



# Investor Presentation

## 2018 performance

# Vision

## *Vision:*

*“Our Vision is to be the innovator of Banking Solutions to the wider Corporate, SME and Retail Segments and to be their Bank of choice, through professional and empowered people”.*

## *Mission:*

- *To our customers we provide the means of economic up liftment through customized banking and financial services.*
- *To our shareholders we provide a return on their investment above industry norm.*
- *To our staff we are a learning and innovative organization providing opportunities for faster career progression within a pleasant work environment.*
- *We adhere to the practice of good Corporate Governance in the eyes of the regulatory authorities.*
- *We are conscious of the need to be a responsible corporate citizen for the betterment of our society.*



## CEO's message



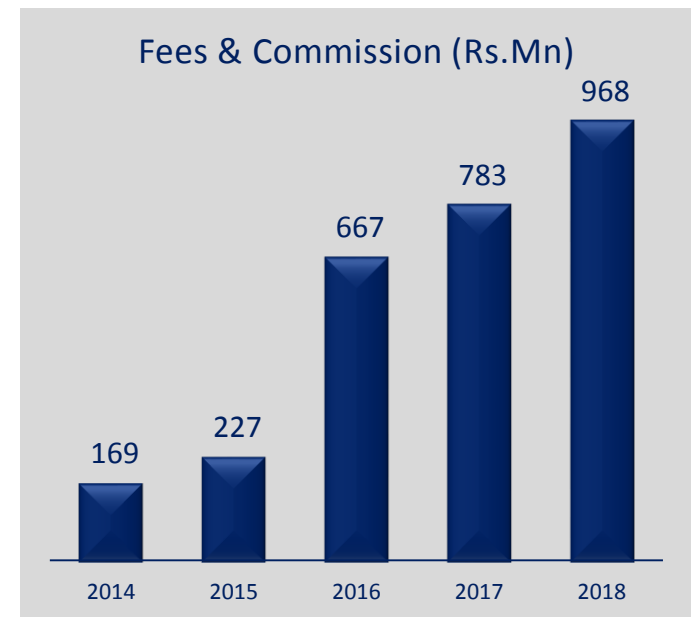
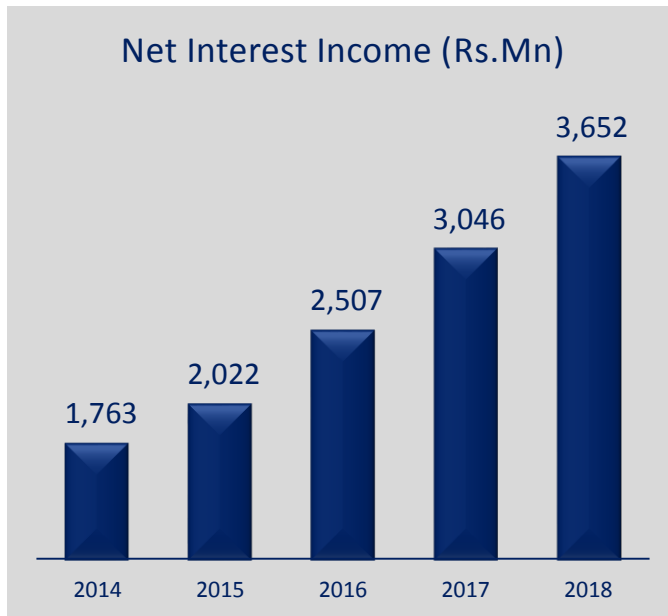
*“2018 was a year that placed heavy demands on the banking industry which faced multiple headwinds in the economic and political spheres. With a cohesive strategic realignment, Union Bank remained resilient and showcased impressive progress and financial performance with outstanding growth in its core banking operations. Our aim is to further strengthen our position as one of Sri Lanka’s fastest growing Banks and become the preferred Retail/ SME and transactional Bank by 2021, a virtue that will be built on trust and partnerships. We will build on this growth and carry the momentum during the year 2019, with focused commitment on meeting the strategic growth objectives of the 2<sup>nd</sup> year of our three-year strategic growth plan.”*

## Bank's profit before all taxes Rs.1,248Mn

Income Statement (Rs.Mn)	FY 2018	FY 2017	Growth %
Net interest income	3,652	3,046	19.9%
Net fee and commission income	833	673	23.7%
Net Trading and other Operating income	800	656	21.9%
<b>Total operating income</b>	<b>5,285</b>	<b>4,376</b>	<b>20.8%</b>
Impairment Charges	342	249	37.5%
Operating cost	3,729	3,345	11.5%
<b>Results from operating activities</b>	<b>1,214</b>	<b>782</b>	<b>55.2%</b>
Share of subsidiary profits	35	56	-38.0%
<b>Profit Before all Taxes</b>	<b>1,248</b>	<b>838</b>	<b>49.0%</b>
Taxes ( including VAT & NBT, DRL )	776	377	105.7%
<b>Net profit for the period</b>	<b>473</b>	<b>461</b>	<b>2.6%</b>

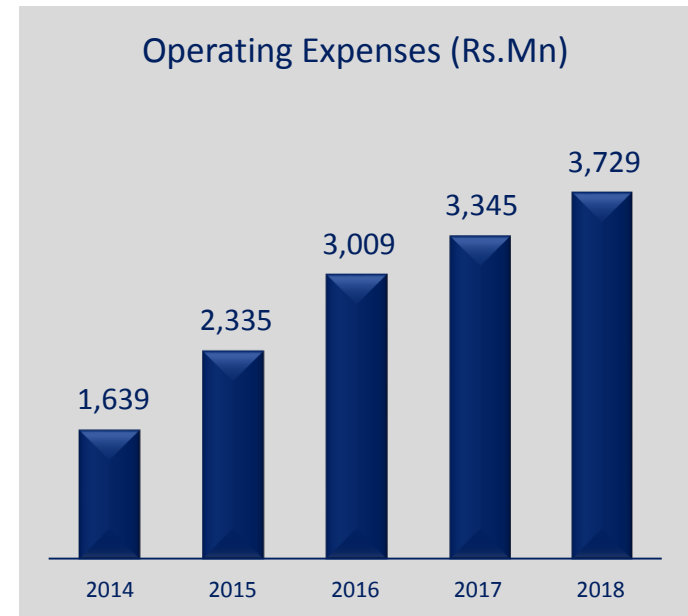
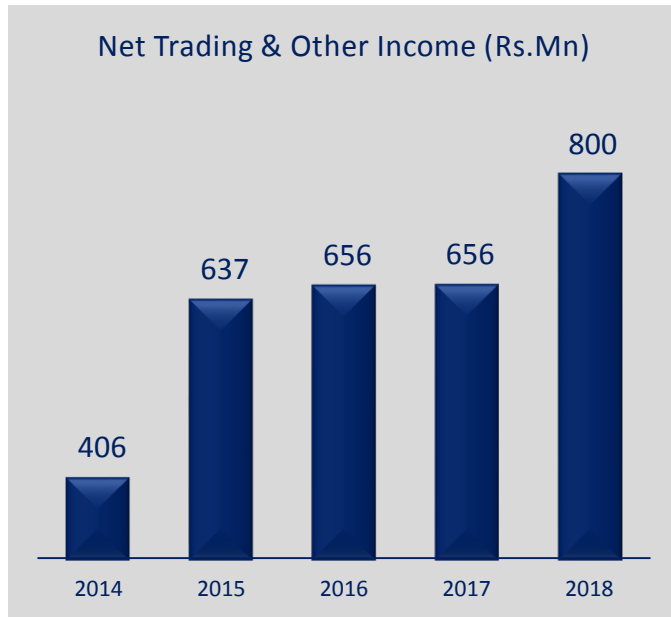
- *Profit before all taxes increased by 49%. More importantly, the core income of the Bank, excluding the capital gains and the negative impact due to investments on the newly launched credit cards, reflected a 124% growth YoY.*
- *Profit after tax was affected by the significant changes of tax regulations subsequent to enforcement of the new Inland Revenue Act. The Bank was holding a significant amount of investments in Sri Lanka Development Bonds, Debentures and Unit Trusts and hence, the removal of the tax exemption on profits derived out of these instruments resulted a significant impact on the effective tax rate. Introduction of the Debt Repayment Levy during the last quarter of the year under assessment further amplified the negative impact on the effective tax rate.*
- *Share of profit of equity accounted investees was Rs. 35 Mn which was a 38% decrease over the previous reporting period. Operations of both subsidiaries were affected due to the challenging macro environment that prevailed and was further impacted by the amendments to the IRD act which came into effect in April 2018.*

# Fees & commission income recorded 23.6% growth



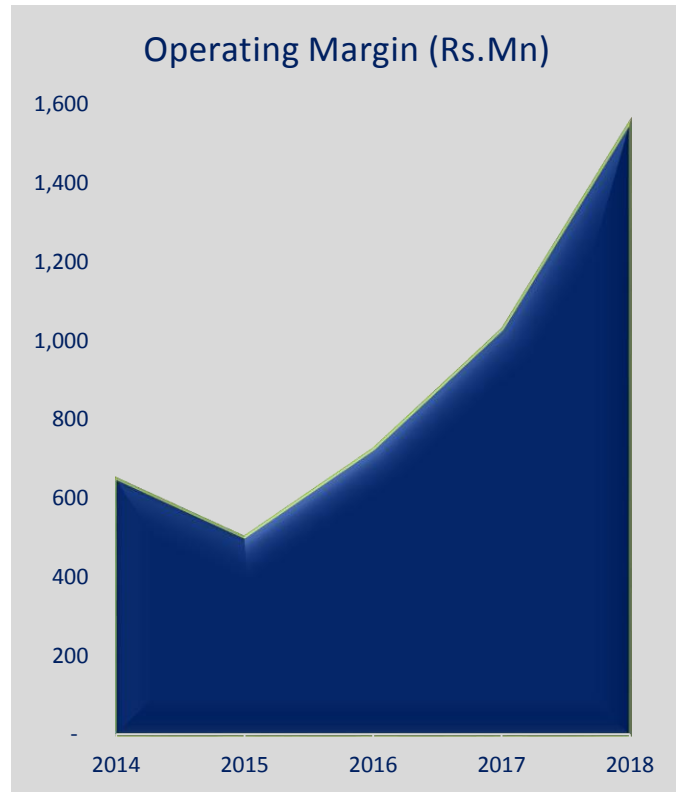
- A significant improvement of Rs. 606 Mn YoY which translated to an increase of 19.9%.
  - Overall NIM for the year is 3.0%. NIM for the current period would have been 3.2% if the return from investment in units were considered. Cost of funding of investments in units is accounted under interest expense of the Bank.
  - Return from investment in units was Rs. 246 Mn and was recorded under capital gains under net fair value gains/ (losses) from financial instruments at fair value through profit or loss.
  - Withdrawal of notional tax credit of the government securities portfolio had a significant negative impact on the NII of the current year.
- Fee and commission income which mainly comprise of deposit related fees, trade and remittances, loans, cards and other fees recorded an impressive growth of Rs. 185 Mn which translated to a 23.6% growth YoY.
  - Fee income from the newly launched credit cards operation also had a fair contribution during the year.
  - Retail and SME contribution to fees and commission was 74%.

# Operating expense increased by 11.5% only

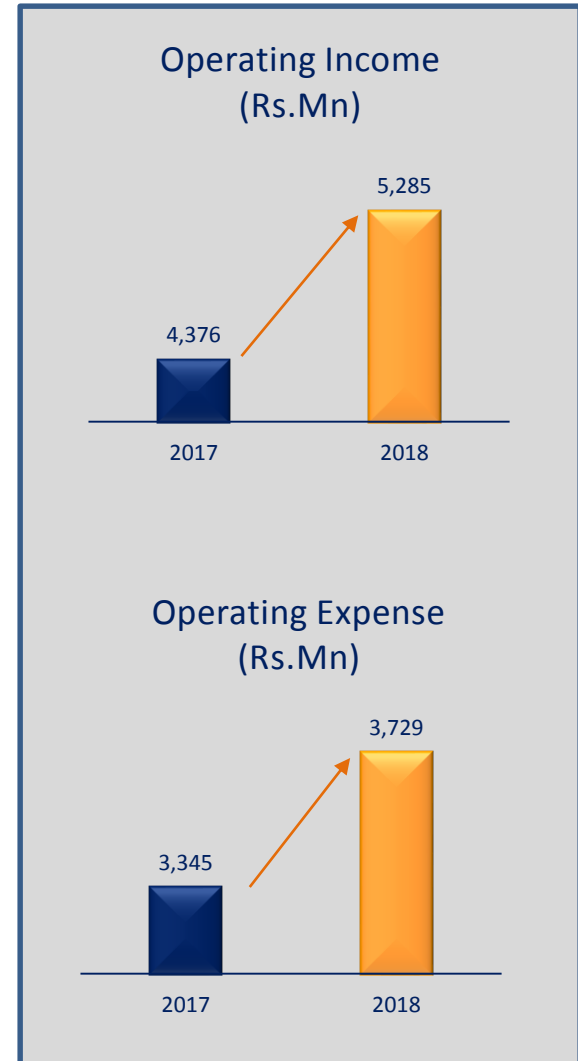


- Net trading & other income growth of Rs.144Mn which translated to an increase of 21.9%. This comprised of capital gains from government securities and investments in units as well as exchange gains.
- Despite the weakening of currency towards the end of the year, the Bank's exchange income showed a noteworthy growth of 73.6% YoY.
- Capital gains on government securities as a percentage of profit before all taxes declined to 18.9% from prior period's 29.6%. This is a significant reduction of dependency on income of one-off nature on profitability.
- Operating expenses increased by Rs.384Mn, which is an increase of 11.5% only.
- Current period expenses were mainly driven by increased investment in human resources to support the Bank's growing business requirements and also include the expenses incurred on credit cards, which was a new initiative launched during the second half of 2018.
- Cost: Income ratio improved to 71%

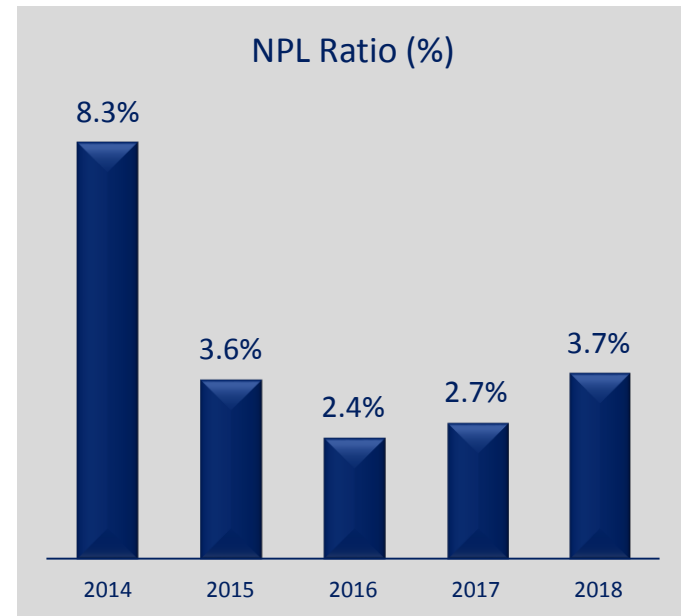
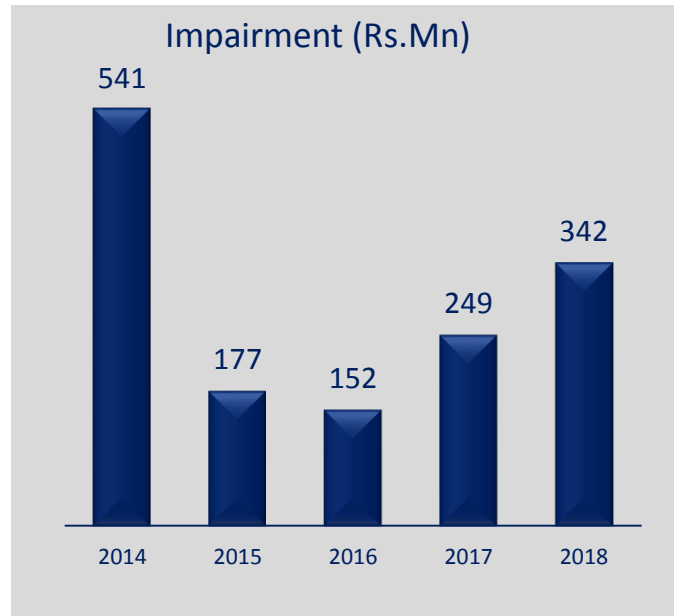
# Operating margin increased by 50.9%



- The overall growth in core banking activities and consistent performance across all areas resulted in a 20.8% growth in total operating income and increase in operating expense by 11.5% only which resulted in increase in operating margin by 50.9%.*



# Impairment and asset quality

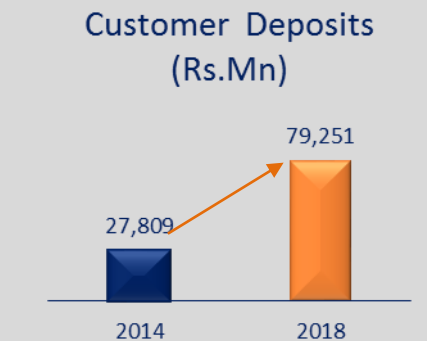
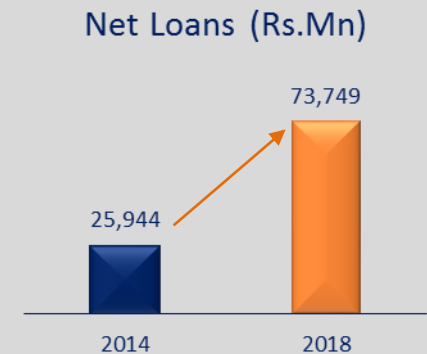


- *The Bank adopted SLFRS 9 with effect from 1st January 2018. The comparative impairment numbers have been calculated based on the previous standard LKAS 39.*
- *Net impact of the first time adoption of SLFRS 9 was Rs. 727 Mn.*
- *Collective impairment charge was Rs. 53Mn.*
- *Individual impairment charge was Rs. 252 Mn and 18.9% higher YoY.*
- *Gross NPL ratio was 3.7% and net NPL ratio was 2.5%.*
- *SME Banking segment of the bank showed the highest deterioration in NPL ratio during the year. However, the Bank's prudent risk management in credit assessment, proactive and focused monitoring of the portfolio and regionally driven remedial strategies have been instrumental in preserving the asset quality and preventing potential loan losses.*

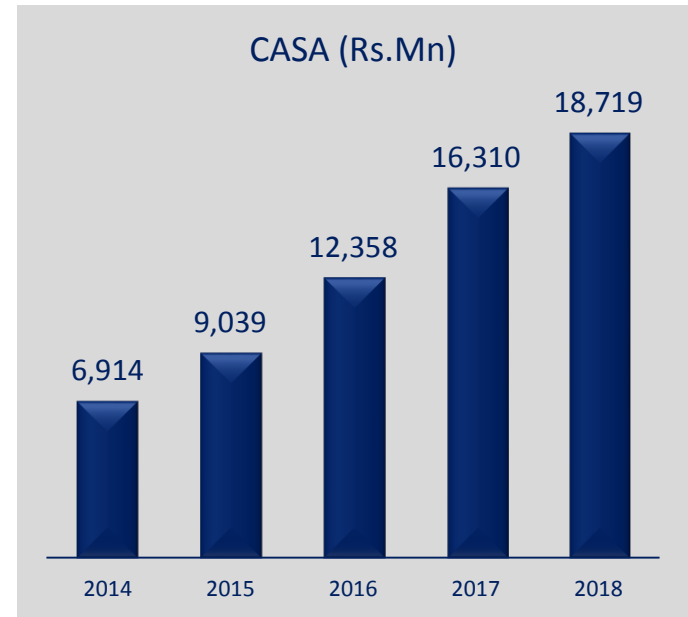
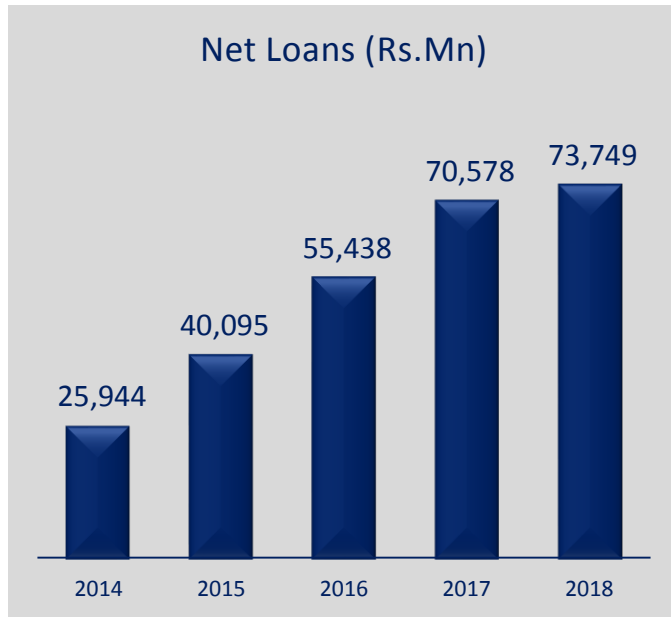
# Bank balance sheet

Balance Sheet (Rs.Mn)	2018	2017	Growth %
Treasury Assets	40,884	35,279	15.9%
Loans & Advances	73,749	70,578	4.5%
Cash & Balance with CB	7,138	8,483	-15.9%
Other Assets	4,149	4,667	-11.1%
<b>Total Assets</b>	<b>125,920</b>	<b>119,007</b>	<b>5.8%</b>
Borrowings	28,240	28,820	-2.0%
Customer Deposits	79,251	70,326	12.7%
Other Liabilities	1,802	2,005	-10.1%
Equity	16,627	17,858	-6.9%
<b>Total Equity &amp; Liabilities</b>	<b>125,920</b>	<b>119,007</b>	<b>5.8%</b>

- Both loans & deposits recorded a CAGR of 30% from 2014 to 2018.
- The Bank continued to maintain its robust Capital Adequacy ratio which was well above the limits even after adoption of SLFRS 9.



# CASA growth of 14.8%



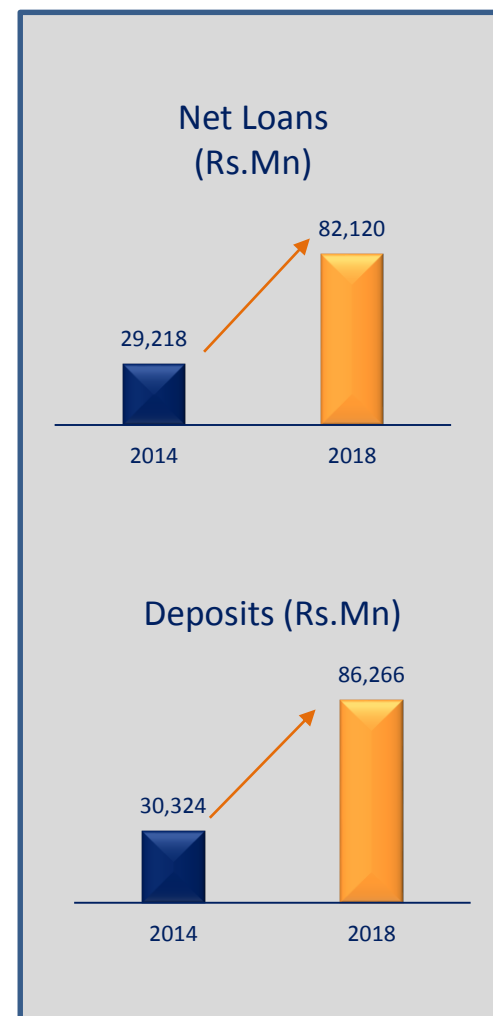
- The Bank's loans and receivables increased by Rs.3,171 Mn, a growth of 4.5%.
- Key focus was placed mainly on portfolio realignment. The new growth in the portfolio was subdued as a result of conscious decisions made with regard to exiting from selected segments. Proactive steps taken towards realignment further assisted the prudent management of the overall portfolio quality of the Bank.

- CASA recorded Rs. 2,410 Mn growth which translated to an increase of 14.8% over the previous year. Maintaining a healthy CASA ratio was supported through focused acquisition strategies driven by Retail and SME banking segments.
- CASA Mix improved to 24%

## Group's profit before all taxes Rs.1,415Mn

Group Income Statement (Rs.Mn)	FY 2018	FY 2017	Growth %
Net interest income	4,466	3,702	20.6%
Net fee and commission income	958	827	15.8%
Net Trading and other Operating income	835	733	14.0%
<b>Total operating income</b>	<b>6,258</b>	<b>5,261</b>	<b>18.9%</b>
Operating cost	4,266	3,858	10.6%
<b>Pre- impairment Profit</b>	<b>1,992</b>	<b>1,403</b>	<b>41.9%</b>
Impairment Charges	576	378	52.7%
<b>Profit Before all Taxes</b>	<b>1,415</b>	<b>1,026</b>	<b>38.0%</b>
Taxes ( including VAT & NBT )	881	474	85.6%
<b>Net profit for the period</b>	<b>535</b>	<b>551</b>	<b>-3.0%</b>

Group Balance Sheets (Rs.Mn)	2018	2017	Growth %
Treasury Assets	40,844	34,945	16.9%
Loans & Advances	82,120	79,221	3.7%
Cash & balances with CB	7,526	8,843	-14.9%
Other Assets	4,542	4,592	-1.1%
<b>Total Assets</b>	<b>135,032</b>	<b>127,601</b>	<b>5.8%</b>
Borrowings	30,045	30,490	-1.5%
Customer Deposits	86,266	76,748	12.4%
Other Liabilities	2,248	2,521	-10.8%
Equity	16,473	17,842	-7.7%
<b>Total Equity and Liabilities</b>	<b>135,032</b>	<b>127,601</b>	<b>5.8%</b>



# Key performance indicators

Key Performance Indicators	Bank		Group	
	2018	2017	2018	2017
<b>Regulatory Capital Ratios (%)</b>				
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 6.375%)	17.41%	18.85%	16.47%	18.09%
Tier 1 Capital Ratio (Minimum Requirement - 7.875%)	17.41%	18.85%	16.47%	18.09%
Total Capital Ratio (Minimum Requirement - 11.875%)	17.41%	18.85%	16.47%	18.09%
<b>Statutory Liquid Assets Ratio, % (Minimum Requirement, 20%)</b>	<b>2018</b>	<b>2017</b>		
Domestic Banking Unit	21.77%	21.27%		
Foreign Currency Banking Unit	21.14%	21.13%		
Liquidity Coverage Ratio (%), Rupee (Minimum Requirement -2018 - 90% & 2017 - 80%)	335.43%	160.14%		
Liquidity Coverage Ratio (%), All Currency (Minimum Requirement - 2018 - 90% & 2017 - 80%)	131.50%	83.02%		
<b>Asset Quality</b>	<b>2018</b>	<b>2017</b>		
Gross Non-Performing Advances Ratio, % (Net of interest in suspense)	3.68%	2.69%		
Net Non-Performing Advances,% (Net of interest in suspense and provision)	2.51%	1.76%		
<b>Profitability</b>	<b>2018</b>	<b>2017</b>		
Interest Margin, %	2.98%	2.87%		
Return on Assets (Before Tax), %	0.63%	0.50%		
Return on Assets (After Tax), %	0.39%	0.43%		
Return on Equity (After Tax), %	2.74%	2.64%		

# Corporate Information

## Board of Directors

Name	Title
Atul Malik	Chairman/Non-Ind. Non-Exec. Director
Priyantha Fernando	Deputy Chairman/ Ind. Non Exec. Director
Indrajit Wickramasinghe	Exec. Director/CEO
Sabry Ghouse	Independent, Non Executive Director
Ranvir Dewan	Non Independent, Non Executive Director
Gaurav Trehan	Non Independent, Non Executive Director
Puneet Bhatia	Non Independent, Non Executive Director
Michael J. O'Hanlon	Non Independent, Non Executive Director
Sow Lin Chiew	Non Independent, Non Executive Director
Yudishtran Kanagasabai	Independent, Non Executive Director (Resigned on 31 <sup>st</sup> December 2018)
Trevine Fernandopulle	Independent, Non Executive Director
Dilshani Wijayawardana	Independent, Non Executive Director
Yoke Sun Woon	Alternate Director to Sow Lin Chiew
Keshav Thakkar	Alternate Director to Puneet Bhatia

## Leadership Team

Name	Title
Indrajit Wickramasinghe	Director/ Chief Executive Officer
Hiranthi de Silva	Vice President Wholesale Banking
Malinda Samaratinga	Chief Financial Officer
Ravi Jayasekera	Vice President Human Resources
S. Sri Ganendran	Vice President Operations
Chaya Jayawardena	Vice President Retail Banking
Suhen Vanigasooriya	Chief Risk Officer
Wije Dambawinna	Vice President – Head of Treasury
Lasantha Mathupala	Assistant Vice President - IT
Inoka Jayawardhana	AVP – Head of Legal and Company Secretary

## Legal Form

A Public Limited Liability Company incorporated in Sri Lanka under the Companies Act No. 17 of 1982. Re-registered under the Companies Act No. 7 of 2007. Listed as a public quoted Company at the Colombo Stock Exchange in 2011.

A Licensed Commercial Bank under the Banking Act No. 30 of 1988.

## Credit Ratings

ICRA : (SL) BBB Stable  
Fitch : BB+ (lka) Positive

## Date of Incorporation

February 2nd, 1995

## Auditors

Ernst & Young  
Chartered Accountants,  
No. 201, De Saram Place  
Colombo 10