UNION BANK

Investor Presentation - 4Q 2017

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 upliftment 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.***

Key Company Milestones

1995-2010

Established as the 8th Indigenous Commercial Bank

First bank to launch Internet Banking

Restructuring of the Bank through a Sampath Bank led consortium

Landmark investment from Middle East - Royal Family of Saudi Arabia

2011-2013

Listed in the CSE, Highest oversubscribed IPO

Acquisition of NAMAL and UB Finance

CFI award for Best SME Bank

2014-2016

TPG through its affiliate Culture Finance Holding strikes landmark deal with Union Bank

New Core-Banking System Implementation

First bank in Sri Lanka to implement Microsoft Cloud Technology

BBB (Stable) rating from ICRA

65 branches with access to over 3,500 Lanka Pay ATM'S

Introduction of Transaction Banking

2017 onwards

UB Brand was ranked 6 notches above in the Top 100 Brands list by Brand Finance.

First Bank to publish Annual Report last two years consecutively.

First Bank in Sri Lanka to receive the International Payment Card Industry Data Security Standard (PCI DSS) by the Security Standards Council.

UB received overwhelming recognition at the LankaPay Technnovation Awards winning 4 coveted awards.

Overview - Bank

"The year 2017 ended a period of transformation and the implementation of a 3 year strategic plan that resulted in significant enhancements to the business model resulting in transformational growth in the Bank's performance during these 3 years. Our strategic aim is to be amongst the preferred Retail/SME and Transactional Banks by 2020 with greater focus on building relationships. Beginning 2018, we will achieve this by embarking on an enhanced growth trajectory in our preferred segments and strengthening our franchise value."

- CEO

Bank's Performance

- Net Interest Income up 22% YoY to Rs. 3,046 Mn
- Net Fee and Commission Income up 17% YoY to Rs. 673 Mn
- Total Operating Income grew by 17% YoY to Rs.4,376 Mn
- Results from Operating Activities grew by 36% YoY to Rs. 782 Mn
- Profit before Tax and VAT grew by 28% YoY to Rs. 838 Mn
- Total Assets grew by 28% YTD to Rs. 119 Bn
- Strong Balance Sheet with Total Capital Adequacy Ratio at 18.85%

- 2017 was another challenging year for the Bank from an operational perspective, given the continuous uncertainty that prevailed in the local markets due to economic volatility experienced during the year.

- Deposit interest rates continued to remain high and cost of funds was seen as a challenge impacting the net interest margins of the Bank. AWPLR remained flat in comparison to a 11% increase in AWDR. While the Rupee depreciated treasury Bill rates fluctuated during the year showing a point to point reduction in 3 months treasury Bills from January to December.

Bank's Performance Cont…

- *Despite the volatile macro environment the Bank performed exceptionally well in 2017 resulting in a 35.6% increase in results from operating activities to Rs. 782Mn in comparison to Rs. 577Mn recorded in 2016. Gross income of the Bank improved by 39.7% to Rs. 11,938Mn in comparison to Rs. 8,546Mn recorded in 2016.*

- *Income growth of the Bank in 2017 was mainly driven by the core banking operations. This highlights the Bank's continuing progress in its swift transition to a fully-fledged Commercial Bank with a wider focus on Retail, Corporate and SME sectors. The impressive results, reflect the success of the rapid expansion* initiatives, implemented by the Bank following the capital infusion made in the latter part of 2014.

- *Effective tax rate of the Bank increased significantly year on year (YoY) due to the change in the asset mix. Profit from exempted sources as a percentage fell significantly in comparison to 2016. Profit after taxes of the Bank for the year is Rs. 461Mn. Net assets value per share of the Bank improved to Rs. 16.36 from Rs. 15.65 in 2016. Total assets of the Bank grew by 28.0% to Rs. 119,007Mn in comparison to Rs. 93,009Mn in 2016.*

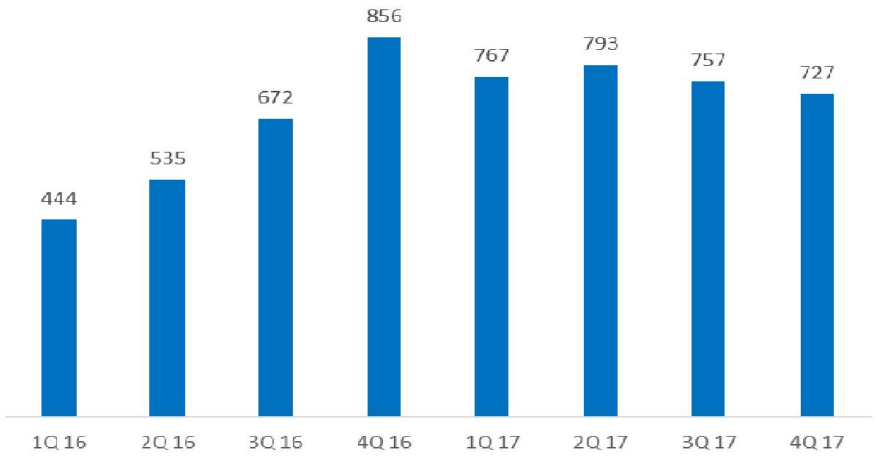
Financial Performance – Bank (YTD)

LKR Mn	2017	2016	Growth	
Net interest income	3,046	2,507	539	22%
Net fee and commission income	673	575	98	17%
Net Trading and other Operating income	656	656	1	0%
Total operating income	**4,376**	**3,737**	**638**	**17%**
Operating cost	3,345	3,009	336	11%
Impairment Charges	249	152	-97	-63%
Results from operating activities	**782**	**577**	**205**	**36%**
Share of subsidiary profits	56	77	-21	-27%
Profit Before Tax	**838**	**653**	**184**	**28%**
Taxes (including VAT & NBT)	377	202	175	87%
Net profit for the period	**461**	**451**	**9**	**2%**

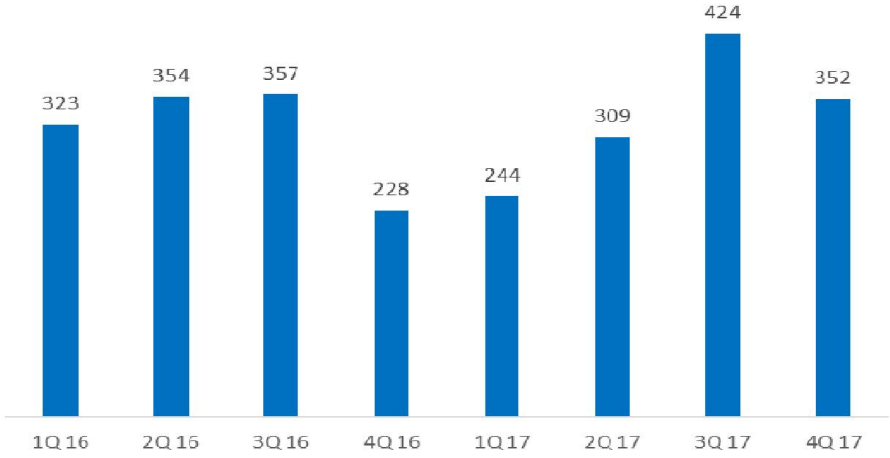
The Bank's results from operating activities increased by a notable 36% to Rs. 782Mn. Total operating income increased by 17% which was mainly driven by the core banking operations. Operating expenses of the Bank was well managed and the YoY increase is 11% in comparison to the increase in operating income by 17%. The PBT grew by 28% to Rs. 838Mn despite volatile macro environment.

Revenue Generation - Bank

Net Interest Income (Rs. Mn)



Non Interest Income (Rs. Mn)



- Net Interest Income (NII) rose to Rs.3,046 Mn for the period. Rise in NII was mainly driven by the balance sheet growth of the bank. NIM is at 2.9%
- Net Fee and Commission Income grew to Rs. 673Mn, recording a 17% increase over the period. Fee income growth to Rs. 783Mn was mainly driven by loan, card, deposit and trade and remittance related fees.
- Net trading & other income was a stand still at Rs. 656Mn, mainly due to reduced investment in unit trust which caused Rs. 86Mn reduction.

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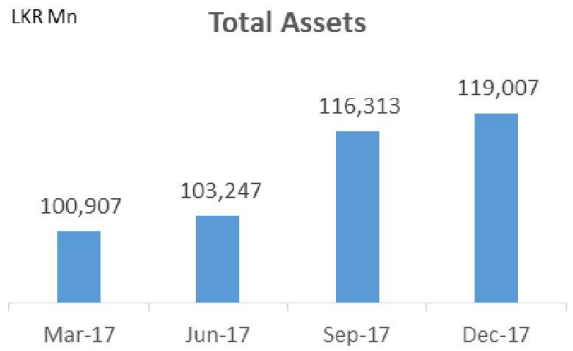
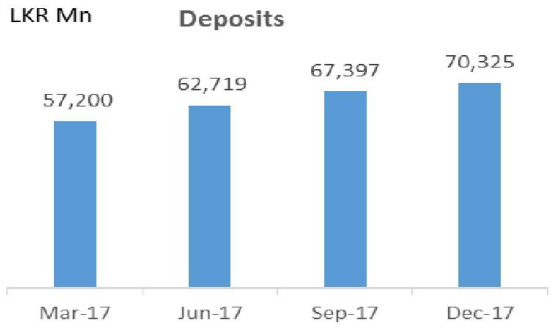
Statement of Financial Position - Bank

LKR Mn.	Dec 2017	Dec 2016	Growth	
Treasury Assets	35,279	28,592	6,687	23%
Loans & Advances	70,578	55,438	15,140	27%
Cash & Balance with CB	8,483	4,994	3,489	70%
Other Assets	4,667	3,984	683	17%
Total Assets	**119,007**	**93,009**	**25,999**	**28%**

Borrowings	28,820	22,421	6,399	29%
Customer Deposits	70,326	51,841	18,484	36%
Other Liabilities	2,005	1,663	342	21%
Equity	17,858	17,083	774	5%
Total Equity & Liabilities	**119,007**	**93,009**	**25,999**	**28%**

- *Total Assets of the Bank grew to Rs. 119Bn, a 28% growth YTD. Contributing to the same, the Loans and Receivables of the Bank grew to Rs. 71Bn, a 27% growth YTD, primarily led by retail personal loans & mortgage backed loans.*
- *Customer Deposits grew by 36% to Rs. 70Bn YTD, attributable to retail FD growth of 59%*





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Composition of Balance Sheet

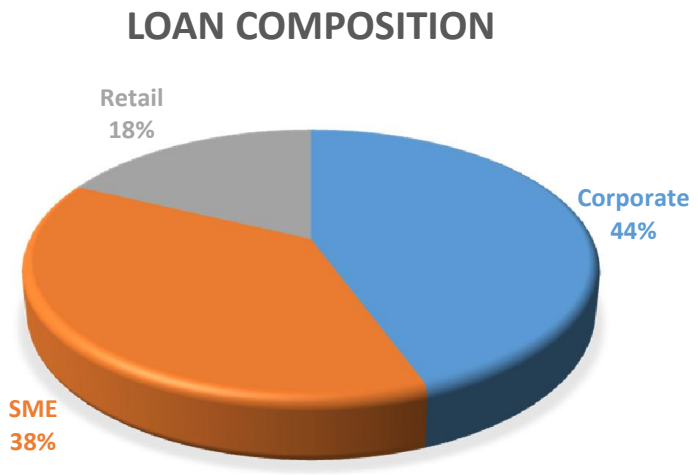
Assets Composition

Assets

Loans – 59 %

Treasury Assets – 30%

Segmental Loan Composition



Funding Composition

Funding

Deposits – 59%

Treasury Borrowings – 24%

In line with the Bank's strategy, Retail assets composition have increased to 18% from 11% in the previous year.

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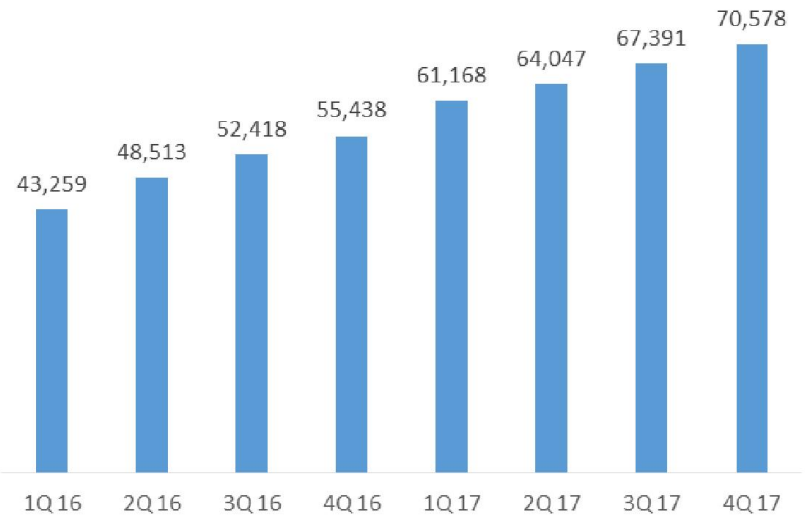
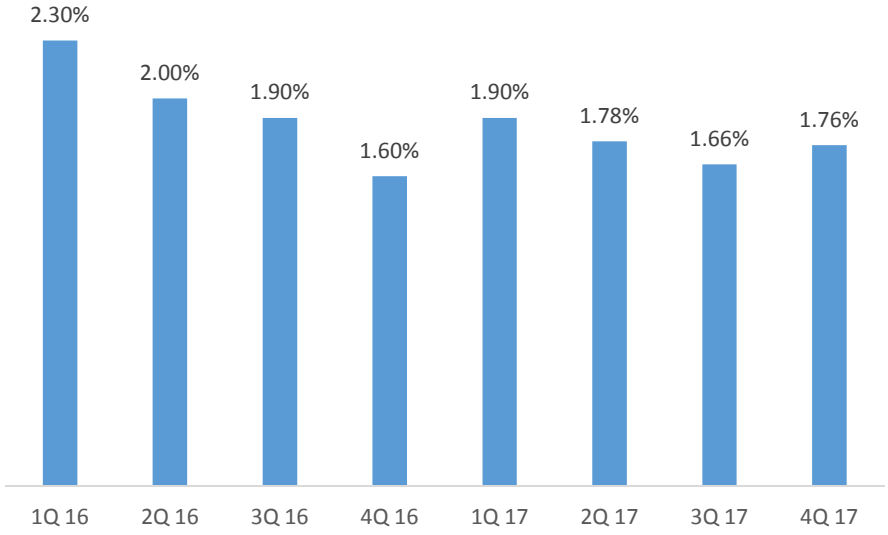
Loan Growth & Capital Adequacy

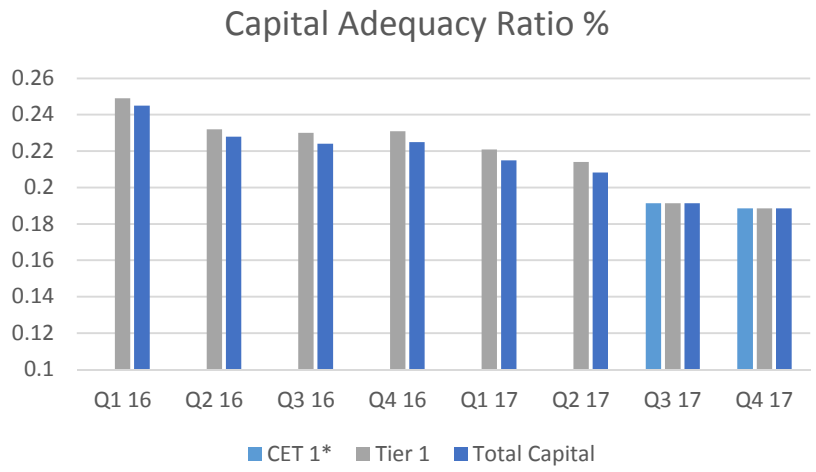
Loans and Receivables (Rs. Mn)



Net Non Performing Asset Ratio



Capital Adequacy Ratio



- *Loans and Receivables to customers grew to Rs. 71Bn, a 27% growth YTD.*
- *The Bank's Capital Adequacy Ratios were well above regulatory requirements.*

Notes;
**CET1; Common Equity Tier 1*
***2016 & Q1, Q2 2017 figures are based on Basel II whilst Q3 & Q4 2017 are based on Basel III*

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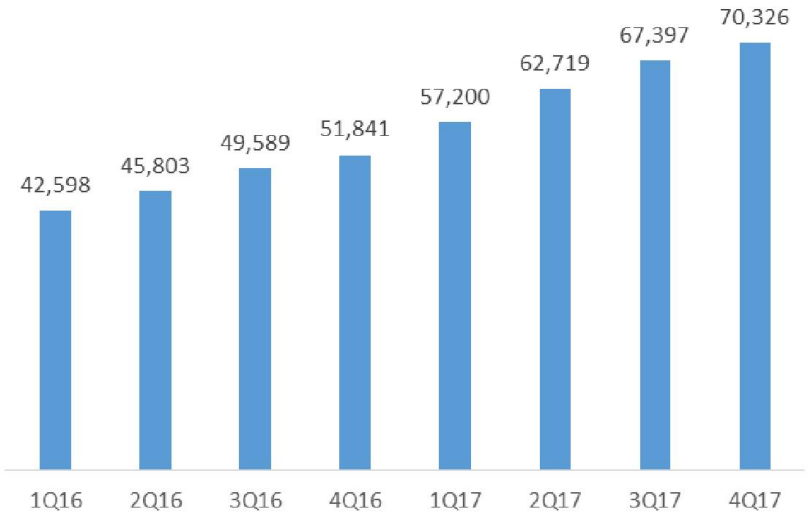
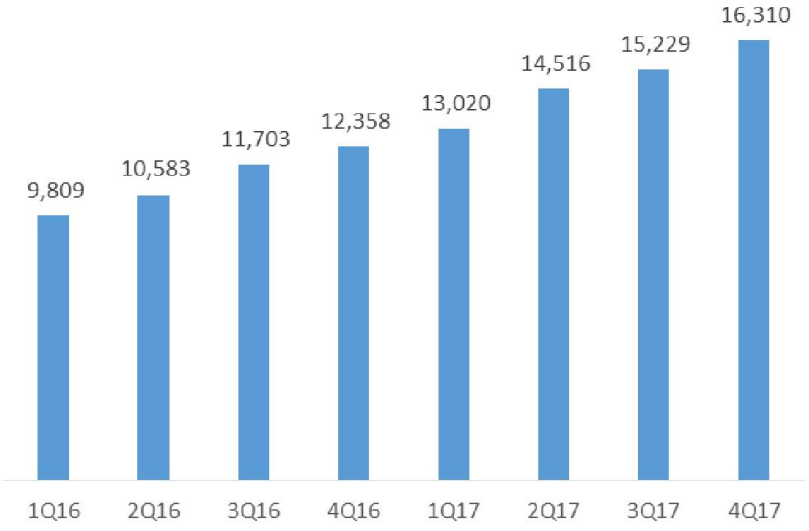
Deposit Growth and CASA

Customer Deposits (Rs. Mn)



CASA (Rs. Mn)



- *Customer Deposits grew by 36% to Rs. 70Bn YTD.*
- *CASA balance grew by Rs. 3.9Bn (+32%) to Rs. 16.3Bn YTD, supported by initiatives; offsite ATM network, Debit Cards, sales force & enhanced brand awareness.*
- *CASA Mix is at 23%*

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Key Indicators - Bank

	Dec 2017	Dec 2016
Return on Assets (After Tax), %	0.4%	0.6%
Return on Equity (After Tax), %	2.6%	2.7%
NIM %	2.9%	3.1%
NPL Ratio % (Gross)	2.7%	2.4%
NPL Ratio % (net)	1.8%	1.6%

	Dec 2017	Dec 2016
Regulatory Capital Ratios %		
Common Equity Tier 1 Capital Ratio		
Minimum Requirement as per Basel III - 4.5%	18.9%	NA
Tier 1 Capital Ratio		
Basel III (Minimum Requirement - 7.25%)	18.9%	NA
Basel II (Minimum Requirement - 5%)	NA	22.7%
Total Capital Ratio		
Basel III (Minimum Requirement - 11.25%)	18.9%	NA
Basel II (Minimum Requirement - 10%)	NA	22.1%

Group's Performance

- Net Interest Income increased 23% YoY to Rs. 3,702Mn
- Net Fee and Commission Income up 11% YoY to Rs. 827 Mn
- Total Operating Income grew by 15% YoY to Rs.5,261Mn
- Results from Operating Activities grew by 22% YoY to Rs. 1,026 Mn
- Profit before Tax and VAT grew by 22% YoY to Rs. 1,026 Mn
- Total Assets grew by 27% YTD to Rs. 128 Bn

- Profit after tax of the group is Rs. 551Mn. Net asset value per share of the group improved to Rs. 15.98 from Rs. 15.22 in 2016. Total Assets of the group grew by 26.9% to Rs. 127,601Mn in comparison to Rs. 100,533Mn in 2016.

- The group, consists of the Bank and its two subsidiaries - UB Finance Company Limited, National Asset Management Limited and the special purpose entity Serendib Capital (Pvt) Limited. YoY performance of the group was affected by a one-off income reported by UB Finance in 2016. The Bank accounts for 93.3% of the Balance Sheet size of the group and hence the group performance is mainly driven by the Bank.

Financial Performance – Group (YTD)

LKR Mn	2017	2016	Growth	
Net interest income	3,702	3,020	681	23%
Net fee and commission income	827	742	85	11%
Net Trading and other Operating income	733	816	(83)	-10%
Total operating income	**5,261**	**4,578**	**683**	**15%**
Operating cost	3,858	3,487	(371)	-11%
Impairment Charges	378	252	(125)	-50%
Results from Operating Activities	**1,026**	**839**	**(187)**	**-22%**
Profit Before Tax	**1,026**	**839**	**187**	**22%**
Taxes (including VAT & NBT)	474	286	(189)	-66%
Net profit for the period	**551**	**553**	**(2)**	**0%**

- *Profit Before Tax edged up by 22%*
- *Profit After Tax decreased marginally owing to higher tax deductions.*
- *Total Operating Income up by 15%*
- *Impairment charge is up by 50%*

Statement of Financial Position - Group

	Dec-17	Dec-16	Growth	
Treasury Assets	34,945	28,039	6,906	25%
Loans & Advances	79,221	62,932	16,289	26%
Cash & Balance with CB	8,843	5,205	3,638	70%
Other Assets	4,592	4,356	235	5%
Total Assets	**127,601**	**100,533**	**27,068**	**27%**

Borrowings	30,490	23,721	6,769	29%
Customer Deposits	76,748	57,525	19,223	33%
Other Liabilities	2,348	2,159	189	9%
Equity	18,015	17,128	887	5%
Total Equity & Liabilities	**127,601**	**100,533**	**27,068**	**27%**

- *Total Assets of the Group grew to Rs. 127 Bn, a 27% growth YTD. Contributing to the same, the Loans and Receivables of the Group grew to Rs. 79Bn, 26% growth YTD.*
- *Customer Deposits grew by 33% to Rs.77Bn YTD.*

Corporate Information

Board of Directors

Name	Title
Atul Malik	Chairman
Priyantha Fernando	Deputy Chairman/ Senior Director
Indrajit Wickramasinghe	Executive Director/ CEO
Sow Lin Chiew	Non Independent, Non Executive Director
Sabry Ghouse	Independent, Non Executive Director
Yudhishtran Kanagasabai	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
Dilshani Wijayawardana	Independent, Non Executive Director
Trevine Fernandopulle	Independent, Non Executive Director
Sumedh Jog	Alternate Director
Yoke Sun Woon	Alternate Director

Leadership Team

Name	Title
Indrajit Wickramasinghe	Director/ Chief Executive Officer
Hiranthi de Silva	Vice President Wholesale Banking
Malinda Samaratunga	Chief Financial Officer
Rajeev Munasinghe	Vice President Information Technology
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 Treasury

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