

A cluster of 3D geometric shapes, including triangles and pyramids, in shades of blue and orange, arranged in a circular pattern on the left side of the slide.

**UNION BANK**

**BUILDING  
STRONGER BONDS**

INVESTOR FORUM - JULY 2019

A cluster of 3D geometric shapes, including triangles and pyramids, in shades of blue and orange, arranged in a circular pattern on the right side of the slide.

# Overview

- ❑ **Strong foundation built over 24+ years**
- ❑ **Robust financial and operational performance**
  - ❑ *H1 PBT up 52% YoY; Adjusted\* ROE of 15%*
  - ❑ *Improved performance despite challenging operating environment for the banking sector*
  - ❑ *Received “Best Cash Management Bank Sri Lanka” at Global Business Outlook Awards 2019*
- ❑ **Superior asset quality & healthy capital adequacy**
  - ❑ *Ratings upgrade received in May 2019*
  - ❑ *CAR of 17.23% as at June 2019*
- ❑ **Strategic building blocks for delivering best in class ROE:**
  - ❑ *Above market growth*
  - ❑ *Best in class Retail & SME franchise*
  - ❑ *Digitization & Innovation*
  - ❑ *CASA growth*
- ❑ **Stable shareholder base and experienced management team**

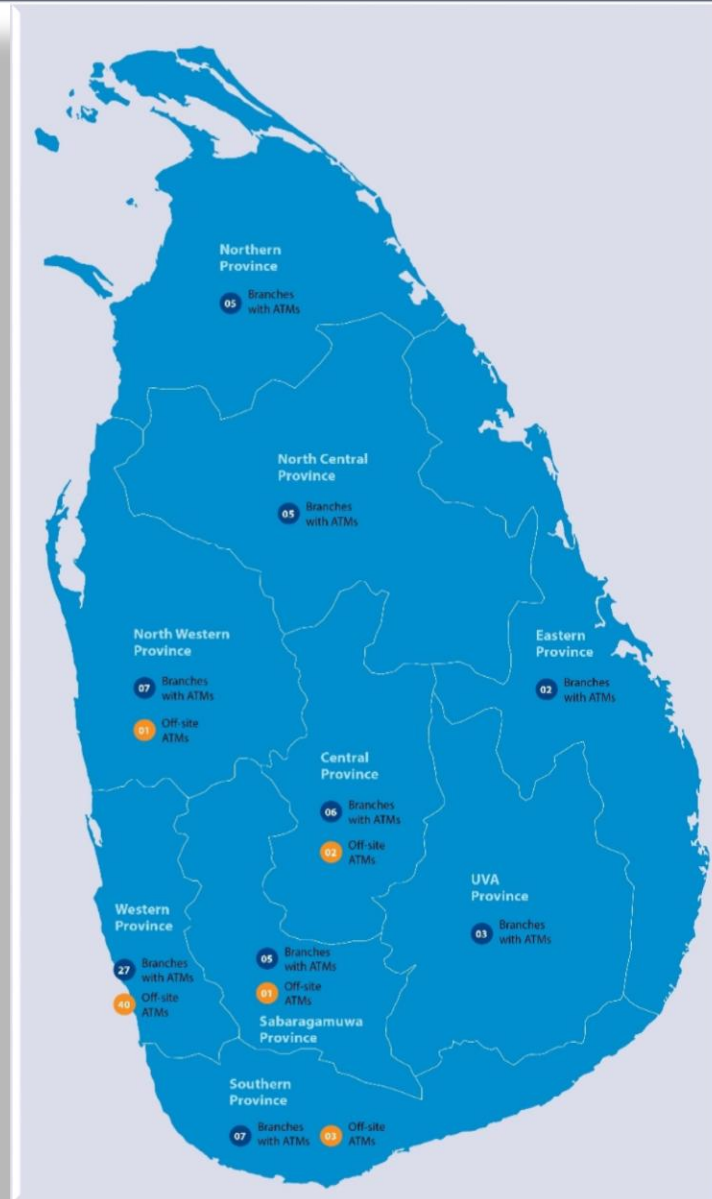


## **Corporate profile**

# A strong foundation



- 67 Branches
- 121 ATMs
- Sales Force
- 24Hr Contact Center
- Digital Banking
- Competitive product range



24 Years



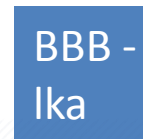
Robust risk framework



Superior Asset quality



Strong Capitalisation



Rating upgrade in 2019 by Fitch



Experienced board & management team



Corporate Governance

GOVERNANCE

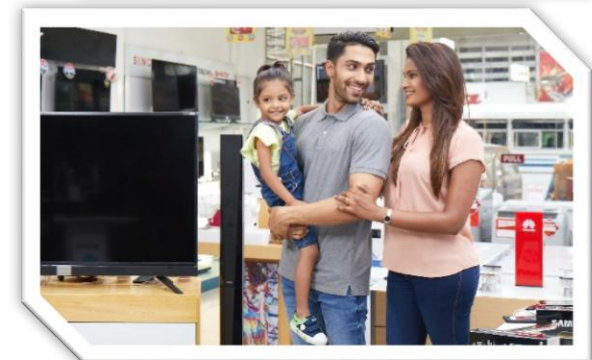
# Range of new products

2015-2017

- Home loans
- Loan against property
- Personal loans
- Salary select / Salary power
- Debit cards
- Elite Circle
- Kidz Saver
- Invest plus
- Biz Direct ( Cash management )
- Online banking
- Mobile app
- Instant cash
- Bancassurance

2018-2019

- Biz partner (SME)
- Pay & go kiosks
- Credit cards
- Gold Circle



# Technology & convenience



4000+  
ATMS

24hr  
Call Center



Mobile  
App



Online  
Banking



POS



Pay &  
Go  
Kiosks



Web &  
Social Media



VISA  
Pay Wave



**Best Cash Management Bank  
Sri Lanka**  
Global Business Outlook Awards 2019

# Subsidiaries



**UB FINANCE**  
A UNION BANK COMPANY

- Estb.1961
- Registered Finance company, licensed under CBSL
- 16 branches
- Financial inclusion & focus on segments not covered by the Bank
  - Deposits, Savings
  - Leasing, Vehicle loans, Factoring, Hire Purchase
  - Mortgages, Real estate & Pawning



**namal**  
NATIONAL ASSET MANAGEMENT LTD

- Estb. 1991
- Pioneer fund management company
- Integrated wealth management and advisory
- Unit trust & private portfolios
  - National Equity Fund NAMAL Growth Fund
  - NAMAL Income Fund NAMAL High Yield Fund

# Ownership & Business structure



70%



73%

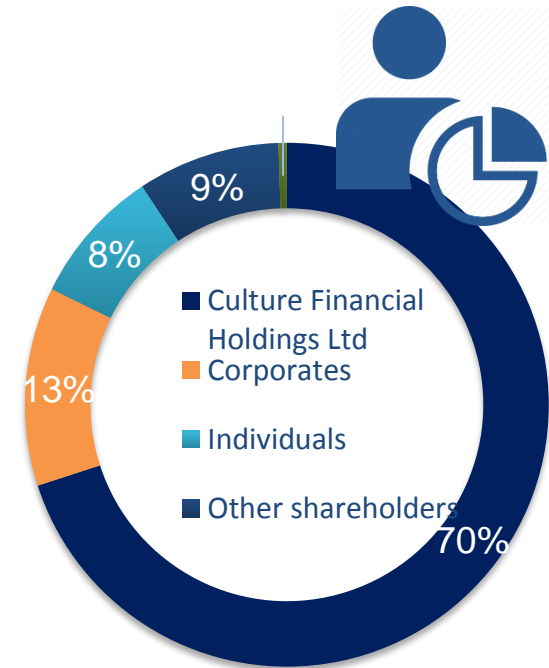
51%



Amongst  
the highest  
capitalised  
banks

Full service  
commercial  
bank

Retail  
SME  
Corporate  
Treasury

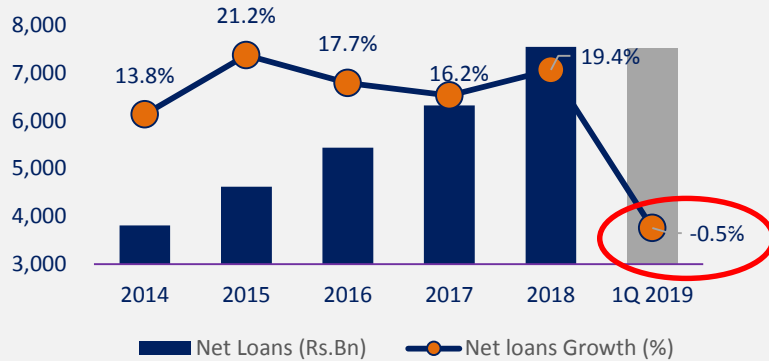




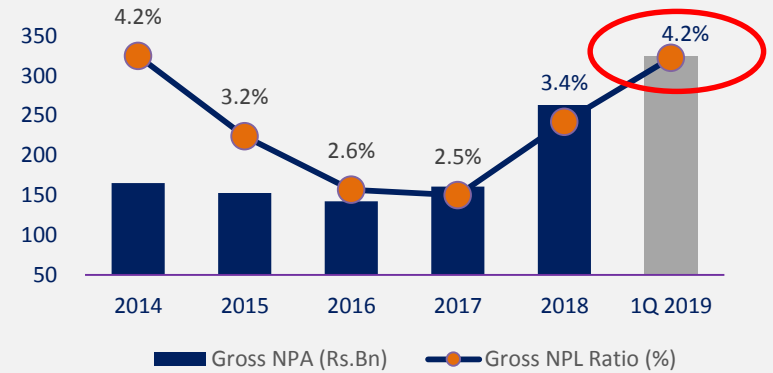
# **Business Environment**

# Banking sector

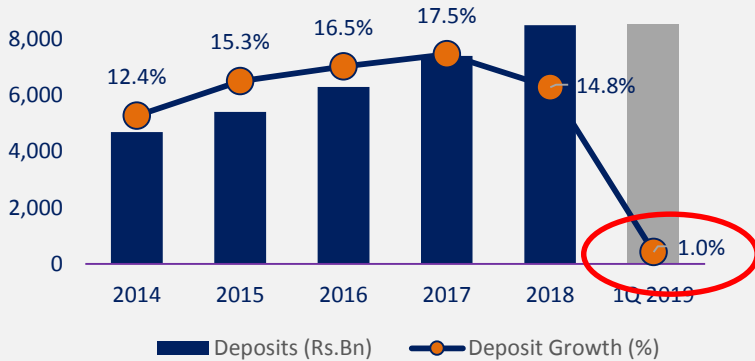
### Net Loans



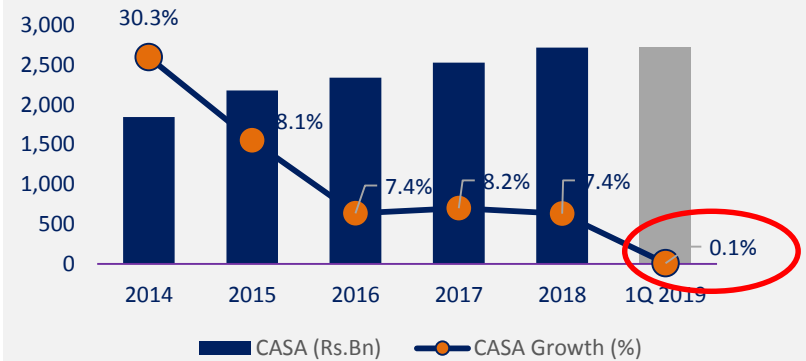
### Gross NPA & NPL ratio



### Deposits



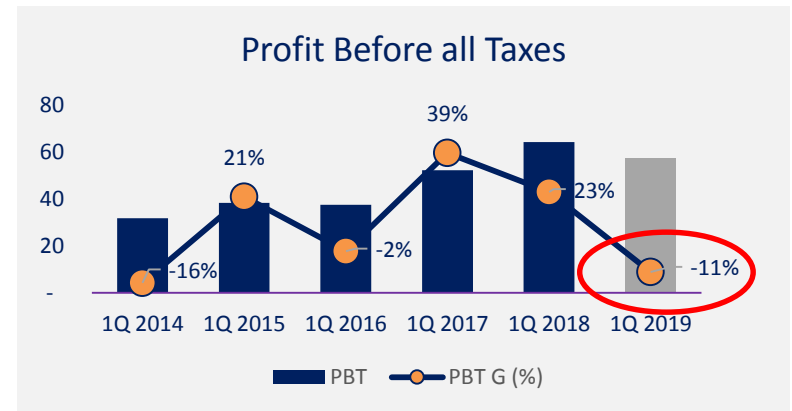
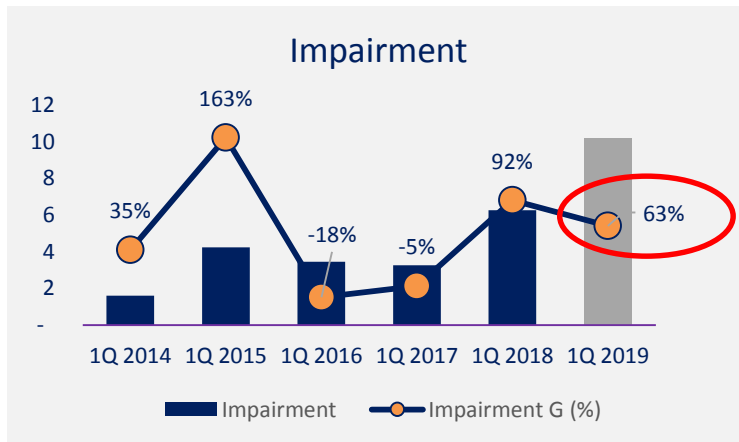
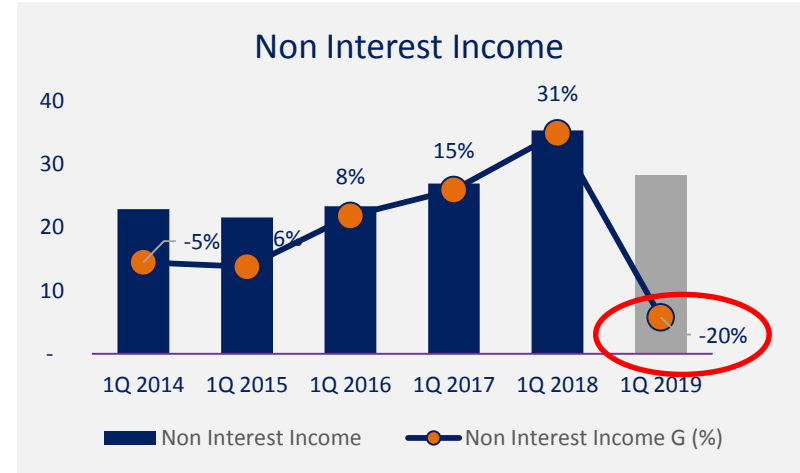
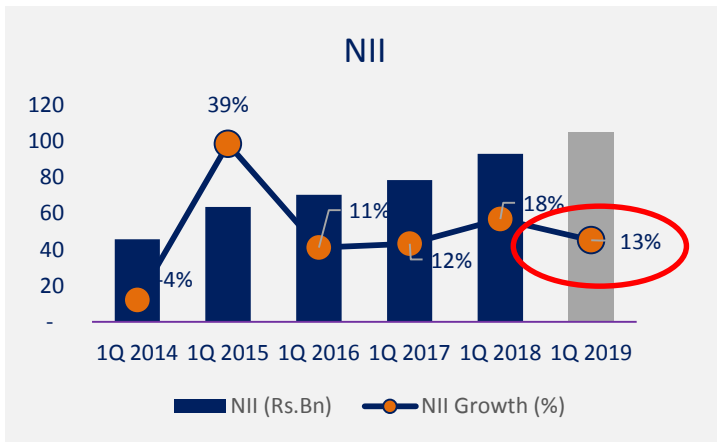
### CASA



**Sri Lanka banking sector witnessing challenges on growth and asset quality**

# Banking sector

Contd....



**Banking sector challenges have resulted in muted financial performance for banks**

# Challenges

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## Increased Regulations

- Introduction of SLFRS 9
- Changes in Tax regulations
- Deposit rate cap
- Lending rate pressure

## Increased Volatility

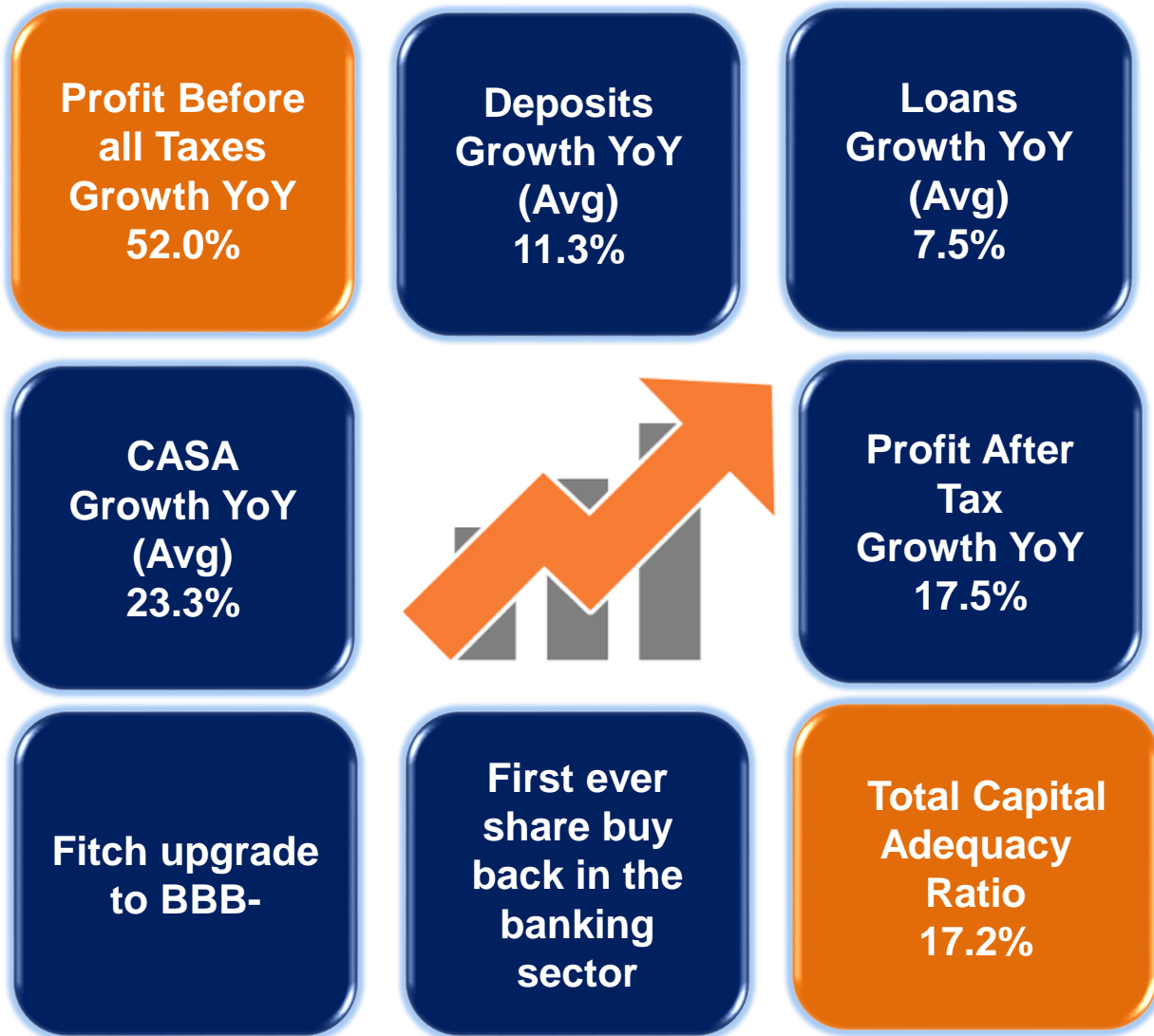
- Changed customer behavior
- Intensity in competition
- Political turbulence
- 21<sup>st</sup> April tragedy

**Banking sector challenges have resulted in muted financial performance**

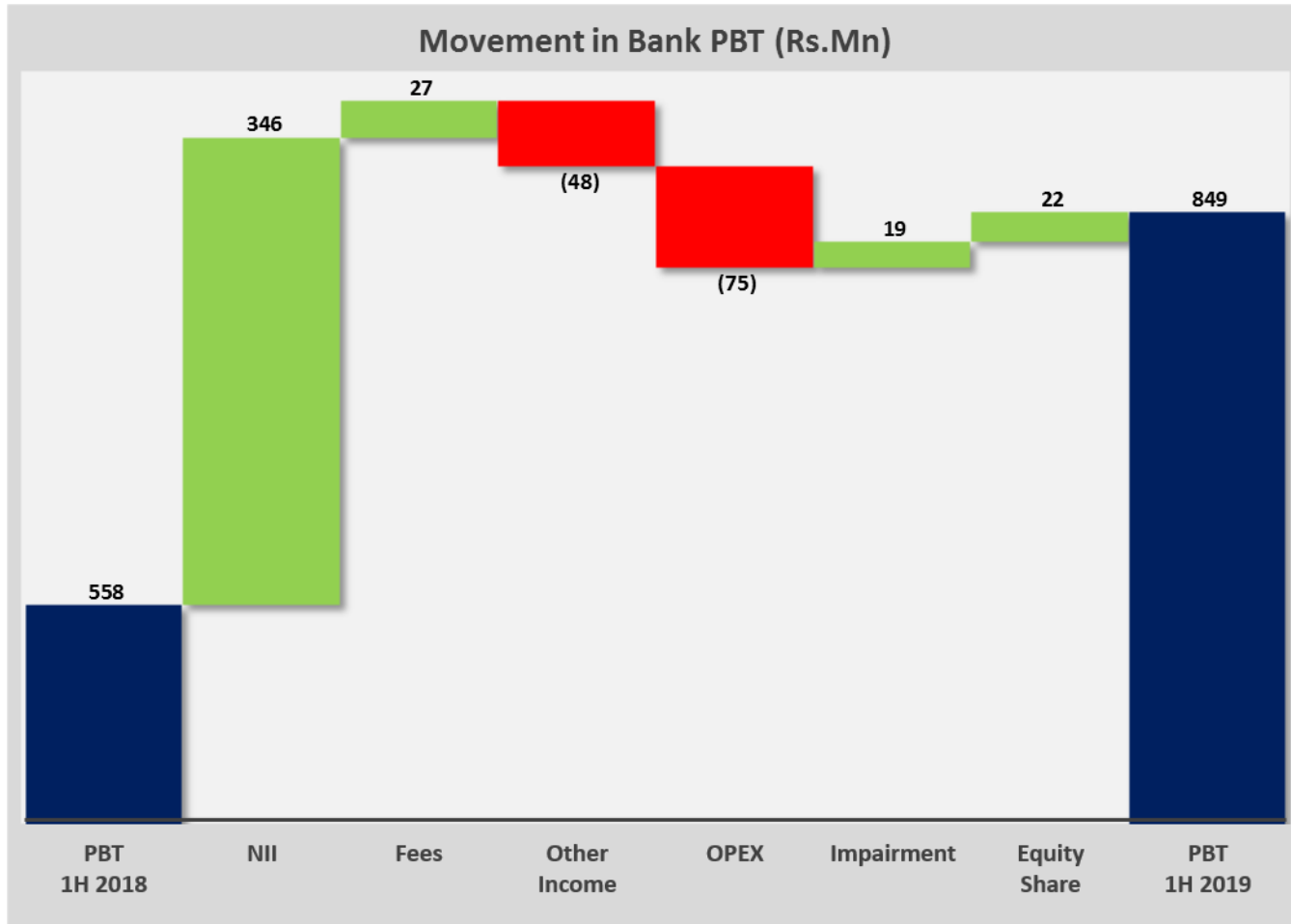


# Financial Performance

# Key highlights

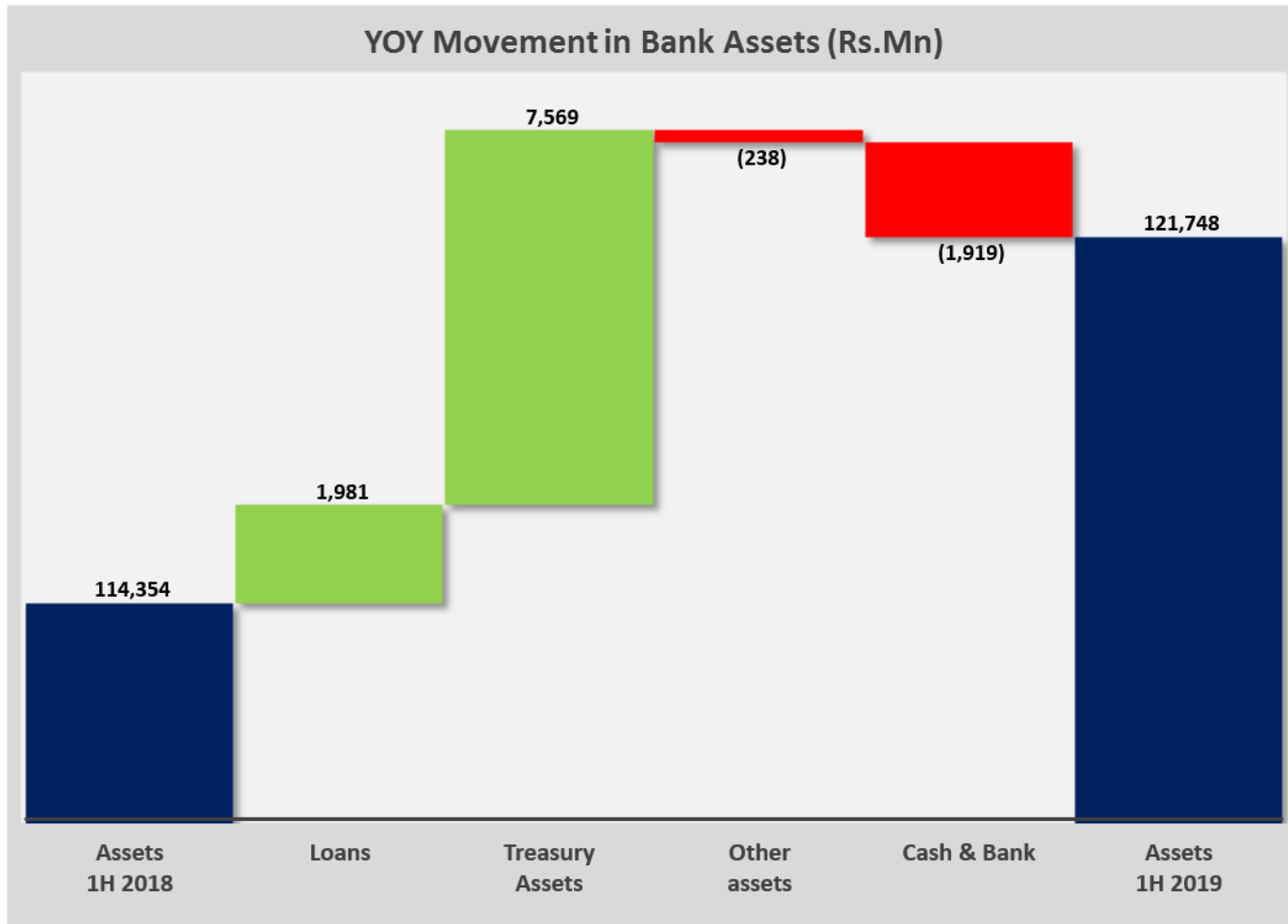


# Increase in profitability



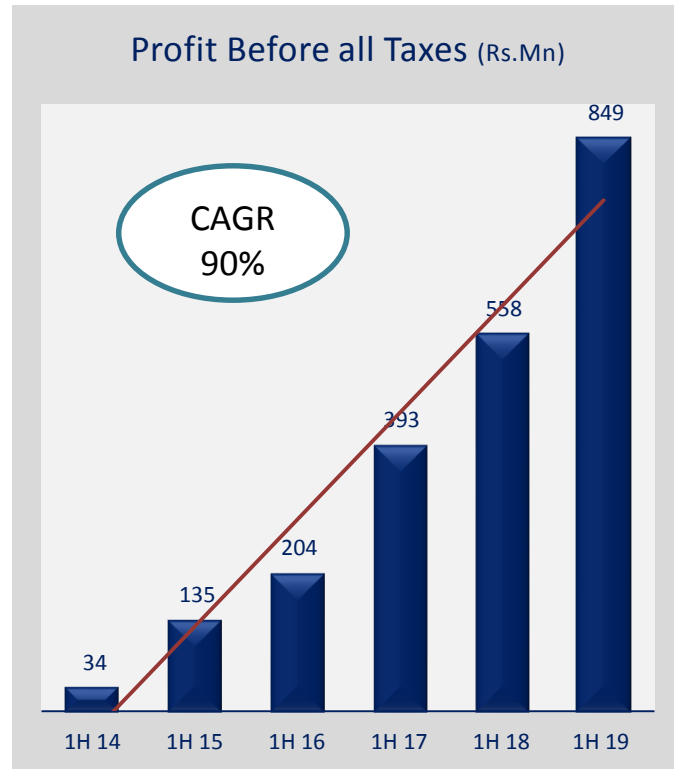
Operating improvement largely driven by NII growth

# Growth in assets

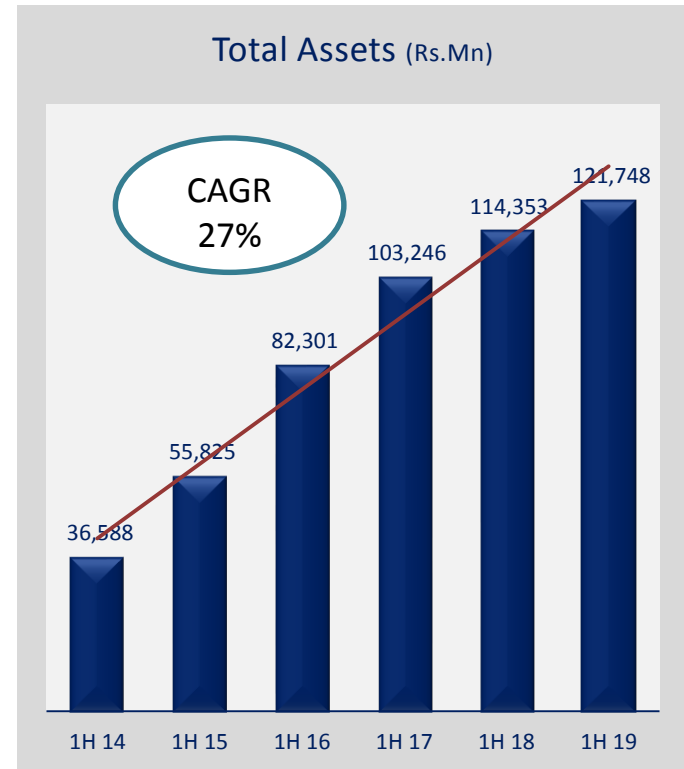


**Bank realigned its loan portfolio amidst volatility in the market**

# Substantial growth in profits over the years



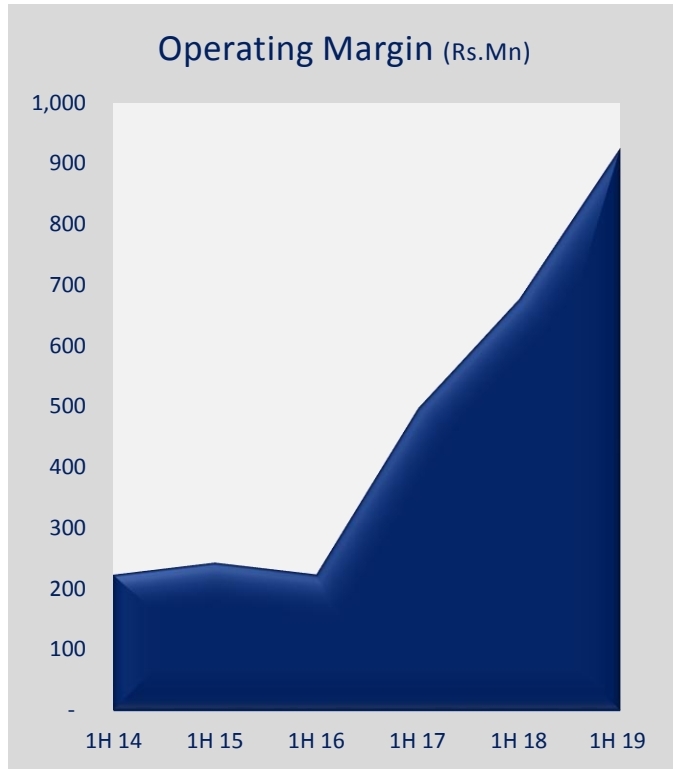
- YoY growth was 52%
- Industry\* CAGR was 12%
- CAGR of the Group was 39%



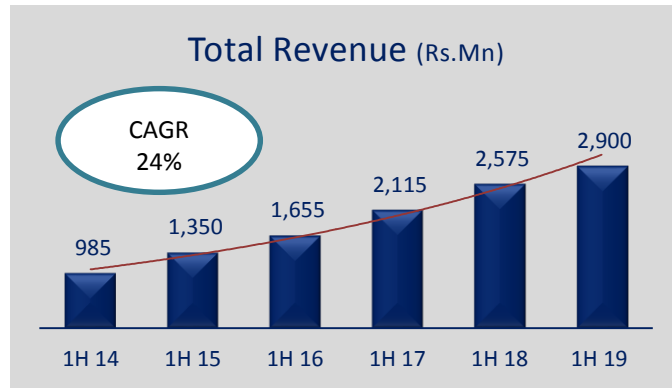
- YoY growth was 6%
- Industry\* CAGR was 14%
- CAGR of the Group was 27%
- Bank amounts to 93% of the current group

\* Industry data comparison from 1Q 2014 to 1Q 2019

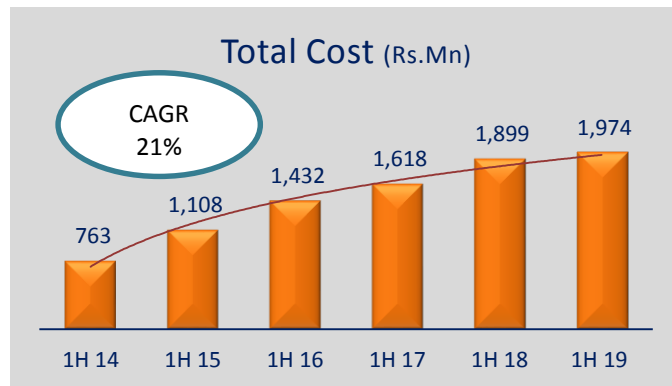
# Increasing Operating Margin



Effective revenue and cost management has resulted in widening jaws

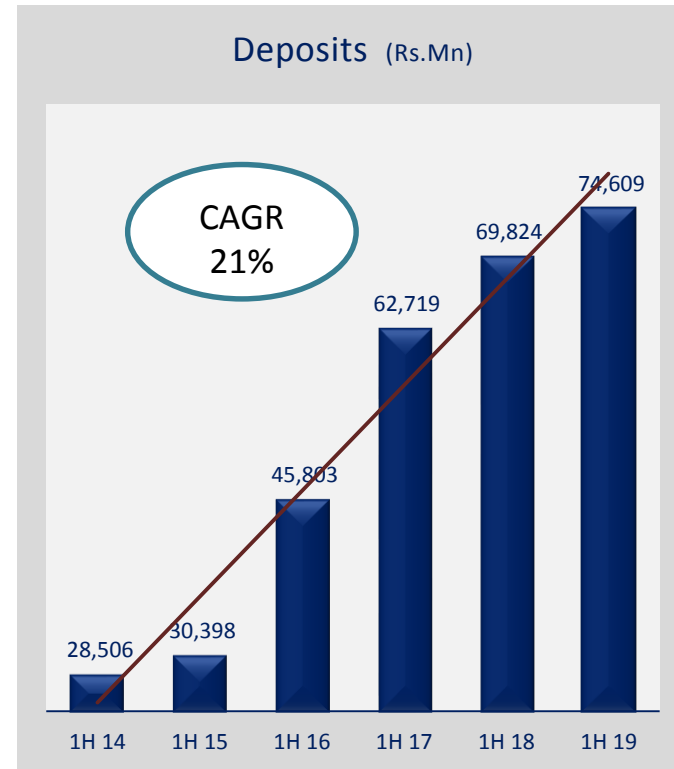
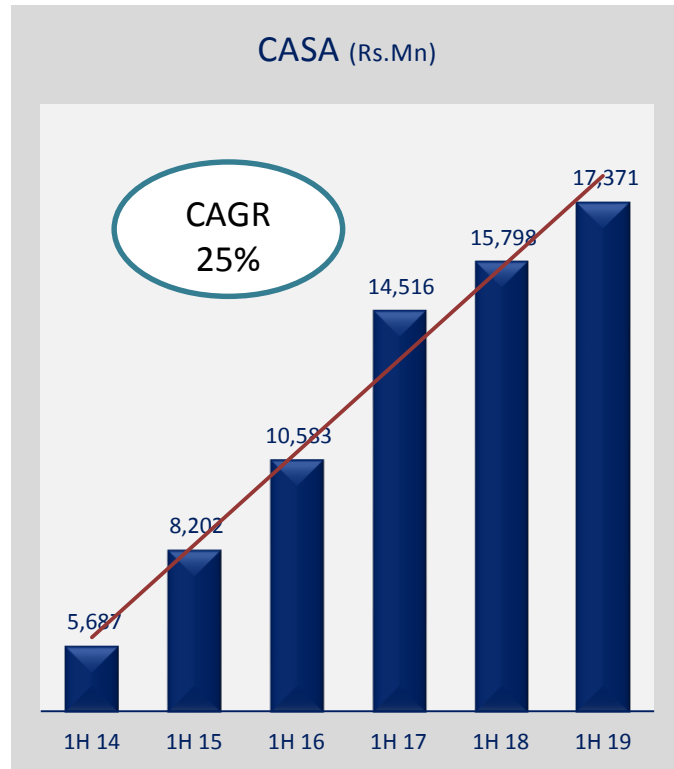


Exponential growth in revenue



Infrastructure investments were done in the initial stages

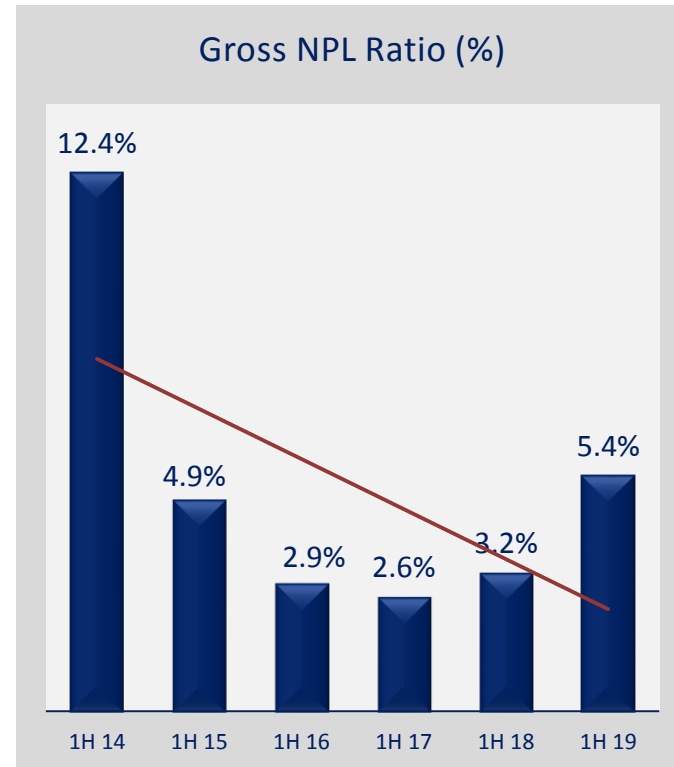
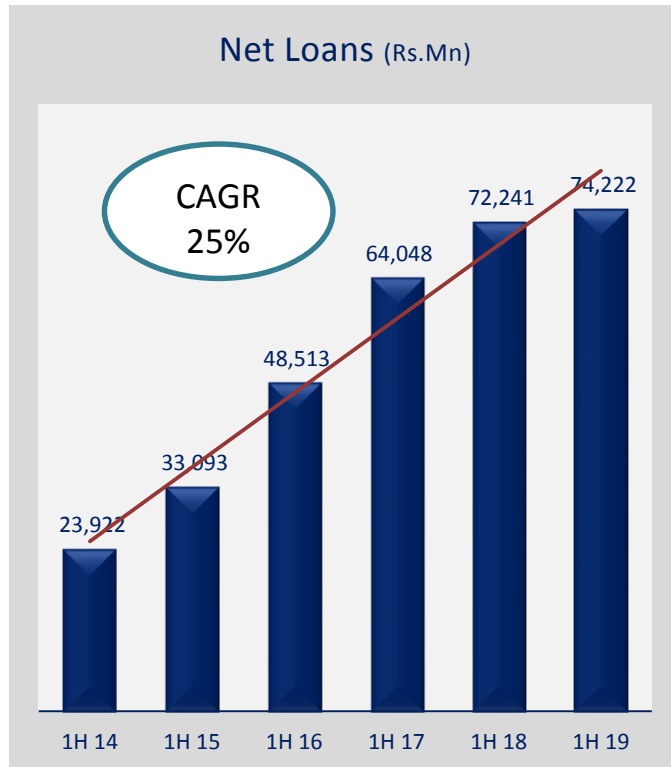
# Above industry growth continues



- YoY growth was 10%
- Industry\* CAGR is 13%

- YoY growth was 7%
- Industry\* CAGR is 15%
- CAGR of the Group was 21%
- Bank amounts to 92% of the group

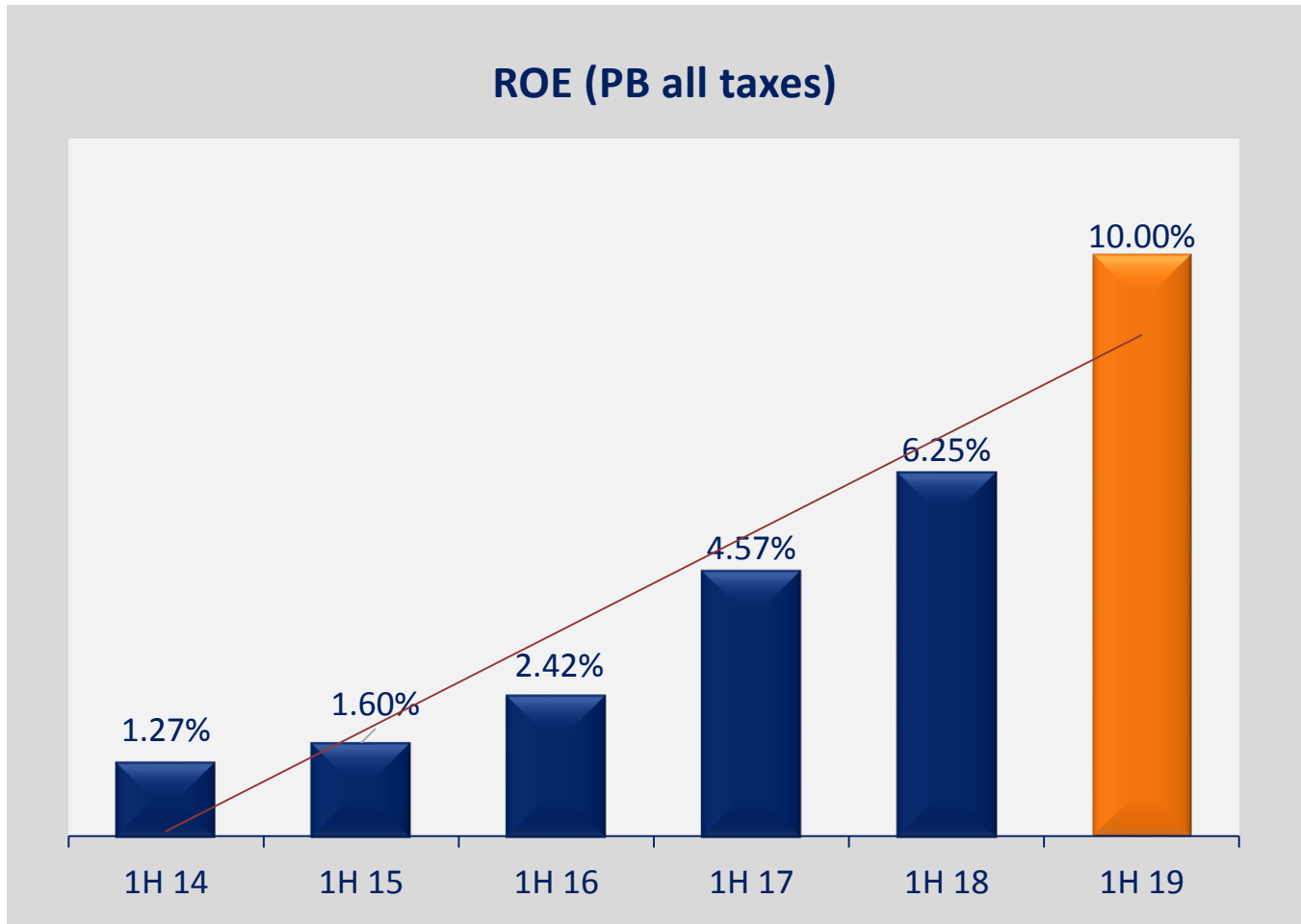
# Credit Growth & NPL



- YoY growth was 3%
- Industry\* CAGR was 18%
- CAGR of the Group was 26%
- Bank amounts to 93% of the current group

- Composition of the incremental NPLs are mostly secured
- Lower denominator growth is contributing to the increase in the ratio

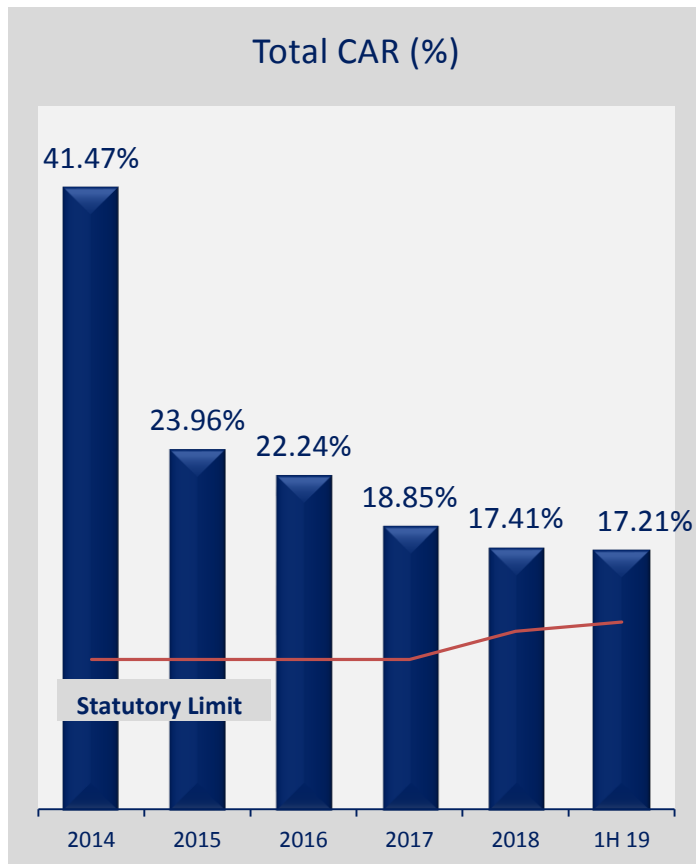
# Significant improvement in ROE



**Adjusted\* ROE of 15%; improving ROE is a key focus area**

\* Adjusted for excess capital and legacy non core investment

# One of the highest capitalised banks in Sri Lanka



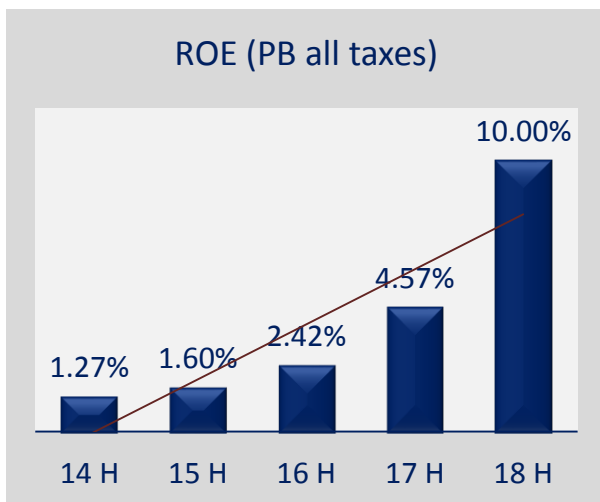
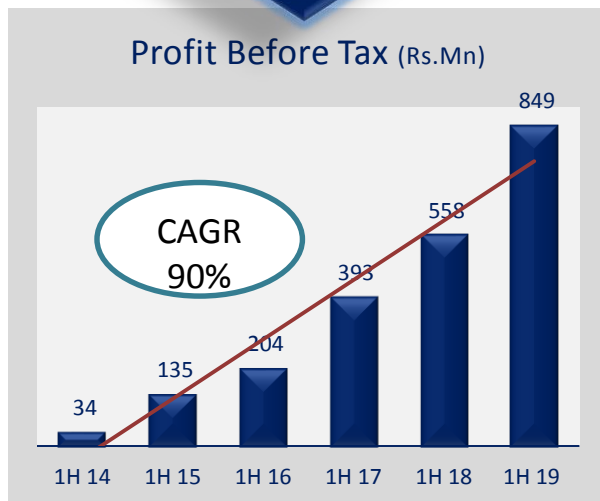
- Ample opportunity for organic & inorganic Growth.
- On track to comfortably meet minimum capital requirement of Rs. 20Bn.
- Current excess capital is approximately Rs. 4.1Bn.
- Rs.3,274Mn worth of warrants issued to TPG.
- Impact on capital due to first time adoption of IFRS 9 is 0.25%. Only ¼ of the full impact was considered into the capital computations.



## **Strategic Direction**

# Near term outlook

## Delivered to date



## Goals for 2019

- Profit before all taxes growth 70% plus
- ROE (Pre all taxes) 11% - 13%  
(Adjusted\* 16% - 18%)
- Exit Cost to Income 55% - 57%
- NPL ratio to be below industry average
- Capital adequacy to remain at same levels

\* Adjusted for excess capital and legacy non core investment

# Competitive advantage

## Capital

Robust Capital Adequacy

Internal accruals

Rs 3.5bn worth of warrants issued to TPG

## People & Execution

Highest standards in ethics and governance

Performance driven culture

Key focus on productivity

Proficient team with specialist skills

Energetic and young workforce

## Operating Leverage

Alternate Channels

Digital Banking

Robust Analytics

Centralised Model

Flexibility

Less Brick & Motor

# Future outlook

## Our strategy

- Focus on business segments that are profitable and scalable.
- Credit cards to be a significant business proposition.
- Market leadership in Transaction Banking services.
- Stringent risk frameworks.
- Digital Banking as a key enabler
- Actively explore inorganic opportunities

## Our aspirations

- Profit before all taxes 4.5X in 3 years
- ROE (Pre all taxes) 30% - 35%
- Exit Cost to Income below 45%
- Retail & SME revenue contribution to be 70%
- Best in class NPL ratio
- Robust Capital adequacy



# Building a World Class Banking Franchise

Increased  
returns on  
equity to  
shareholders

Superior  
customer  
satisfaction

Increased  
employee  
satisfaction

Strategic CSR  
with focus on  
children and  
youth

Governance &  
Regulatory  
compliance at  
the highest  
level

 **UNION BANK**