 10: Profitability Ratios (FY2018)



CAPITAL ADEQUACY

Union Bank's core capital was adversely impacted by the implementation of IFRS 9 during the year. Core capital (Tier 1 capital) declined by 33.4% to ₦186.8 billion as at 31 December 2018, funding 12.6% of total assets & contingents. Adjustments on initial application of IFRS 9 resulted in a charge of circa ₦133 billion which reduced fair value reserves by 52% and regulatory risk reserves to a nil position while widening the retained deficit by about 197.3%. However, the Bank's core capital accounted for 93.6% of total adjusted capital, comfortably above the regulatory threshold of 75%.

As at 31 December 2018, UBN's Tier II capital comprised fair value reserves of ₦13.3 billion, down from ₦38.9 billion in the prior year.

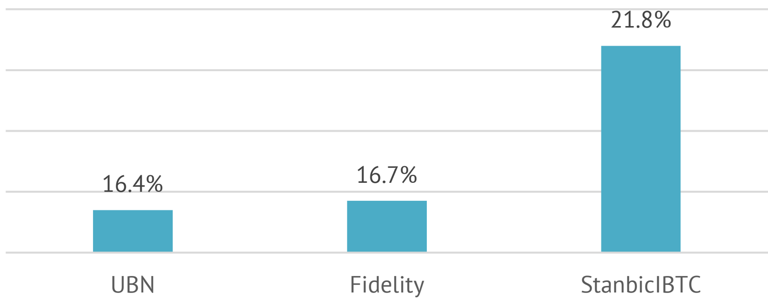
Basel II computed capital adequacy ratio (CAR) using the IFRS 9 transitional arrangement prescribed by the Central Bank of Nigeria (CBN) stood at 16.4% as at 31 December 2018 (FYE2017: 17.8%), above the minimum regulatory threshold of 15%. Applying the full impact of IFRS 9 on its capital base, UBN's CAR declined to 11.5% in 2018. Union Bank's CAR at 16.4% was lower than its peers, Fidelity Bank Plc (16.7%) and Stanbic IBTC Bank (21.8%).

Table 4: CAR and Impact of IFRS 9 (Peer Comparison)

	IFRS 9 Transitional Arrangement Impact as at FYE2018	IFRS 9 Full Impact as at FYE2018	CAR as at FYE2017
Union Bank of Nigeria Plc	16.4%	11.5%	17.8%
Fidelity Bank Plc	16.7%	16.7%	16.0%
Stanbic IBTC Bank	21.8%	21.0%	20.5%

We consider UBN's capitalisation to be just adequate for its risk profile. However, additional capital will be required for growth in the near term as well as to accommodate regulatory tightening on capital requirements, particularly with the proposed introduction of Basel III. The Bank's large foreign currency portfolio also increases susceptibility to weaker capital adequacy ratios in the event of a devaluation of the domestic currency. Proceeds from proposed Series 3 bond issuance will qualify as Tier 2 and should strengthen CAR by about 300 basis points in 2019. The successful rights issue in 2017, reflects good shareholders' support which provides some level of comfort.

Figure 11: CAR Peer Comparison (FYE2018)



LIQUIDITY AND LIABILITY GENERATION

Union Bank of Nigeria Plc is one of the oldest and well-known brands in Nigeria, having been in operations for over a century. Overtime, the Bank has built a strong branch network comprising 260 branches, 27 cash management centres, 16 cash points and six smart branches. In the last two years, UBN revamped several branches to become more digitally inclined as a strategy to win new customers. In addition, a number of unprofitable branches were shut down and additional branches are in the process of being closed subsequent to CBN's approval. Alternatively, electronic banking platforms have increased with a total of 1,032 automated teller machines (ATM) and 9,600 POS terminals deployed across the country as at FYE2018. Through its branch network and electronic banking platforms, UBN generates deposits from retail, commercial and corporate clients across various economic sectors.

As at FYE2018, UBN's deposit base (excluding interbank takings) stood at ₦844.4 billion and reflected a 6% growth year on year. The retail segment accounted for more than half (53%) of deposits generated by the Bank, reflecting its strong affinity to the Nigerian banking populace. Corporate and commercial segments followed respectively, accounting for 26% and 21% of customer deposits respectively as at 31 December 2018. Particularly, the commercial segment accounted for a considerable portion of deposit growth during the year, with a marked 29% increase year on year. Given the growth in retail deposits particularly savings deposits, concentration reduced as top 20 depositors accounted for 23.8% of total deposits as at FYE2018, down from 30.5% in the prior year.

Figure 12: Deposits by Source (FYE2018)

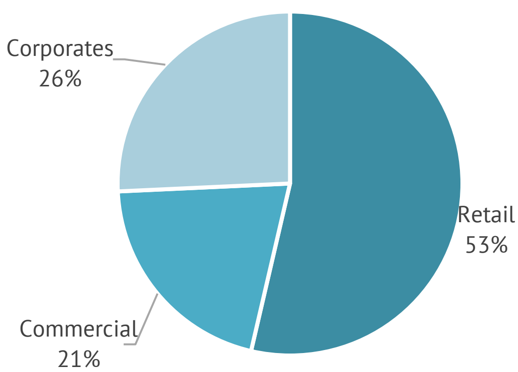
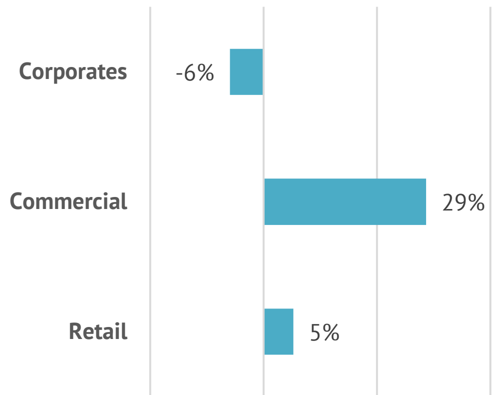


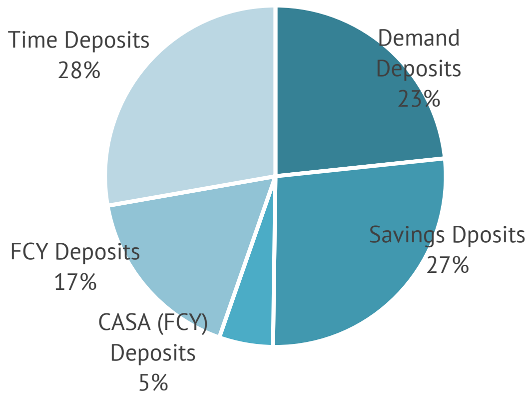
Figure 13: Deposits Growth by Source (FYE2018)



An analysis of UBN's local currency deposits by type showed a better deposit mix with low cost current and savings accounts (CASA) accounting for 64.5% of local currency (LCY) deposits, up from 61.4% in 2017. Although demand deposits declined by 15% y/y due to major withdrawals towards the end of the review year, savings deposits rose by 21.2% as a result of the Bank's strategic thrust to drive retail deposits. Worthy of note was the 67.4% spike in foreign currency (FCY) deposits to ₦183.6 billion, improving the Bank's FCY deposits to loans ratio to 85.4% from 42.3% in 2017. When we factor in FCY borrowings, this percentage increased to

112.9%, adequately funding FCY loans. The notable growth recorded in FCY deposits was driven by intensified focus on FCY liability generation since 2016. We believe that growth was also bolstered by hedging activities by depositors who anticipate a devaluation in the near term. In addition, UBN has introduced investment type FCY products with attractive interest rates to further grow the FCY deposit base.

Figure 14: Deposits by Type (FYE2018)



In addition, funding the Bank's operations in 2018 were medium and long-term borrowings from local and international institutions which amounted to about ₦95 billion as at FYE2018. These borrowings included facilities from the Central Bank of Nigeria and the Bank of Industry (BOI) for on lending to obligors in the agriculture and manufacturing sectors. These facilities are granted at single digit interest rates and are aimed at developing these sectors. However, associated credit risks are borne by the Bank which pledges FGN securities as a form of collateral. Foreign currency denominated facilities obtained from financial institutions such as AFREXIM, Access Bank UK, among others declined by 25.2% year on year as the Bank had remarkably grown its FCY deposits. In 2018, UBN issued 3-year Series 1 and 7-year Series 2 debt securities through its ₦100 billion Debt Issuance Programme in August 2018. The bonds were 165% oversubscribed, though the Bank absorbed about ₦13.9 billion.

On account of an improved deposit mix, UBN's weighted average cost of funds moderated to 5.7% in 2018, compared to 7.1% recorded in the prior year. This position was also supported by a relatively lower interest rate regime that prevailed during the year as government borrowed less from the domestic market. As the Bank's alternative channels gain more traction, we expect its WACF to further reduce. However, anticipated debt issuance will pressure funding cost in the short term by about 30 basis points.

UBN's liquidity profile strengthened year on year with liquid assets accounting for 54.1% of total LCY deposits, above the regulatory minimum of 30%. The Bank's liquidity profile was upheld by a considerable investment in money market securities during the year.

As at FYE2018, UBN's loan and deposits maturity profile were well matched with no funding gaps. Although the Bank had no interbank takings as at 2018-year end, we observed that it was a net-taker during the year as reflected in a 216.9% spike in interest expense paid on interbank takings which accounted for 19.1% of total interest expense. Although the Bank disclosed that this was a strategy to grow fixed income trading revenue, we consider 19.1% to be quite high.

In our opinion, Union Bank of Nigeria Plc has a good liquidity profile and its ability to refinance is good upheld by its age and domestic brand.

OWNERSHIP, MANAGEMENT & STAFF

Union Bank of Nigeria Plc is listed on the Nigerian Stock Exchange (NSE) with total shares of circa 29.1 billion held by 456,268 individuals and institutions. As at 31 December 2018, approximately 90.37% of the Bank's equity was held by foreign investors. According to the register of members, no shareholder, other than the under-listed held more than 5% of the Bank's issued share capital as at FYE2018.

Table 5: Major Shareholders as at 31 December 2018

Shareholders	Shareholding ('000)	% Holding
Atlas Mara Limited	7,299,054,484	25.06%
Union Global Partners Limited	19,017,923,071	65.31%
Total	**26,316,977,555**	**90.37%**

Atlas Mara Limited is an Africa focused financial services holding company, founded in November 2013 by the former Group Chief Executive Officer of Barclays Plc, Bob Diamond. Atlas Mara has an asset base of over $2.5 billion with operations in seven African countries namely Botswana, Zimbabwe, Zambia, Tanzania, Mozambique, Rwanda and Nigeria. Mrs. Beatrice Hamza Bassey represents Atlas Mara on the Board of Union Bank of Nigeria Plc.

Union Global Partners Limited is a consortium of local and foreign investors including Africa Capital Alliance, African Development Corporation (owned by Atlas Mara), Corsair Investments, FMO, PPF Holdings II Limited and Standard Chartered Private Equity.

Union Bank is governed by a 14-member Board of Directors, chaired by Mr. Cyril Odu, who has 45 years of professional experience across managerial and directorial levels of which includes a 40-year career in ExxonMobil where he rose to Vice Chairman of the Board of Mobil Producing Nigeria. The Board comprises nine Non-Executive Directors (two of whom are Independent) and five Executive Directors. Mr. Emeka Emuwa oversees the management of the Bank as the Group Managing Director/Chief Executive Officer and is supported by 42 management staff. During the 2018 financial year, Mrs. Oyinkansade Adewale, an Executive Director retired from the Board effective 30 September 2018.

In 2018, UBN employed an average of 2,593 persons, down from 2,651 employees in the prior year. Management staff accounted for 1.5% of staff strength while non-management staff made up the balance of

98.5%. During the year, adjustments were made on entry level to mid-level staff renumeration to align with Industry standards and attract the desired staff profile. As a result, staff cost rose by 17.3% year on year to approximately ₦32.3 billion despite the decline in staff numbers. Staff productivity, depicted by net earnings per staff increased by 23.6% to ₦34.7 million and covered staff cost per employee 2.8 times (FY2017: 2.7 times), lower than our expectation of above 3 times and the Industry's average of 4.7 times. Compared to the Bank's industry peers, (Fidelity: 4.1 times, Stanbic IBTC: 4.1 times), UBN's productivity is low.

We consider Union Bank's management team to be experienced and stable with a good succession plan particularly at the senior management level. However, staff productivity indicators remain low compared to its peers. As the Bank leverages investments made in the last few years to improve performance, we expect to see better staff productivity in the near term.

MARKET SHARE

Union Bank is the ninth largest bank in Nigeria by total assets and contingents. In 2015, the Bank embarked on a transformation journey which saw an upgrade in its branches and electronic channels, making transactions efficient and easier. While these initiatives are positively impacting on the perception of the Bank, legacy challenges in the loan book have strained profitability and ultimately capital, restricting growth in business and reducing market share over the years.

During the 2018 financial year, UBN lost market share across a number of financial indicators due to internal clean up of its loan book as well as the impact of IFRS 9 adoption on capital. According to Agusto & Co estimates for 2018, UBN held about 3.68% of the Industry's total assets & contingents, down from 4.15% in 2017. The Bank's share of the Industry's local currency deposits (excluding interbank takings) stood at 4.1% compared to 4.71% in the preceding year. UBN also held 2.96% of the Industry's net loans, a decline from 3.69% the prior year while pre-tax profits market share improved to 1.72% from 1.62% in 2017.

Table 6: Key Market Share Indicators- Peer Comparisons

Market Share Indicators	UBN (2017)	UBN (2018)	Fidelity (2018)	Stanbic (2018)
Total Assets & Contingents	4.15%	3.68%	5.32%	4.33%
Local Currency Deposits	4.71%	4.10%	4.91%	3.37%
Total Loans & Leases (net)	3.69%	2.96%	5.87%	3.04%
Net Earnings	3.55%	3.30%	3.56%	4.76%
Profit Before Tax (PBT)	1.62%	1.72%	2.31%	4.79%

Specifically, UBN's market share of savings and domiciliary deposits increased to 5.6% (FYE2017: 5%) and 4.1% (FYE2017: 2.7%) in 2018 which we view positively. Growth in these indicators was driven by new products targeted at improving and sustaining low-cost deposits, particularly FCY deposits. We believe that the outcome of many of these initiatives will reflect considerably over the medium to long term. In addition, we are of the opinion that the sustenance of a healthy loan portfolio is imperative in strengthening the Bank's market share in the near term.

OUTLOOK

Union Bank of Nigeria Plc is in the process of achieving its ambitions of becoming one of Nigeria's trusted banking partner and a leader in the retail and transactional banking space. Recent brand transformation initiatives involving its people, processes and technology have improved the overall perception of the Bank. UBN has also substantially sterilised its loan portfolio, writing off over ₦132 billion of delinquent loans in 2018. This clean-up was done concurrently with the IFRS 9 implementation which further worsened the effect on capital. However, the Bank's shareholders have been supportive as evidenced in a successful, 120% oversubscribed rights issue in 2017 and UBN continues to exhibit good domestic franchise having recorded a 165% subscription of its debut bond issuance in 2018.

Over the next three years (2019-2022), UBN's priorities would be:

- Customer acquisition and penetration through the channels and products
- Portfolio diversification, with a projected 10-12% growth in the loan book, targeting sectors such as manufacturing, agriculture, education and other sectors within its universe
- Emerging segments such as technology firms, SMEs and gender-based businesses
- Cost Optimisation using the LEAP (Long Term Efficiency Acceleration Programme)
- Value Chain synergies to capture more value from the ecosystem
- Digitalisation to drive productivity and operational efficiency

Going forward, we believe that the success of the Bank will be hinged on the sustenance of asset quality, following the restructuring done in 2018. This will ensure stability of predictable income and preservation of the Bank's capital base. With increased focus on building digital competencies Industry wide, UBN will need to differentiate itself by offering reliable services across its electronic banking platforms.

Based on our expectations that UBN's capital ratios will remain at acceptable levels, while liquidity and ability to refinance will remain good; we hereby attach a '**stable**' outlook to the rating of Union Bank of Nigeria Plc.

FINANCIAL SUMMARY

	UNION BANK OF NIGERIA PLC						
	BALANCE SHEET AS AT	**31-Dec-18**		**31-Dec-17**		**31-Dec-16**	
		N'000		**N'000**		**N'000**	
	ASSETS						
1	Cash & equivalents	108,913,000	7.3%	89,957,000	6.2%	28,334,000	2.0%
2	Government securities	196,290,000	13.2%	218,262,000	15.0%	188,385,000	13.0%
3	Stabilisation securities	50,115,000	3.4%	47,540,000	3.3%	7,443,000	0.5%
4	Quoted investments	2,195,000	0.1%	2,195,000	0.2%	2,195,000	0.2%
5	Placements with discount houses						
6	LIQUID ASSETS	357,513,000	24.1%	357,954,000	24.6%	226,357,000	15.7%
7	BALANCES WITH NIGERIAN BANKS			83,000	0.0%		
8	BALANCES WITH BANKS OUTSIDE NIGERIA						
9	Direct loans and advances - Gross	473,396,000	31.9%	531,807,000	36.5%	518,349,000	35.9%
10	Less: Cumulative loan loss provision	(45,359,000)	-3.1%	(43,252,000)	-3.0%	(28,459,000)	-2.0%
11	Direct loans & advances - net	428,037,000	28.8%	488,555,000	33.6%	489,890,000	33.9%
12	Advances under finance leases - net						
13	TOTAL LOANS & LEASES - NET	428,037,000	28.8%	488,555,000	33.6%	489,890,000	33.9%
14	INTEREST RECEIVABLE						
15	OTHER ASSETS	44,774,000	3.0%	40,090,000	2.8%	46,883,000	3.2%
16	DEFERRED LOSSES	95,875,000	6.5%	95,875,000	6.6%	95,875,000	6.6%
17	RESTRICTED FUNDS	281,868,000	19.0%	251,293,000	17.3%	154,954,000	10.7%
18	UNCONSOLIDATED SUBSIDIARIES & ASSOCIATES	10,567,000	0.7%	10,567,000	0.7%	10,892,000	0.8%
19	OTHER LONG-TERM INVESTMENTS	40,205,000	2.7%	30,754,000	2.1%	43,206,000	3.0%
20	FIXED ASSETS & INTANGIBLES	65,458,000	4.4%	59,750,000	4.1%	55,426,000	3.8%
21	**TOTAL ASSETS**	**1,324,297,000**	**89.1%**	**1,334,921,000**	**91.7%**	**1,123,483,000**	**77.8%**
22	TOTAL CONTINGENT ASSETS	161,936,000	10.9%	120,119,000	8.3%	320,150,000	22.2%
23	**TOTAL ASSETS & CONTINGENTS**	**1,486,233,000**	**100.0%**	**1,455,040,000**	**100%**	**1,443,633,000**	**100%**
	CAPITAL & LIABILITIES						
24	TIER 1 CAPITAL (CORE CAPITAL)	186,752,000	12.6%	280,254,000	19.3%	217,760,000	15.1%
25	TIER 2 CAPITAL	13,335,000	0.9%	38,865,000	2.7%	33,579,000	2.3%
26	Medium to Long Term Borrowings	108,835,000	7.3%	95,736,000	6.6%	91,812,000	6.4%
27	Demand deposits	199,284,000	13.4%	234,336,000	16.1%	174,744,000	12.1%
28	Savings deposits	227,124,000	15.3%	187,406,000	12.9%	169,597,000	11.7%
29	Time deposits	234,384,000	15.8%	265,274,000	18.2%	224,581,000	15.6%
30	Inter-bank takings			10,686,000	0.7%	4,351,000	0.3%
31	TOTAL DEPOSIT LIABILITIES - LCY	660,792,000	44.5%	697,702,000	48.0%	573,273,000	39.7%
32	Customers' foreign currency balances	183,621,000	12.4%	109,692,000	7.5%	64,905,000	4.5%
33	TOTAL DEPOSIT LIABILITIES	953,248,000	64.1%	903,130,000	62.1%	729,990,000	50.6%
34	INTEREST PAYABLE						
35	OTHER LIABILITIES	170,962,000	11.5%	112,672,000	7.7%	142,154,000	9.8%
36	**TOTAL CAPITAL & LIABILITIES**	**1,324,297,000**	**89.1%**	**1,334,921,000**	**91.7%**	**1,123,483,000**	**77.8%**
37	TOTAL CONTINGENT LIABILITIES	161,936,000	10.9%	120,119,000	8.3%	320,150,000	22.2%
38	**TOTAL CAPITAL, LIABILITIES & CONTINGENTS**	**1,486,233,000**	**100.0%**	**1,455,040,000**	**100%**	**1,443,633,000**	**100%**
	Proof						
	BREAKDOWN OF CONTINGENTS						
39	Acceptances & direct credit substitutes	89,515,000	6.0%	64,321,000	4.4%	155,888,000	10.8%
40	Guarantees, bonds etc..	72,421,000	4.9%	55,798,000	3.8%	62,309,000	4.3%
41	Short-term self liquidating contingencies					101,953,000	7.1%

UNION BANK OF NIGERIA PLC

	INCOME STATEMENT FOR THE YEAR ENDED	31-Dec-18 N'000		31-Dec-17 N'000		31-Dec-16 N'000	
42	Interest income	104,792,000	74.8%	119,875,000	76.1%	104,792,000	77.7%
43	Interest expense	(53,867,000)	-38.5%	(57,554,000)	-36.5%	(53,867,000)	-39.9%
44	Loan loss expense	3,897,000	2.8%	(25,478,001)	-16.2%	3,897,000	2.9%
45	NET REVENUE FROM FUNDS	54,822,000	39.1%	36,842,999	23.4%	54,822,000	40.6%
46	ALL OTHER INCOME	35,274,000	25.2%	37,692,000	23.9%	30,106,000	22.3%
47	**NET EARNINGS**	**90,096,000**	**64.3%**	**74,534,999**	**47.3%**	**84,928,000**	**63.0%**
48	Staff costs	(32,324,000)	-23.1%	(27,545,000)	-17.5%	(29,628,000)	-22.0%
49	Depreciation expense	(6,699,000)	-4.8%	(6,699,000)	-4.3%	(29,628,000)	-22.0%
50	Other operating expenses	(32,413,000)	-23.1%	(29,635,000)	-18.8%	(29,628,000)	-22.0%
51	TOTAL OPERATING EXPENSES	(71,436,000)	-51.0%	(63,879,000)	-40.5%	(88,884,000)	-65.9%
52	PROFIT (LOSS) BEFORE TAXATION	18,660,000	13.3%	10,655,999	6.8%	(3,956,000)	-2.9%
53	TAX (EXPENSE) BENEFIT	(222,000)	-0.2%	(337,000)	-0.2%	(168,000)	-0.1%
54	**PROFIT (LOSS) AFTER TAXATION**	**18,438,000**	**13.2%**	**10,318,999**	**6.5%**	**(4,124,000)**	**-3.1%**
55	NON-OPERATING INCOME (EXPENSE) - NET					2,839,000	2.1%
56	PROPOSED DIVIDEND						
57	**GROSS EARNINGS**	**140,066,000**	**100.0%**	**157,567,000**	**100%**	**134,898,000**	**100%**
58	AUDITORS	KPMG		KPMG		KPMG	
59	OPINION	CLEAN		CLEAN		CLEAN	

	KEY RATIOS	31-Dec-18	31-Dec-17	31-Dec-16
	EARNINGS			
60	Net interest margin	48.6%	52.0%	64.4%
61	Loan loss expense/Interest income		21.3%	18.3%
62	Return on average assets (Pre - tax)	1.3%	0.8%	1.2%
63	Return on average equity (Pre - tax)	8.0%	4.6%	7.7%
64	Operating Expenses/Net earnings	79.3%	84.5%	78.5%
65	Gross earnings/Total assets & contingents	9.5%	10.9%	9.9%
	EARNINGS MIX			
66	Net revenue from funds	60.8%	49.4%	59.8%
67	All other income	39.2%	50.6%	40.2%
	LIQUIDITY			
68	Total loans & leases - net/Total lcy deposits	52.1%	38.8%	60.7%
69	Liquid assets/Total lcy deposits	54.1%	50.6%	39.0%
70	Demand deposits/Total lcy deposits	30.2%	33.6%	30.5%
71	Savings deposits/Total lcy deposits	34.4%	26.9%	29.6%
72	Time deposits/Total lcy deposits	35.5%	38.0%	39.2%
73	Inter-bank borrowings/Total lcy deposits		1.5%	0.8%
74	Interest expense - banks/Interest expense	19.1%	5.6%	0.3%
75	**NET FOREIGN CURRENCY ASSETS (LIABILITIES)**	(183,621,000)	(109,692,000)	(64,905,000)

UNION BANK OF NIGERIA PLC

	KEY RATIOS CONT'D	31-Dec-18	31-Dec-17	31-Dec-16
	ASSET QUALITY			
76	Performing loans (N'000)	434,900,000	421,121,957	481,323,000
77	Non-performing loans (N'000)	38,496,000	110,685,043	37,026,000
78	Non-performing loans/Total loans - Gross	8.13%	20.8%	7.1%
79	Loan loss provision/Total loans - Gross	9.58%	0	5.5%
80	Loan loss provision/Non-performing loans	117.83%	39.1%	76.9%
81	Risk-weighted assets/Total assets & contingents	42.91%	45.4%	54.0%
	CAPITAL ADEQUACY			
82	Adjusted capital/risk weighted assets	13.8%	31.6%	18.2%
83	Tier 1 capital/Adjusted capital	97%	32%	18.2%
84	Adjusted capital/Total loans - net	21%	43%	29%
85	Capital unimpaired by losses (N'000)	90,877,000	184,379,000	121,885,000
	CAPITAL ADEQUACY STRESS TEST			
86	Total shareholders' funds (N'000)	88,017,000	208,728,000	141,713,000
87	Cumulative loan loss provision (actual reserves)	45,359,000	43,252,000	28,459,000
88	Equity before all provision (line 293 + line 294)	133,376,000	251,980,000	170,172,000
89	Required reserves*	94,753,600	162,655,859	105,008,920
90	Equity after required reserves (line 295 - line 296)	38,622,400	89,324,141	65,163,080
91	Equity after required reserves/risk weighted assets	6.1%	13.5%	8.4%
	STAFF INFORMATION			
92	Net earnings per staff (N'000)	34,746	28,116	27,679
93	Staff cost per employee (N'000)	12466	10,390	10,961
94	Staff costs/Operating expenses	45.2%	43.8%	50.4%
95	Average number of employees	2,593	2,651	2,703
96	Average staff per branch	8	8	8
	OTHER KEY INFORMATION			
97	Legal lending limit(N'000)	18,175,400	36,875,800	24,377,000
98	Other unamortised losses(N'000)	NONE	NONE	NONE
99	Unreconciled inter-branch items (N'000) DR/(CR)			
100	Number of branches	309	309	345
101	Age (in years)	102	101	100
102	Government stake in equity (Indirect)			

	MARKET SHARE OF INDUSTRY TOTAL	Estimates	Actual	Actual
		2018	2017	2016
103	Lcy deposits (excluding interbank takings)	4.1%	4.7%	3.9%
104	Total assets & contingents	3.7%	4.2%	4.5%
105	Total loans & leases - net	3.0%	3.7%	3.6%
106	Net earnings	3.3%	3.5%	4.0%
107	Profit before tax	1.7%	1.6%	2.5%
108	Core capital	3.9%	6.4%	5.5%

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.

Rating Category Modifiers

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.

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