

2018

HALF YEAR INVESTORS & ANALYSTS PRESENTATION

July 2018



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Outline

1 Our Journey

2 Our Focus

3 Operating Environment

4 Funding & Liquidity

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Our Journey



Our Journey

1960

Commenced operations as Nigeria Acceptances Limited (NAL) Bank – the pioneer merchant bank in Nigeria

2011

Sold non-core businesses following the repeal of the Universal Banking Act by the CBN

Acquired Equitorial Trust Bank (ETB)

2015

Organizational restructuring along business lines



2006

Merged with Indo-Nigeria Merchant Bank (INMB), Magnum Trust Bank, NBM, and Trust Bank of Africa to form Sterling Bank Plc

2013

Raised N12.1 billion through a rights issue

Obtained non-interest banking license

Launched agent banking

2016

Deployed new CORE Banking application – Temenos T24

Established Bond & Commercial Paper (CP) issuance programmes

Launched the Sterling Environmental Makeover (STEM) campaigns

2008

Raised \$95 million from Citibank.

Launched our “One Customer” proposition

2014

Raised US\$120m (N19.1bn) through Private Placement

2017

Completed the implementation work to achieve Basel 2 compliance

Introduced **HEART** initiative to further drive sustainable banking

Launched the **AGILE** way of working to improve efficiency and speed to market

Our Journey

Total assets (N'b)

N1,072.2

10X

2017 1,072.2

2006 111.7

Gross earnings (N'b)

N133.4

10X

2017 133.4

2006 12.8

Equity (N'b)

N102.9

4X

2017 102.9

2006 26.1

Deposit (N'b)

N684.8

10X

2017 684.8

2006 68.9

Loans & Advances (N'b)

N598.0

15X

2017 598.0

2006 38.5

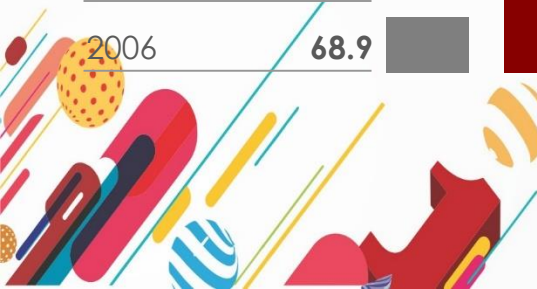
Active Customers

>3,000,000

10X

2017 >3,000,000

2006 300,000

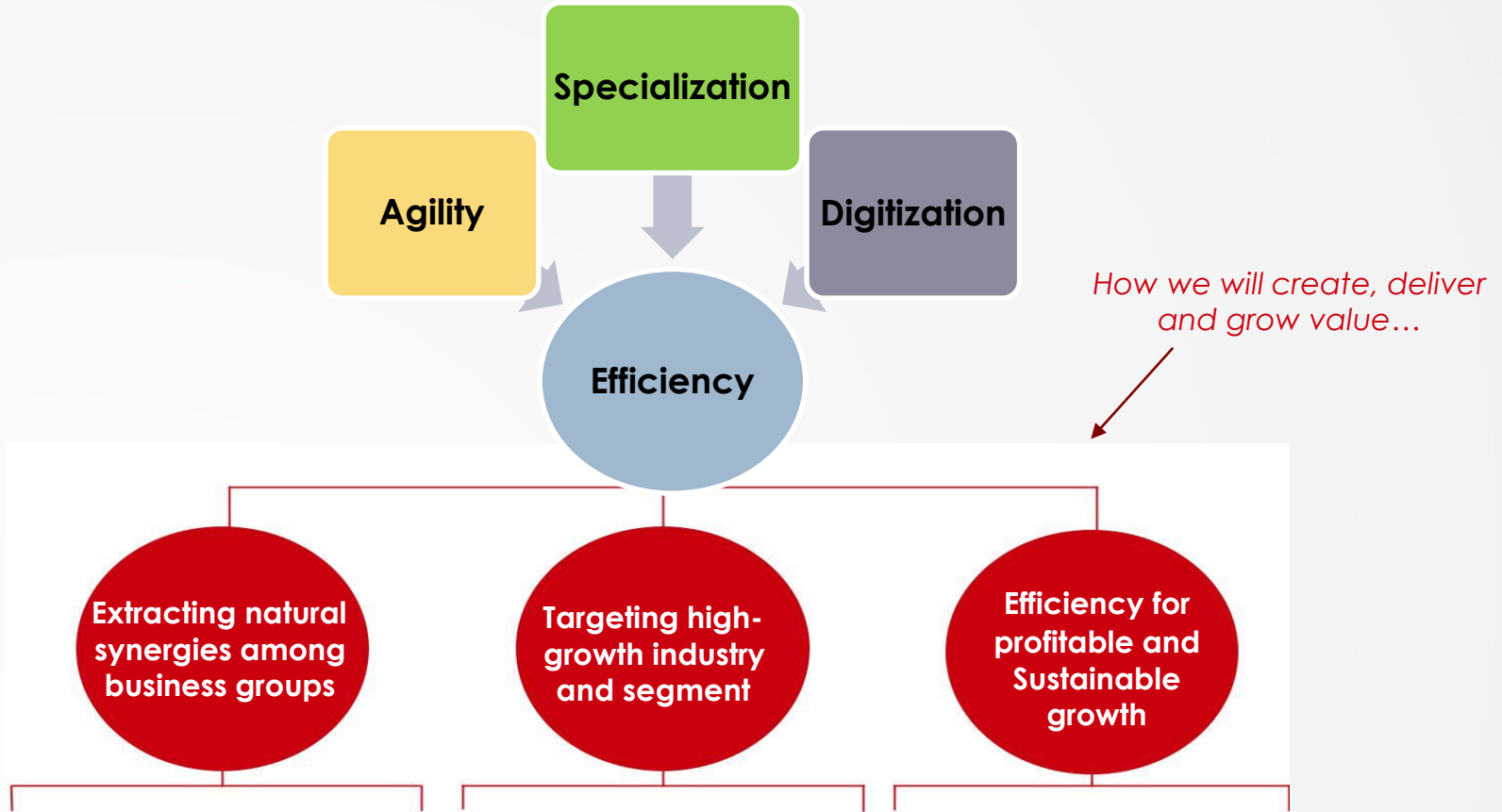


Our Focus



Our Focus

We have adopted the agile methodology to improve speed to market and customer experience. We will operate along focus sectors promoting business specialization across board.



Leveraging synergies and cross-selling opportunities

Forging deeper relationships with customers

Building customer networks across businesses

Acquiring new customers along defined segments

Using digital revolution to transform banking

Driving focus in specific sectors including HEART

Exploiting the group structure for value realization and enhanced operating efficiency

The **HEART** Initiative



HEALTH

- ✓ Improve healthcare delivery infrastructure through Equipment Financing
- ✓ Increase technical capacity across the sector through Capacity Building/Trainings
- ✓ Improve access to medical technology that improves health business by providing access and information to practitioners in the sector



EDUCATION

- ✓ Improve education infrastructure
- ✓ Provide access to finance for parents, schools and other stakeholders
- ✓ Invest in technology that enables easy learning and dissemination of information to students and teachers
- ✓ Seek strategic partnerships outside of Nigeria to enable foreign investment flows to the sector



AGRICULTURE

- ✓ Provide a platform that links all players within the industry while providing information to optimize businesses
- ✓ Enhance food supply across the value chain
- ✓ Increase technical capacity across the sector through Capacity Building/Trainings



RENEWABLE ENERGY

- ✓ Create a platform that enables the sale of renewable energy solutions between electricity generators distributors and users
- ✓ Financing large projects that provides electricity to communities and businesses
- ✓ Create partnerships to encourage the flow of foreign investments into the renewable space and bridge the service gaps which currently exist



TRANSPORTATION

- ✓ Invest in technologies that ensure efficient collections for transport businesses
- ✓ Provide financing that enables transport business scale up from their current models
- ✓ Create partnerships with experts outside of Nigeria to test new business models ensure efficient transportation of economic resources

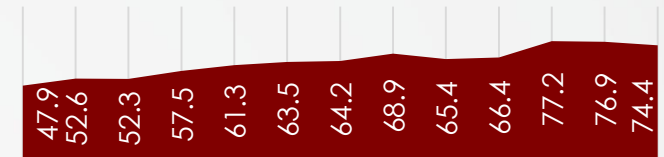
Operating Environment



Macro profile

- The Nigerian economy continued to show some positive signs though growth remains relatively at a slow pace. Higher oil prices, improved foreign exchange liquidity and significant decline in inflation have fueled the economic performance thus far;
- Headline inflation rate continued to trend downwards in 2018 to 11.2% as at June 2018 given a more stable exchange rate relative to 2017;
- Brent crude oil rose to \$74pb as a result of the conformity of OPEC and key non-OPEC countries to the deal on production cut, strong global economic growth and supply disruptions in some oil producing countries;
- External reserves also continued to rise grow amidst steady oil production and relatively stable high oil prices, reaching US\$47.6bn in June 2018 from US\$30.2bn in the same period in 2017;
- The Monetary Policy Rate (MPR) was held constant at 14%, CRR at 22.5% and liquidity ratio at 30% in response to inflationary pressures.
- On the regulatory stance, the CBN released operational guidelines to kick-off utilization under the PBoC-CBN Bi-lateral Currency Swap and Small & Medium Enterprises Equity Investment Scheme (SMEEIS) which we expect to positively impact small and medium enterprises (SMEs).

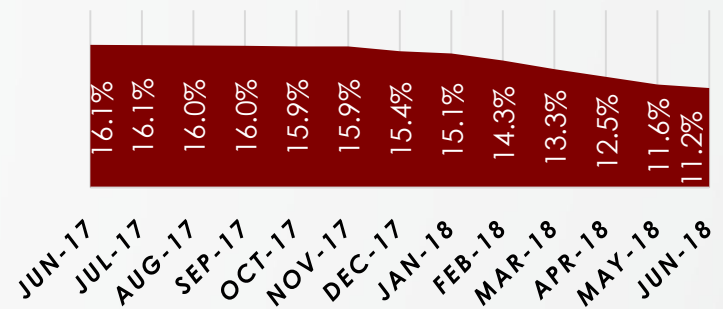
BRENT OIL PRICE TREND-(US\$)



FOREIGN RESERVES POSITION
(US\$'BN)



HEADLINE INFLATION RATE (%)



Performance highlights

Financials (N'm)

Total Assets 1,039,075	↓	Loans & Advances 628,002	↑	Deposits 690,581	↑	Equity 104,285	↑
Gross Earnings 77,637	↑	Operating Income 40,595	↑	Profit Before Tax 6,363	↑	Profit After Tax 6,214	↑
Net Interest Margin 6.2%	↓	Cost-to-income Ratio 79.8%	↓	Cost of Risk 0.8%	↑	Pre-tax ROAE 12.4%	↑

POS



5,500+

ATM



800+

USSD



620,100

BRANCHES



179

CUSTOMERS



>3,000,000

STAFF



2,253

MOODY'S B2

FitchRatings B-

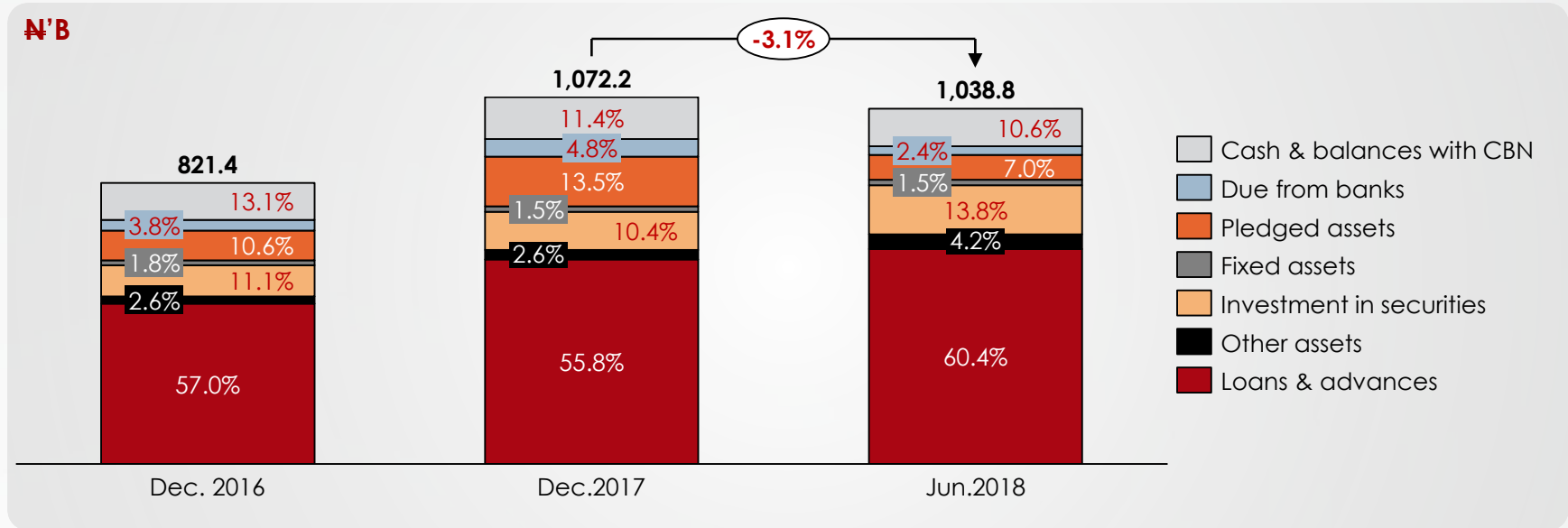
GCR BBB

DataPro BBB+

Funding & Liquidity



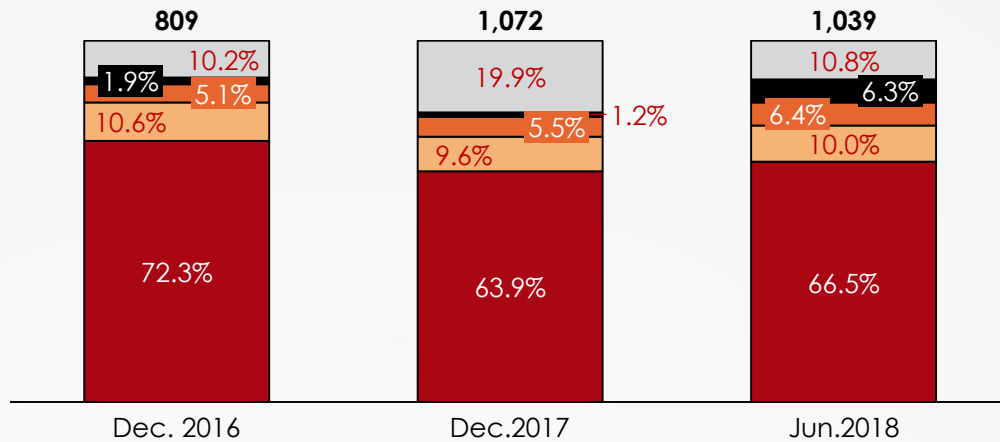
Assets growth trend



Comments

- Total assets declined marginally by 3.1% to N1,039 billion on the back of maturity of securities and amortisation of fully utilised intangible assets;
- Earning assets accounted for 83.2% of total assets at N864.7 billion (Dec. 2017: 73.1%);
- Consequently, yield on earning assets improved by 10bps to 14.4% (Dec. 2017: 14.3%).

Funding mix



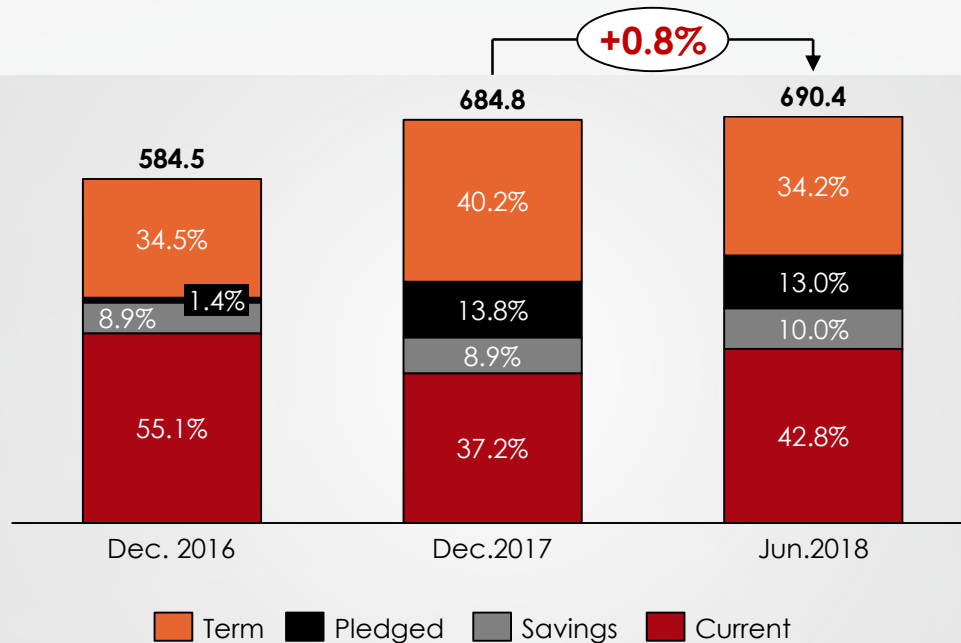
Borrowings
 Debt securities
 Other liabilities
 Equity
 Deposits

Foreign Funds	Jun-18	% of Total	Dec-17	% of Total	% Growth
Citibank	-	-	7,664	3.6%	-
Standard Chartered Bank	-	-	11,756	5.5%	-
African Export/Import Bank	16,663	14.8%	19,963	9.4%	-16.5%
Islamic Corporation Development Bank	6,987	6.2%	14,712	6.9%	-52.5%
Foreign Sources	23,650	21.1%	54,095	25%	-56.3%
Central Bank Of Nigeria	84,454	75.4%	155,451	73.0%	-45.7%
Due to BOI	1,263	1.1%	1,678	0.8%	-24.7%
NMRC	2,562	2.2%	1,622	0.8%	58.0%
Domestic	88,280	78.9%	158,751	75%	-44.4%
Total	111,930	100.0%	212,846	100.0%	-47.4%

Comments

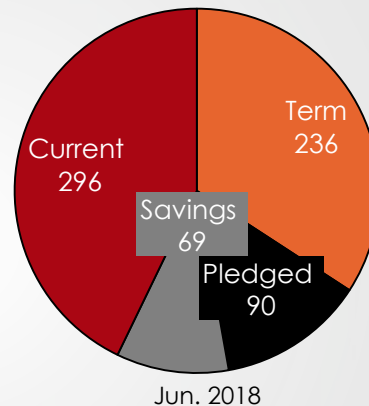
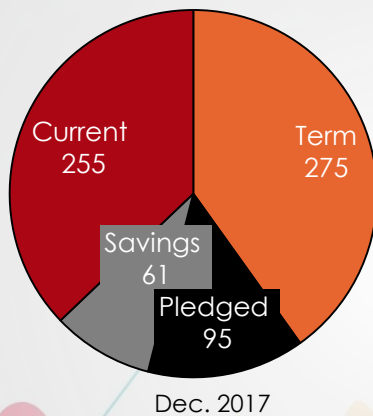
- Customer deposits remained the major source of funding accounting for 66.5% of total assets (Dec 2017: 63.9%);
- Equity grew by 2.3% to N104 billion from N102 billion as at December 2017;
- Total Borrowings decreased by 47.4% to N111.9 billion (Dec. 2017: N212.8 billion) due to repayments;
- Funding from domestic sources accounted for 78.9% of borrowings, while foreign sources accounted for 21.1%;
- Funding from the CBN and Bank of Industry represents intervention funds for on-lending to critical sectors.

Deposits



Comments

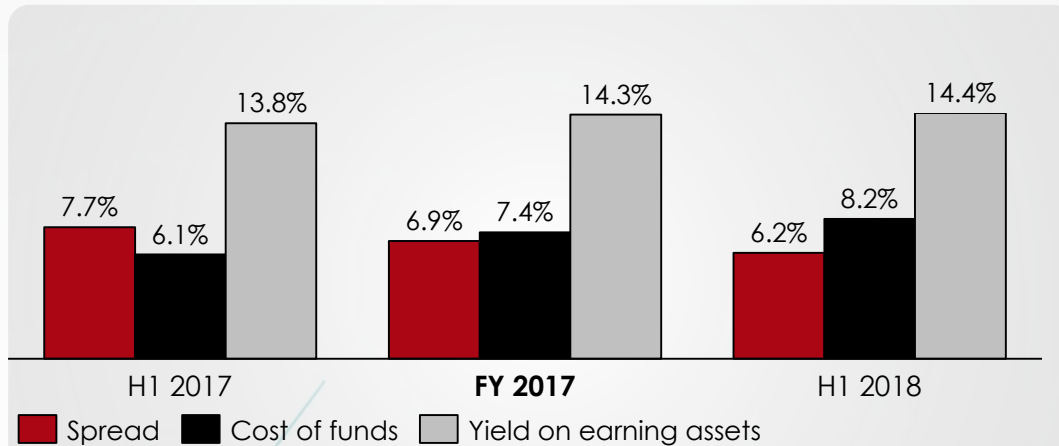
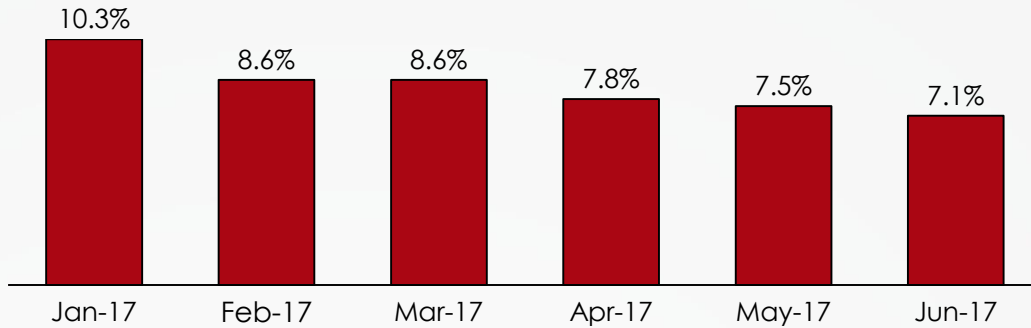
- Deposits increased by 1% to N690.4 billion from December 2017 as we continued to diversify our funding sources;
- Savings deposits grew by 17.7% and accounted by 10.0% of total deposits (Dec. 2017: 8.9%) re-affirming the banks retail focus;
- Wholesale deposits declined by 9.8% from December 2017;
- While low cost deposits increased by 11.0% from December 2017;
- We expect to see significant reduction in funding costs on the back of this deposit trend coupled with moderation in money market yields.



Legend: Term (Orange), Pledged (Black), Savings (Grey), Current (Red)

Net interest margin

■ Cost of Funds



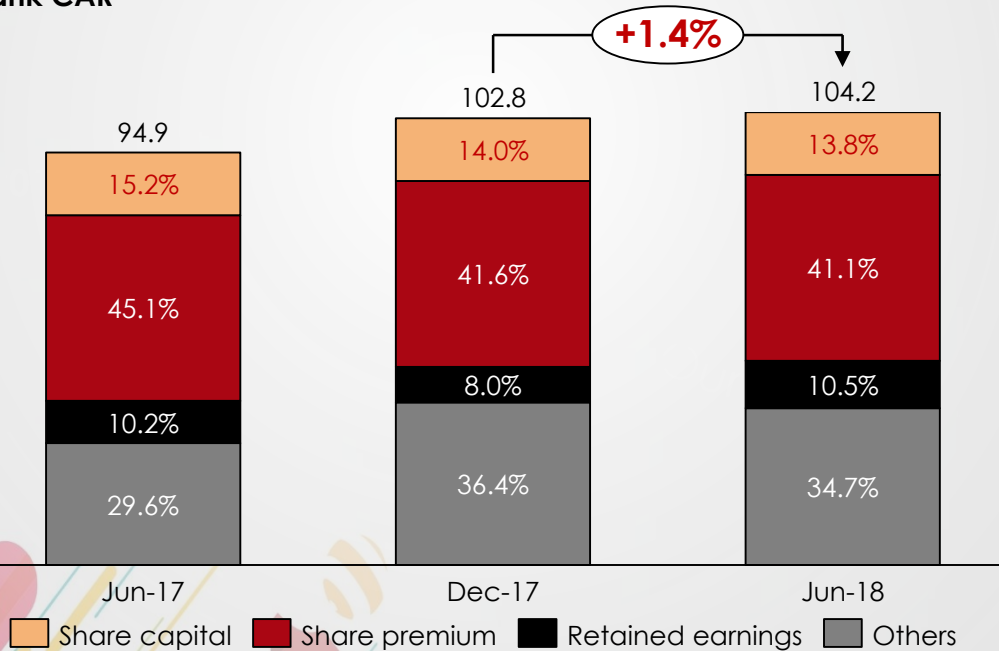
Comments

- Yield on earning assets grew by 10 basis points to 14.4% (FY 2017: 14.3%), while funding costs increased by 80 basis points to 8.2% (FY 2017: 7.4%);
- However monthly funding costs have been on the decline from January 2017;
- Overall, net interest margin declined marginally by 70 basis points to 6.9%.

Capital

Items (N'm)	Jun. 2018	Dec. 2017	% Growth
Tier 1 capital	80,235	80,498	-0.3%
Tier 2 capital	4,707	2,578	82.6%
Total regulatory capital	84,942	83,076	2.2%
Risk-weighted assets	700,774	708,114	-1%
Tier 1 ratio	11.4%	11.4%	
Tier 2 ratio	0.7%	0.4%	
Capital adequacy ratio	12.1%*	11.7%	0.4%

*Bank CAR



Comments


- Capital adequacy ratio increased by 40bps to 12.1% above regulatory benchmark of 10% due to a reduction in risk weighted assets;
- Tier 1 capital, adjusted for regulatory deductions was relatively flat at N80.2 billion, representing 94.4% of total regulatory capital;
- Increase in shareholders funds due to profit accretion despite dividend payouts;
- We remain optimistic of our plan to raise additional capital in the second half of the year to further strengthen capital buffers for our business while improving our earnings capacity.

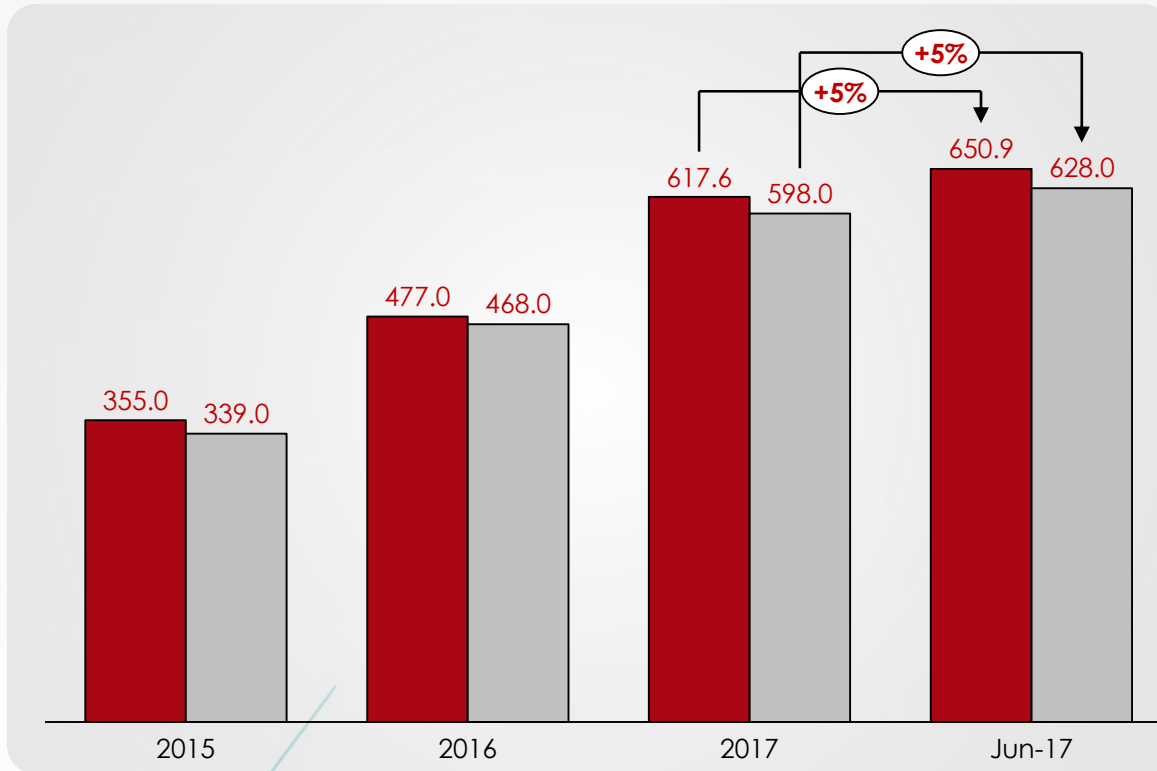
Credit Risk & Asset Quality



Loans and advances

N'B

 Gross Loans
 Net Loans



Comments

- Gross and net loans increased slightly by 5% to N650.9 billion and N628.0 billion respectively;
- Loans to consumers increased by 46% as we continue to gain significant traction in our retail lending on the back of our investment in **Specta**;;
- We remain committed to limit lending primarily to our priority sectors – Sterling **“HEART”** (Health, Education, Agriculture, Renewable Energy and Transport) where we are building expertise.

Loans and advances by sector

Sectors	Jun-2018		Dec-2017		Growth
	N'm	% of Total	N'm	% of Total	%
Agriculture	56,846	8.7%	50,091	8.1%	13.5%
Communication	15,457	2.4%	17,287	2.8%	-10.6%
Consumer	8,517	1.3%	5,720	0.9%	48.9%
Education	128	0.0%	884	0.1%	-85.5%
Finance and insurance	34,771	5.3%	40,322	6.5%	-13.8%
Government	50,695	7.8%	38,724	6.3%	30.9%
Manufacturing	5,867	0.9%	6,680	1.1%	-12.2%
Mortgage	5,902	0.9%	8,877	1.4%	-33.5%
Oil & Gas – downstream	74,612	11.5%	77,668	12.6%	-3.9%
Oil & Gas – upstream	131,339	20.2%	121,593	19.7%	8.0%
Oil & Gas – Services	56,814	8.7%	52,328	8.5%	8.6%
Others	62,551	9.6%	64,706	10.5%	-3.3%
Power	15,109	2.3%	22,665	3.7%	-33.3%
Real estate & construction	74,723	11.5%	62,085	10.1%	20.4%
Transportation	26,389	4.1%	20,681	3.3%	27.6%
Non-interest banking	31,230	4.8%	26,496	4.3%	17.9%
Total	650,957	100.0%	617,577	100.0%	5.4%



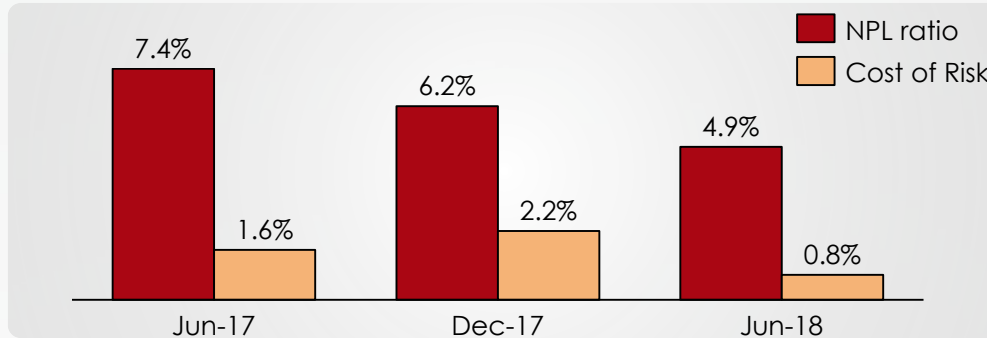
Loans and advances by currency

Sector N'm	FCY	LCY	Total	% of Sector Loans in FCY
Agriculture	-	56,846	56,846	-
Communication	-	15,457	15,457	-
Consumer	38	8,479	8,517	0.4%
Education	-	128	128	-
Finance and insurance	613	34,158	34,771	1.8%
Government	-	50,695	50,695	-
Manufacturing	1	5,866	5,867	0.0%
Mortgage	319	6,967	7,286	4.4%
Oil & Gas – downstream	5,797	69,001	74,798	7.8%
Oil & Gas – upstream	112,656	18,682	131,338	85.8%
Oil & Gas – Services	23,673	33,141	56,814	41.7%
Others	7,435	55,116	62,551	11.9%
Real estate & construction	12,013	62,709	74,722	16.1%
Transportation	12,280	14,108	26,388	46.5%
Power	14,865	243	15,108	98.4%
Non-interest banking	-	31,230	31,230	-
Gross Loans	189,038	462,826	650,957	29.0%

- Foreign currency (FCY) loans are largely concentrated in Oil & Gas, Real Estate, Power and Transportation sectors



Asset quality



Sector (N'm)	Non-performing Loans	% of Total
Agriculture	189	0.6%
Consumer	920	3.0%
Finance & Insurance	419	1.4%
Government	30	0.1%
Manufacturing	1,628	5.4%
Mortgage	1,349	4.4%
Oil & Gas	9,422	31.0%
Others	1,987	6.5%
Real Estate & Construction	1,214	4.0%
Transportation	13,226	43.6%
Total	30,358	100%

Comments

- We continued to experience significant improvement in asset quality as cost of risk declined basis points to 0.6% from 2.2% in December 2017 while NPL ratio declined to 4.9% from the 6.2% in Dec. 2017;
- Oli & Gas and Transportation sectors account for the highest NPLs;
- Non-performing loans declined to N30.4 billion with a 74% coverage ratio;
- We expect the uptick and stability in oil prices to improve asset quality and drive further repayments from oil and gas exposures.



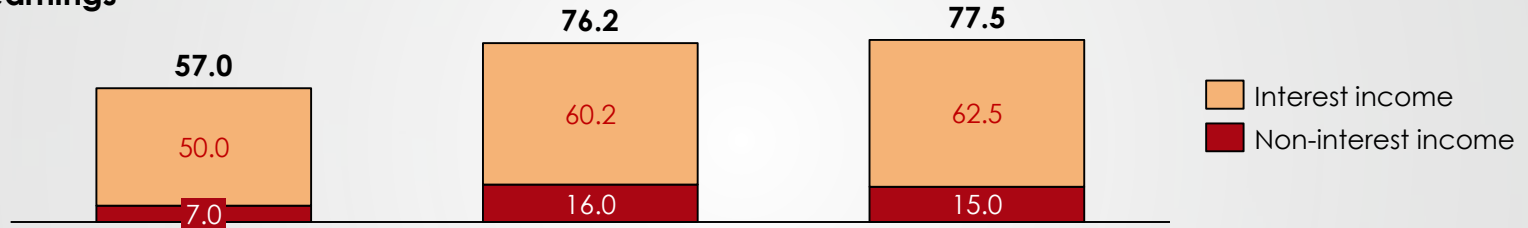
Earnings Profile



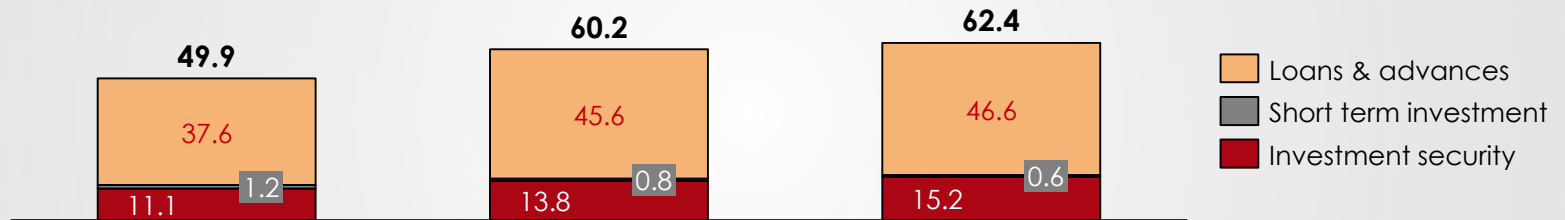
Revenue evolution (1/2)

N'B

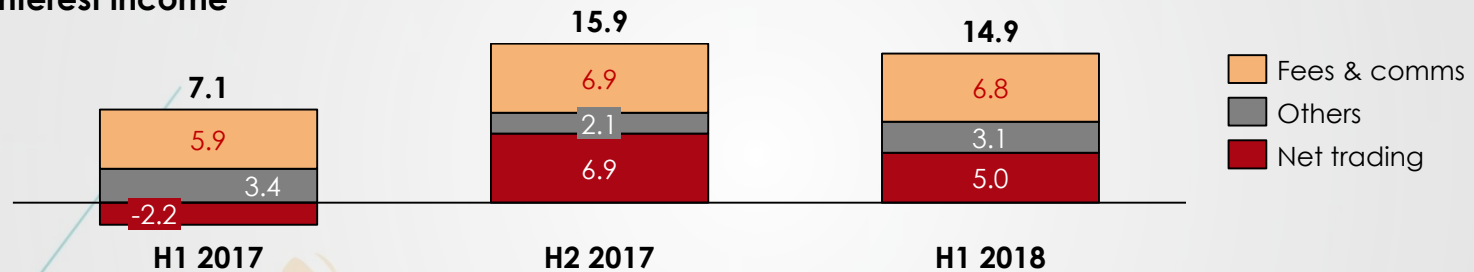
Gross earnings



Interest income



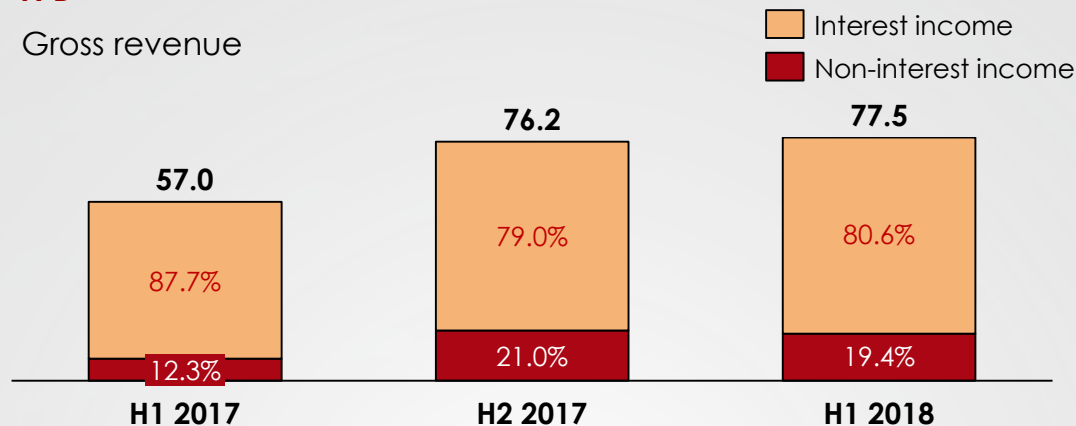
Non-interest income



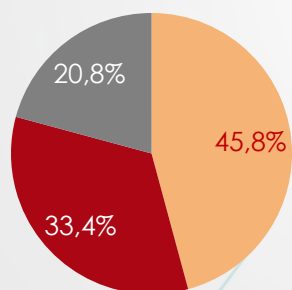
Revenue evolution (2/2)

N'B

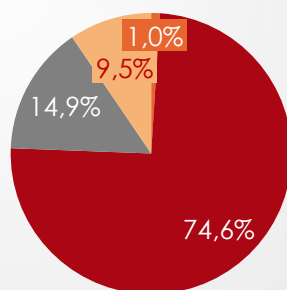
Gross revenue



Non-interest Income



Interest Income



■ Fees and commission income
■ Net gains on financial instrument
■ Other operating income

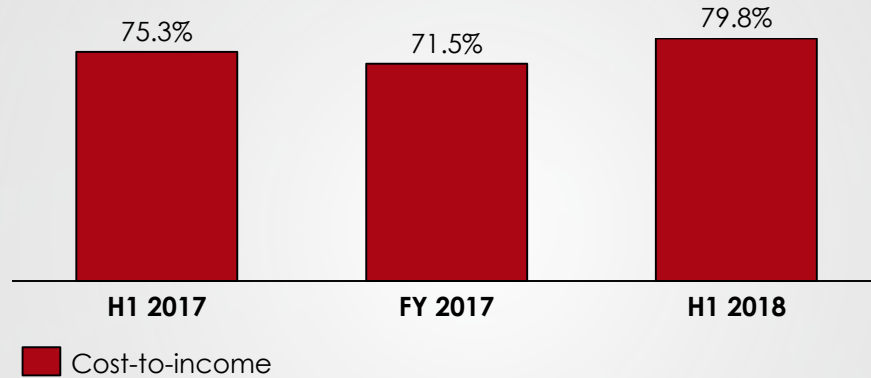
■ Cash and cash equivalent
■ Loan and advances to customers
■ Investment Securities
■ Investment Securities at amortised cost

Comments

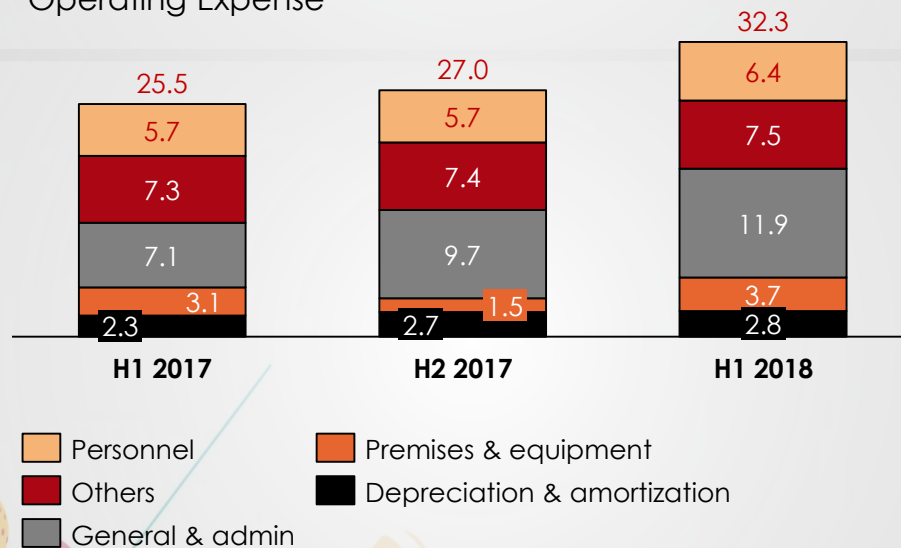
- We sustained our top-line earnings growth momentum as gross earnings rose by 35.9% to N77.5 billion from N57.0 billion in H1 2017;
- Interest income from loans & advances and investment securities were the major sources of earning and rose by 24.1% and 36.8% y-o-y respectively;
- Increase in non-interest income was largely driven by a growth in trading income as well as a 56.5% growth in transaction banking revenues, emphasizing our commitment to our retail drive.

Operating Efficiency

N'B



Operating Expense

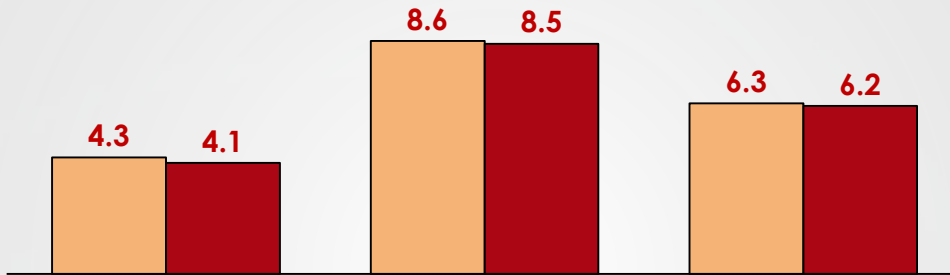


Comments

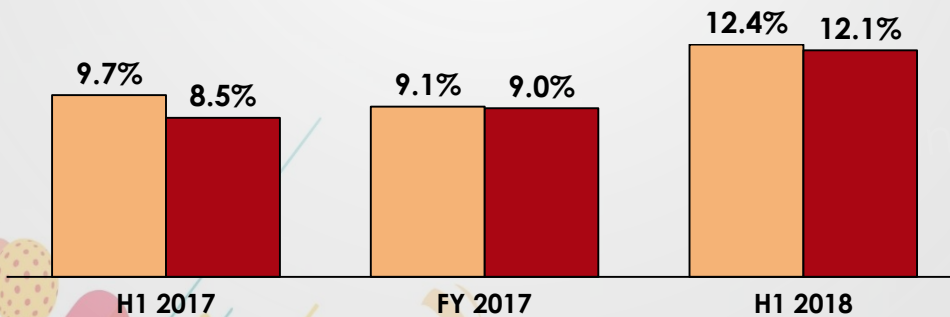
- Operating expenses increased by 26.6% y-o-y to N32.3 billion on the back of increased investments in the brand, technology and people;
- Depreciation and amortization increased by 21.7% y-o-y, while inflationary pressures continued to apply pressure on general administrative expenses;
- Credit loss expenses declined by 55.2% Y-o-Y to N1.8 billion (June 2017: 4.1 billion).

Profitability

N'B ■ Profit before Tax ■ Profit after Tax



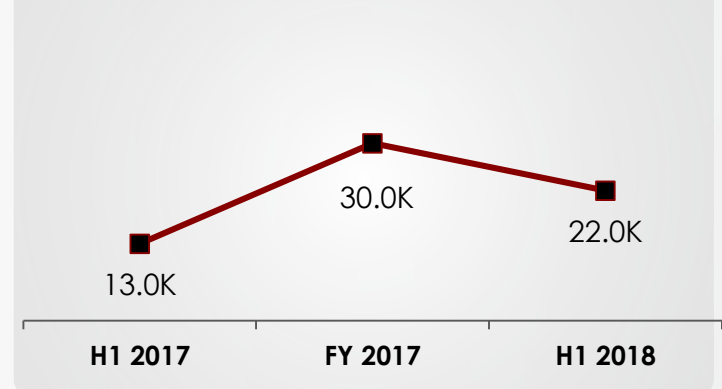
■ Pre ROAE ■ Post ROAE



Comments

- Profit before tax grew by 46.8% to N6.3 billion y-o-y while Profit after tax grew by 63.4% to N6.2 billion y-o-y resulting in post-tax Return on Average Equity of 12.1%;
- Return on asset also increased to 1.2% on the strength of improved bottom-line (H1 2017: 1.0%);
- Earnings per share grew by 69% to 22k (H1 2017:13k) on the back of improved earnings.

EPS



Financial ratios

Indicator	H1 2017	FY 2017	H1 2018
Pre-Tax Return on Average Equity (annualized)	9.7%	9.1%	12.4%
Post-Tax Return on Average Equity (annualized)	8.5%	9.0%	12.1%
Return on Average Assets (annualized)	1.0%	0.9%	1.2%
Earnings per Share	13k	30k	22k
Yield on Earning Assets	13.8%	14.3%	14.4%
Cost of Funds	6.1%	7.4%	8.2%
Net Interest Margin	7.7%	6.9%	6.2%
Cost to Income	75.3%	71.5%	79.8%
NPL Ratio	7.4%	6.2%	4.9%
Capital Adequacy Ratio	11.8%	11.7%	12.1%



Key Business Updates



Key Business Updates

- ❑ We continued to experience significant improvement in asset quality as cost of risk declined basis points to 0.6% from 2.2% in December 2017 while NPL ratio declined to 4.9% from the 6.2% in Dec. 2017;
- ❑ We sustained our earnings growth momentum with a double digit growth in line with our medium term goals;
- ❑ In line with our **digitization** drive we launched Sterling One Pay, an upgrade of our mobile and internet banking solution and I-invest, an application that gives retail customers instant access to investment in treasury bills;
- ❑ We concluded collaborative workshops on three of our five focus sectors with the objective of de-risking the businesses and improving their access to capital;
- ❑ We also commenced intensive trainings on our focus sectors as we look to develop organizational capabilities as part of our commitment to promote **business specialization**;
- ❑ We received the following awards to validate our commitment to the areas we have chosen:
 - ✓ **“Best Quality of Life in the Large Corporates”** - 2017/2018 Great Place to Work Awards
 - ✓ **“Healthcare Friendly Financial Institution of the Year”** - Nigeria Health Care Awards 2018
 - ✓ **“Most Utility Relevance to the Card Holder”** - Digital PayExpo Awards.

Appendix



2018 Guidance

Guidance

Deposit growth: **>15%**

Net loans growth: **<10%**

Pre-tax Return on average Equity (ROAE): **>15%**

Cost-to-income: **<75%**

NPL ratio: **< 5%**

Cost of funds: **<5%**



Highlights of financial position

<i>In millions of Naira</i>	June 2018	% of Total	June 2017	% of Total	% Growth
Assets					
Cash and balances with Central Bank of Nigeria	110,516	10.6%	92,176	9.6%	19.9%
Due from Banks	24,724	2.4%	60,603	6.3%	-59.2%
Pledged financial assets	72,876	7.0%	138,082	14.4%	-47.2%
Loans and advances to Customers	628,002	60.4%	524,023	54.7%	19.8%
Investment securities	143,529	13.8%	94,415	9.9%	52.0%
Other assets	31,297	3.0%	23,493	2.5%	33.2%
Property, plant and equipment	15,855	1.5%	16,180	1.7%	-2.0%
Intangible assets	1,800	0.2%	1,918	0.2%	-6.2%
Deferred tax assets	6,971	0.7%	6,971	0.7%	0.0%
Total Assets	1,039,075	100.0%	957,861	100.0%	8.5%
Liabilities					
Deposits from Banks	42,585	1.2%	1,575	1.0%	2603.8%
Deposits from Customers	690,581	68.5%	609,028	63.9%	13.4%
Current income tax liabilities	318	0.0%	888	0.0%	-64.2%
Other borrowed funds	111,930	12.5%	186,493	19.9%	-40.0%
Debt securities issue	65,413	4.4%	13,254	1.2%	393.5%
Other liabilities	23,668	4.3%	52,011	4.4%	-54.5%
Total Liabilities	934,790	91.0%	863,249	90.4%	8.3%
Total equity	104,285	9.0%	94,613	9.6%	10.2%
Total liabilities and equity	1,039,075	100.0%	957,861	100.0%	8.5%

Income statement highlights

<i>In millions of Naira</i>	Jun-2018		Jun-2017		Growth
	N'M	% of Total	N'M	% of Total	%
Gross earnings	77,637	100.0%	57,101	100.0%	36.0%
Interest income	62,589	80.6%	50,028	87.6%	25.1%
Interest expense	(37,042)	-47.7%	(23,010)	-40.3%	61.0%
Net interest income	25,547	32.9%	27,018	47.3%	-5.4%
Fees and commission income	6,896	8.9%	5,902	10.3%	16.8%
Net gain/(loss) on financial instrument at FVPL	5,021	6.5%	(2,258)	-4.0%	-
Other operating income	3,131	4.0%	3,429	6.0%	-8.7%
Non-interest income	15,048	19.4%	7,073	12.4%	112.8%
Operating income	40,595	52.3%	34,091	59.7%	19.1%
Impairment charges	(1,844)	-2.4%	(4,081)	-7.1%	-54.8%
Net operating income	38,751	49.9%	30,010	52.6%	29.1%
Personnel expenses	(6,409)	-8.3%	(5,749)	-10.1%	11.5%
Other operating expenses	(7,520)	-9.7%	(7,298)	-12.8%	3.0%
General and administrative expenses	(11,955)	-15.4%	(7,286)	-12.8%	64.1%
Other property, plant and equipment costs	(3,704)	-4.8%	(3,074)	-5.4%	20.5%
Depreciation and amortisation	(2,800)	-3.6%	(2,269)	-4.0%	23.4%
Total expenses	(32,388)	-41.7%	(25,676)	-45.0%	26.1%
Profit before income tax	6,363	8.2%	4,334	7.6%	46.8%
Income tax expense	(149)	-0.2%	(532)	-0.9%	-72.0%
Profit after income tax	6,214	8.0%	3,802	6.7%	63.4%



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Thank you

