

# Sterling Bank Plc

Analyst/Investor Presentation

Q3 2016



**Sterling Bank**  
The one-customer bank.



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# Overview

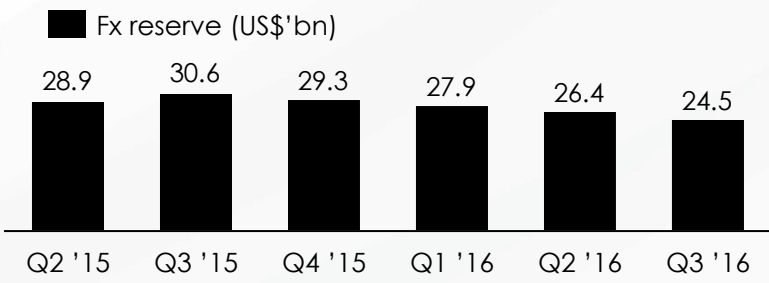
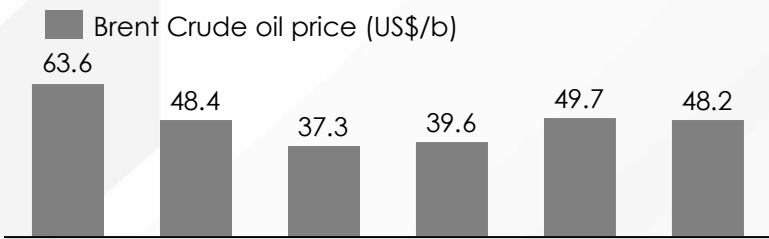
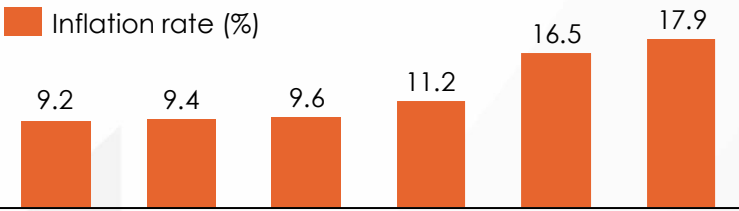


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# Operating Environment

- GDP contraction in three consecutive quarters of 2016 - Q1 (-0.36%); Q2 (-2.1%) and Q3 (-2.2%). We expect further negative growth in Q4 2016
- Brent has recorded a steady growth from US\$37.3pb in Dec. 2015 to US\$49.7pb as at end of June while closing at US\$48.42pb in September 2016
- Foreign reserves was down 16.4% to US\$24.5 in Sept. 2016 from US\$29.3bn as at Dec. 2015
- Headline inflation rate recorded a steady increase to 17.9% in September 2016 representing 830 basis points increase YoY
- Exchange rate depreciated by 8.1% to N304.8/US\$ from 282/US\$ in June 2016 following the liberalization of the foreign exchange market
- The CBN maintained its monetary policy tightening stance by retaining monetary policy rate at 14% in addition to other policy measures in response to inflationary pressures and shortage of foreign exchange



# Our Strategic Objectives

## Efficiency

### • Mid-term

- 5% market share measured by deposits
- Diverse retail funding base
- Non-performing loans below peer group average
- ROAE above peer group average
- Diversified income streams with top quartile position in all our operating areas
- Investment grade credit rating
- Double digit revenue growth Y-o-Y
- Cost of funds <5%

### • Long-term

- Globally competitive financial services franchise by financial and non-financial measures
- Fully sustainable business model with institutionalized processes beyond the stewardship of current owners and managers
- Leading consumer banking franchise (bank of choice for customers in our target markets)
- A trusted operator materially impacting all our segments of business participation
- Great place to work

# Ratings

## Moody's

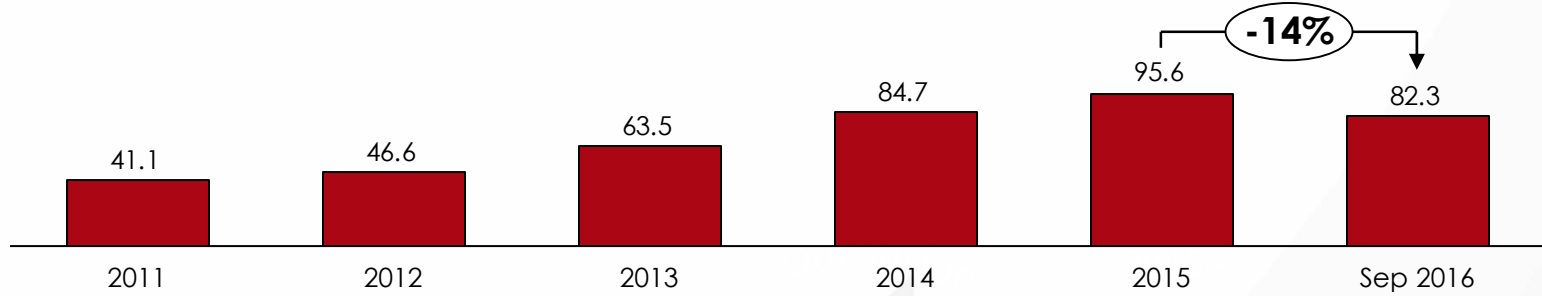
Long-term Local Currency and Foreign Currency Deposit ratings	B2 (Stable Outlook)
Short-term Local Currency and Foreign Currency Deposit ratings	Not prime
Long-term Local Currency and Foreign Currency Issuer ratings	B2 (Stable Outlook)
Short-term Local Currency and Foreign Currency Issuer ratings	Not prime
Baseline Credit Assessment	B3
Adjusted Baseline Credit Assessment	B3
Counterparty Risk Assessment	B1 (cr)

Ratings Agency	Short Term	Long Term	Outlook
GCR	A3	BBB	Stable
DATAPRO LIMITED	A2	BBB+	Stable

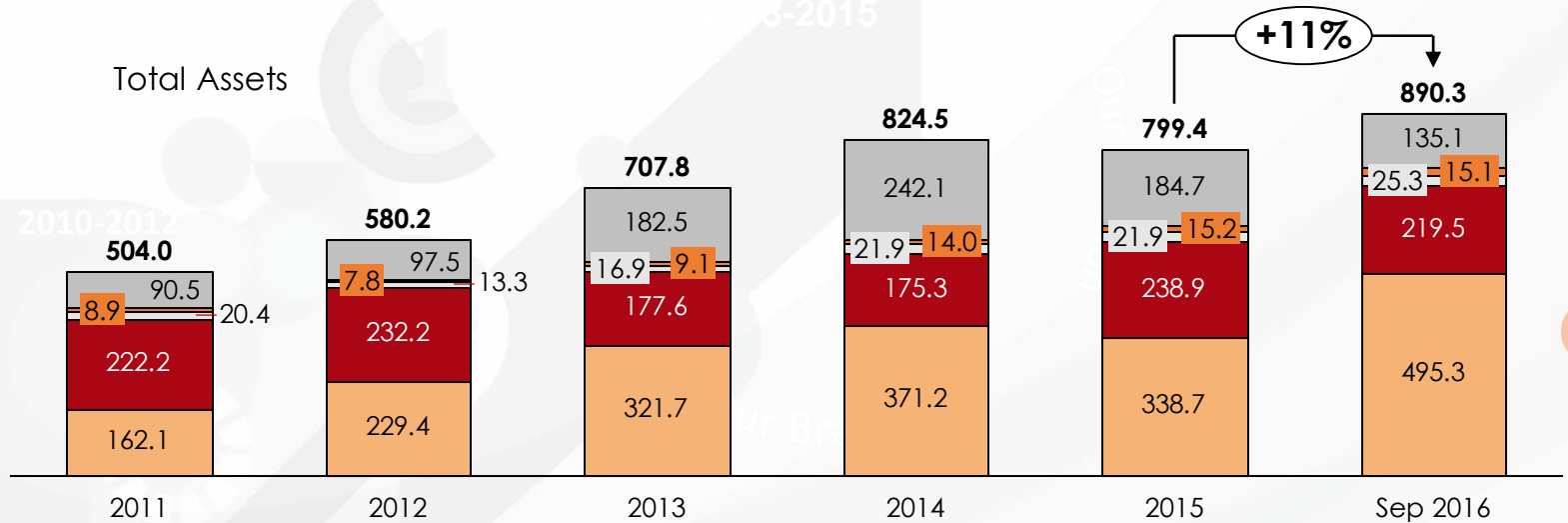


# Trend analysis – Equity & Total Assets

Equity



Total Assets

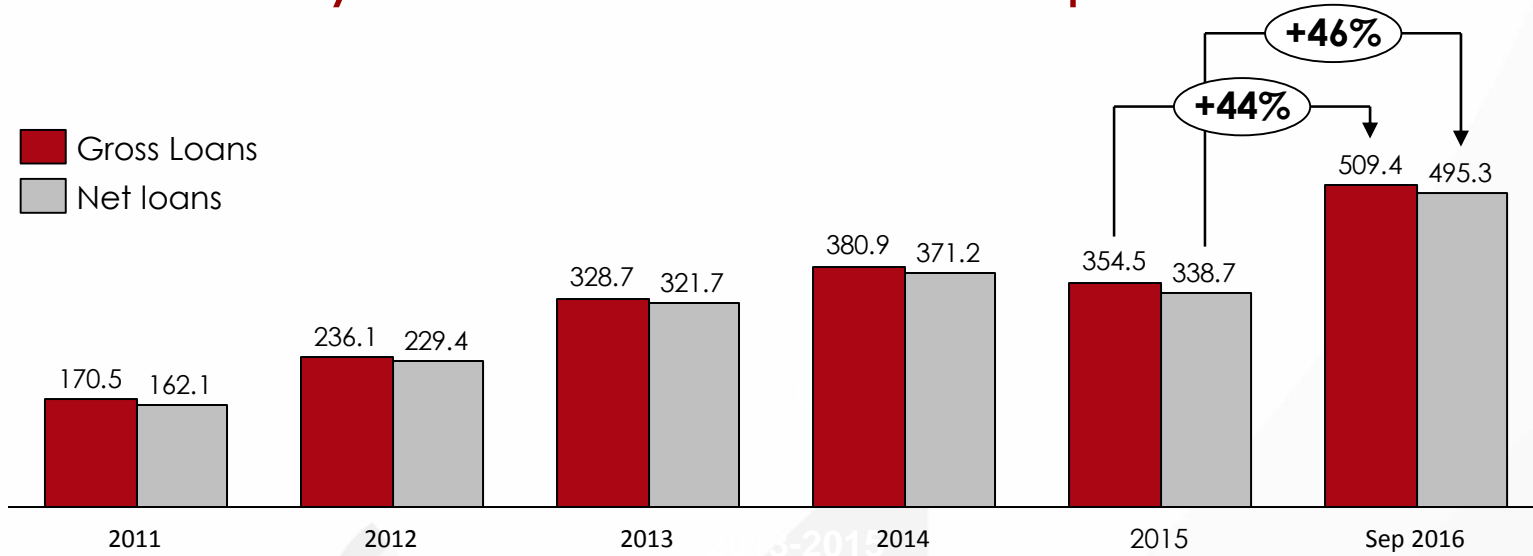


Cash & short term investments
  Fixed Assets
  Other Assets
  Government Securities
  Loans & Advances

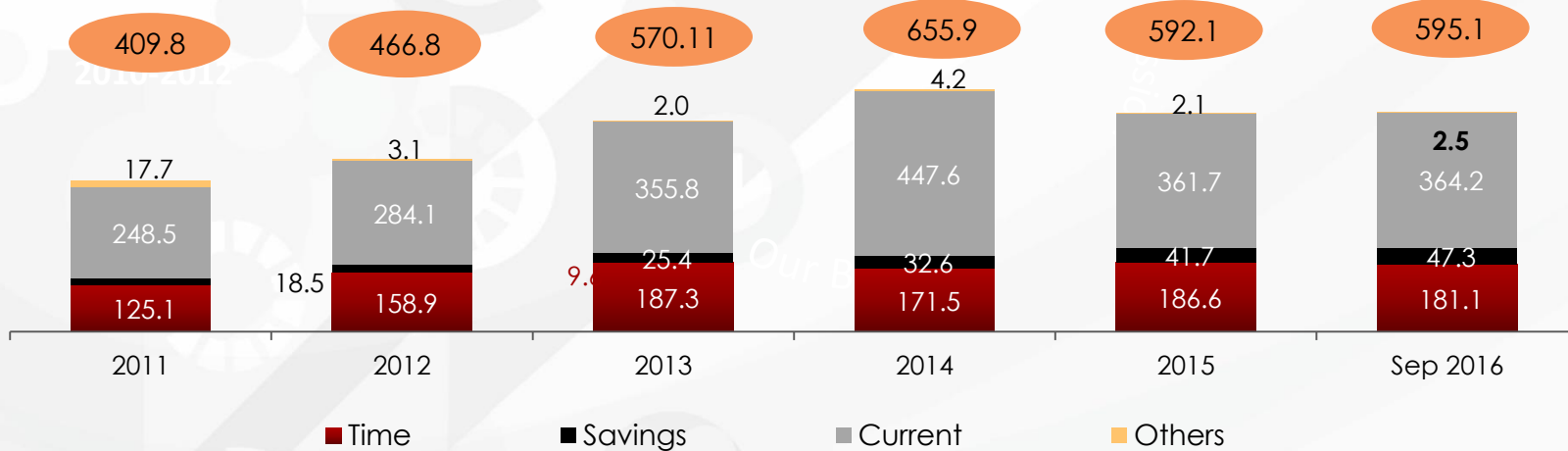


# Trend analysis – Loans and Deposits

■ Gross Loans  
■ Net loans



## Deposits



■ Time

■ Savings

■ Current

■ Others



# Performance Review

## - Earnings analysis

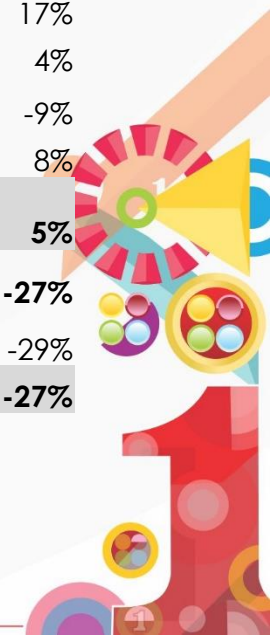


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# Income statement highlights

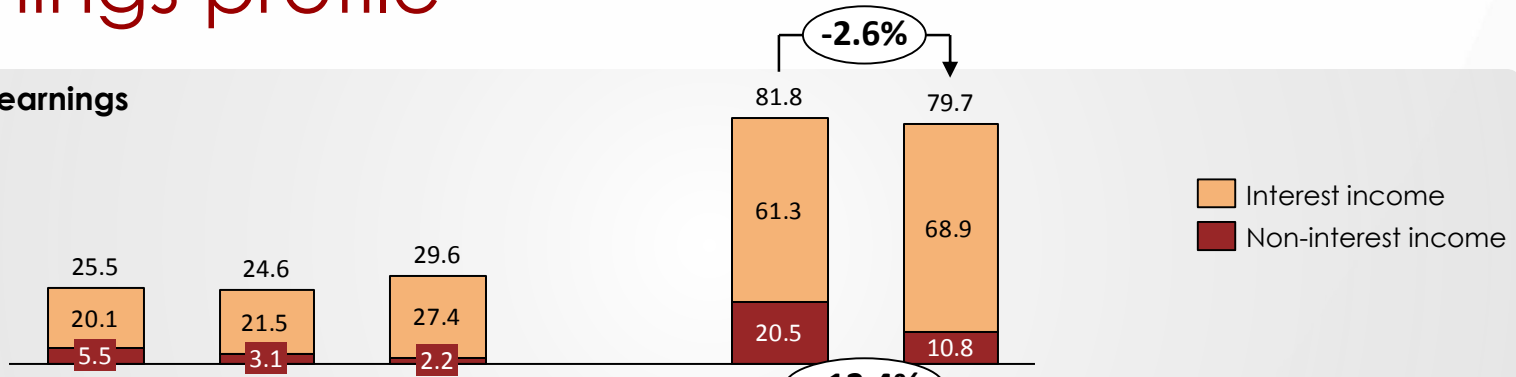
Descriptor (N'mn)	Sep 2016	% of Earnings	Sep 2015	% of Earnings	% Growth
<b>Gross Earnings</b>	<b>79,652</b>	<b>100%</b>	<b>81,812</b>	<b>100%</b>	<b>-3%</b>
Interest income	68,893	86%	61,294	75%	12%
Interest expense	(27,375)	34%	(31,124)	38%	-12%
<b>Net interest income</b>	<b>41,518</b>	<b>52%</b>	<b>30,170</b>	<b>37%</b>	<b>38%</b>
Fees and commission income	8,229	10%	12,782	16%	-36%
Net Trading income	1,391	2%	5,155	6%	-73%
Other operating income	1,139	1%	2,581	3%	-56%
<b>Operating income</b>	<b>52,277</b>	<b>66%</b>	<b>50,688</b>	<b>62%</b>	<b>3%</b>
Impairment charges	(7,199)	9%	(5,238)	6%	37%
<b>Net operating income</b>	<b>45,079</b>	<b>57%</b>	<b>45,450</b>	<b>56%</b>	<b>-1%</b>
Personnel expenses	(8,694)	11%	(8,722)	11%	0%
Other operating expenses	(10,442)	13%	(8,939)	11%	17%
General and administrative expenses	(12,931)	16%	(12,393)	15%	4%
Other property, plant and equipment cost	(3,844)	5%	(4,229)	5%	-9%
Depreciation and amortization	(3,096)	4%	(2,861)	3%	8%
<b>Total expenses</b>	<b>(39,008)</b>	<b>49%</b>	<b>(37,145)</b>	<b>45%</b>	<b>5%</b>
<b>Profit before income tax</b>	<b>6,071</b>	<b>8%</b>	<b>8,304</b>	<b>10%</b>	<b>-27%</b>
Income tax expense	(534)	1%	(757)	1%	-29%
<b>Profit for the period</b>	<b>5,537</b>	<b>7%</b>	<b>7,548</b>	<b>9%</b>	<b>-27%</b>



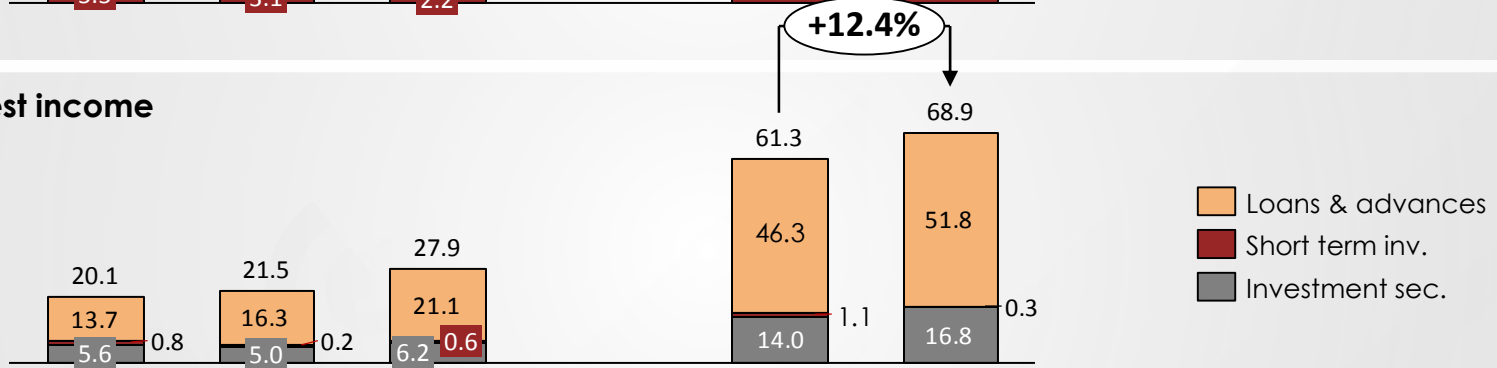
# Earnings profile

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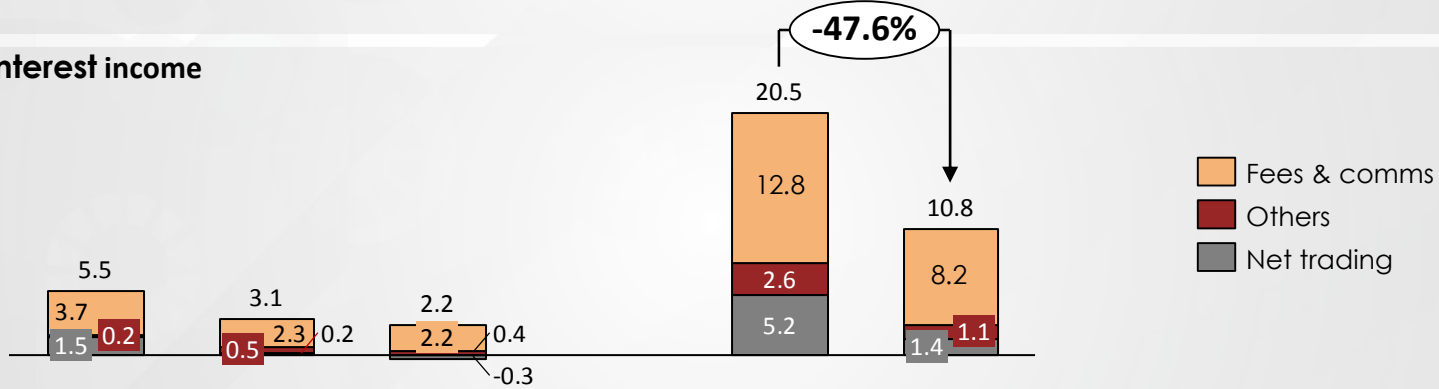
## Gross earnings



## Interest income



## Non-interest income



1Q 2016

2Q 2016

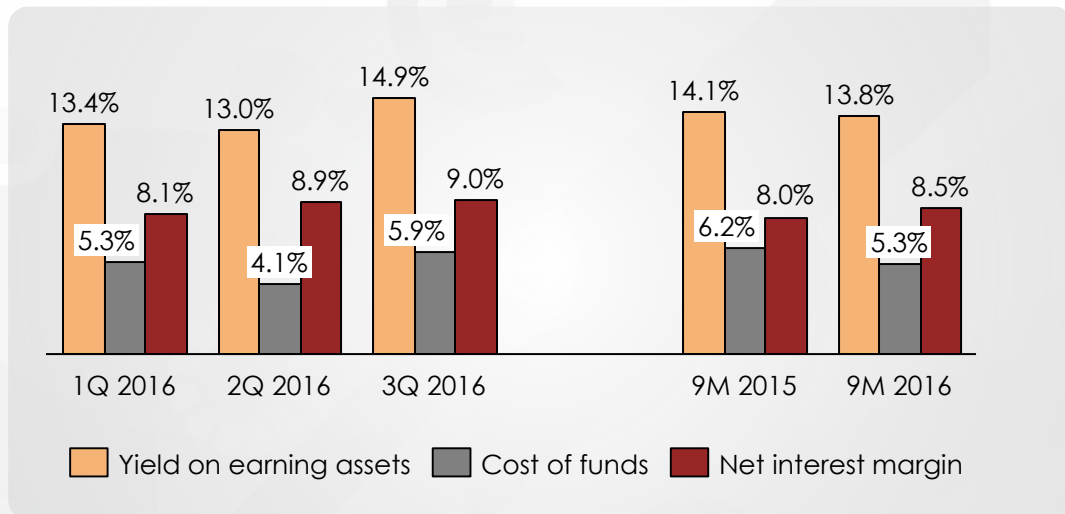
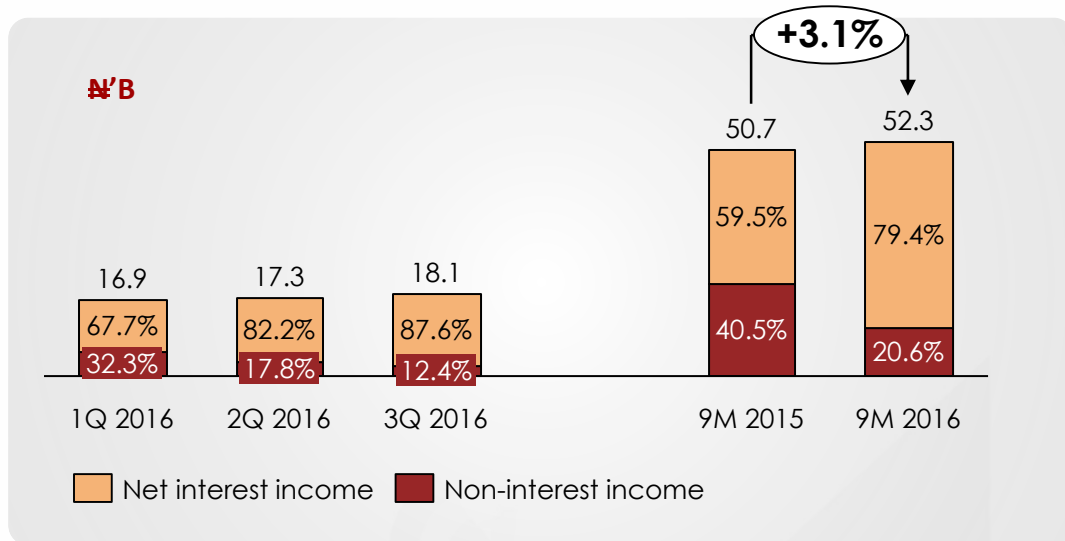
3Q 2016

9M 2015

9M 2016



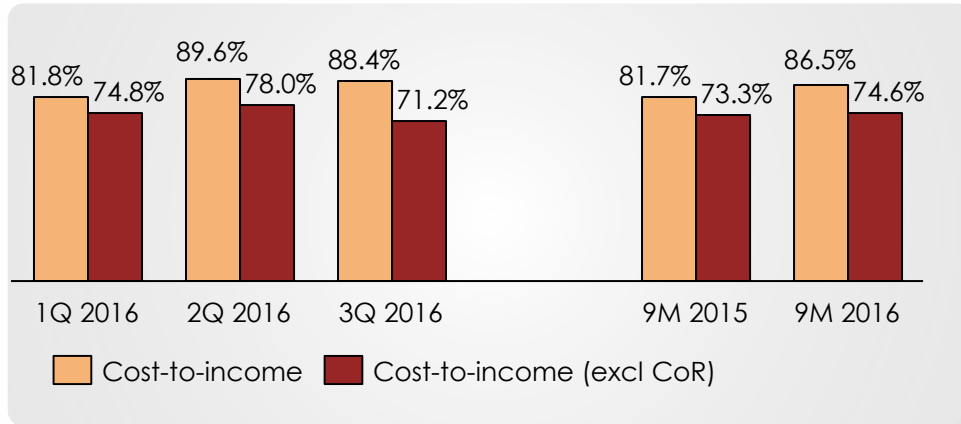
# Operating income



## Comments

- Earnings declined by 2.6% to N79 billion due to pressures on traditional revenue sources arising from weak macroeconomic conditions
- Operating income grew by 3.1% to N52.3 billion arising from a 37.6% growth in net interest income to N41.5 billion
- Yield on earning assets moderated by 30 basis points to 13.8% YoY, while cost of funds improved by 90 basis points to 5.3% resulting in a 50 basis points uptick in net interest margin
- We expect to preserve margins as we reprice assets in response to the high interest rate regime
- We plan to boost non-interest income by leveraging our investments in digital and transaction banking

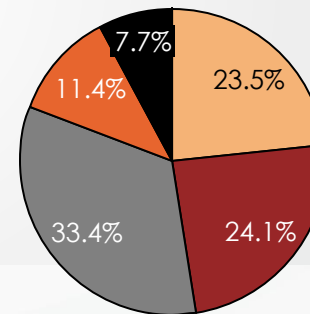
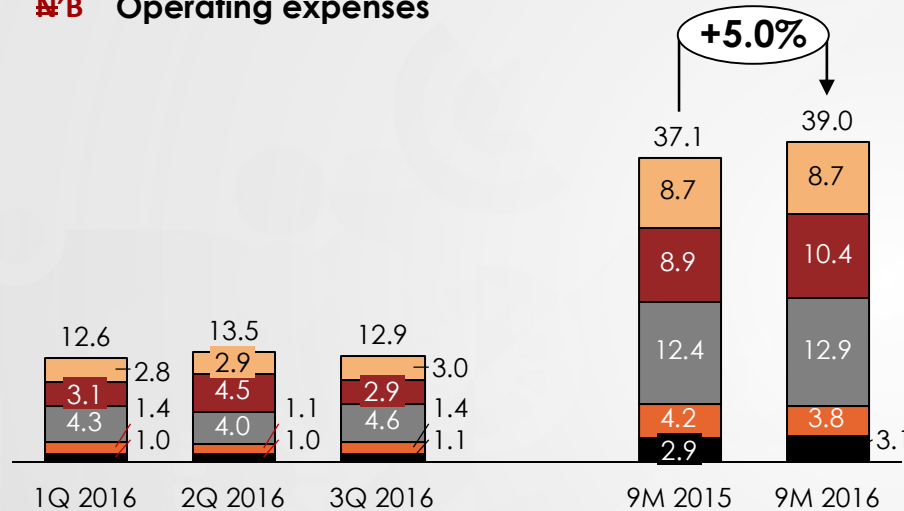
# Operating Efficiency



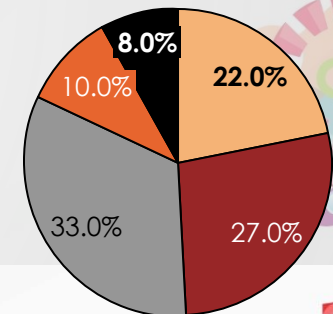
## Comments

- Operating expenses increased by 5% YoY to N39 billion but declined QoQ by 4.1%
- Cost-to-income ratio increased by 130 basis points to 74.6% due to a slower growth in operating income and an increase in operating expenses on the back of inflationary pressures
- General admin expenses accounted for a third of operating expenses and increased by 4%
- Other operating expenses were largely regulatory costs

## Operating expenses



9M 2015

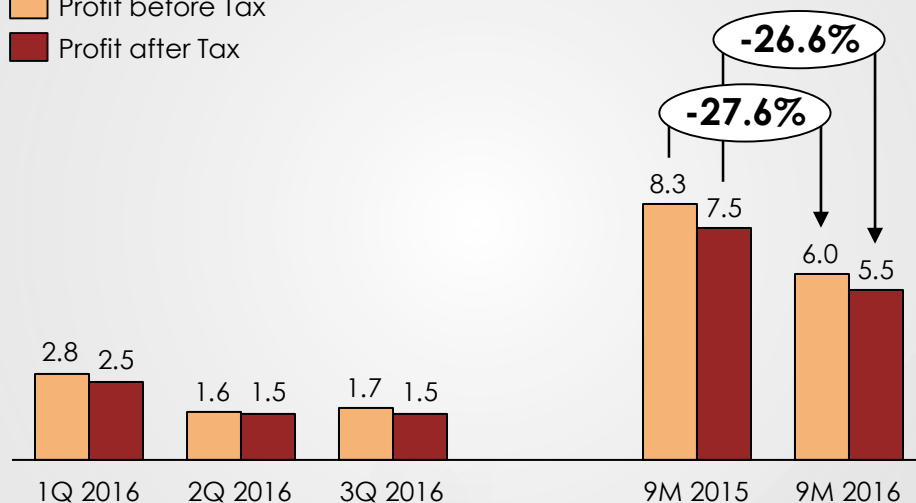


9M 2016

# Profitability

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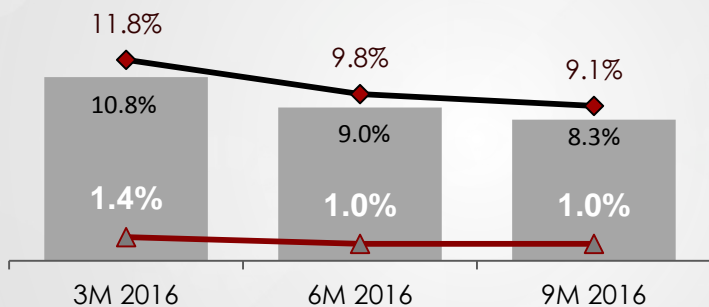
Profit before Tax  
Profit after Tax



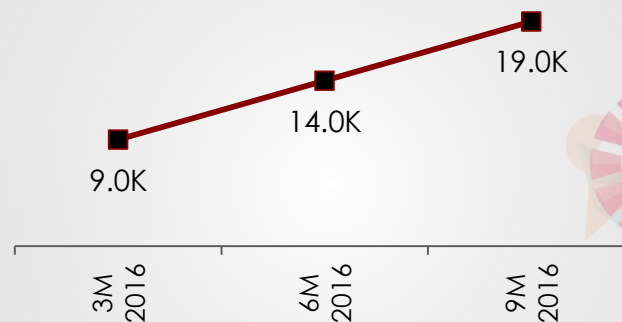
## Comments

- Earnings came under pressure due to weak macro economic conditions and regulatory headwinds
- Impairment charges increased by 37% to N7.2 billion impacting bottom-line
- 9M PBT declined by 27.6% to N6.0 billion, while PAT also declined by 26.6% to N5.5 billion
- Pre-tax ROAE remained competitive at 9.1% (post-tax 8.32%)

Post-tax ROAE   Pre-tax ROAE   ROAA



EPS



# Performance Review

## - Balance sheet analysis

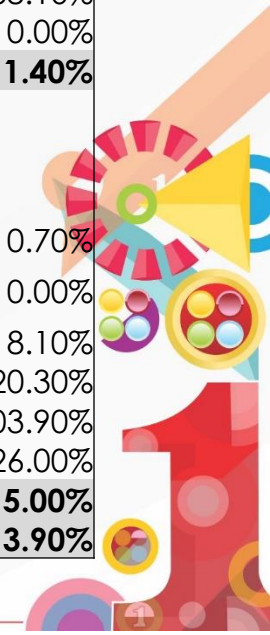


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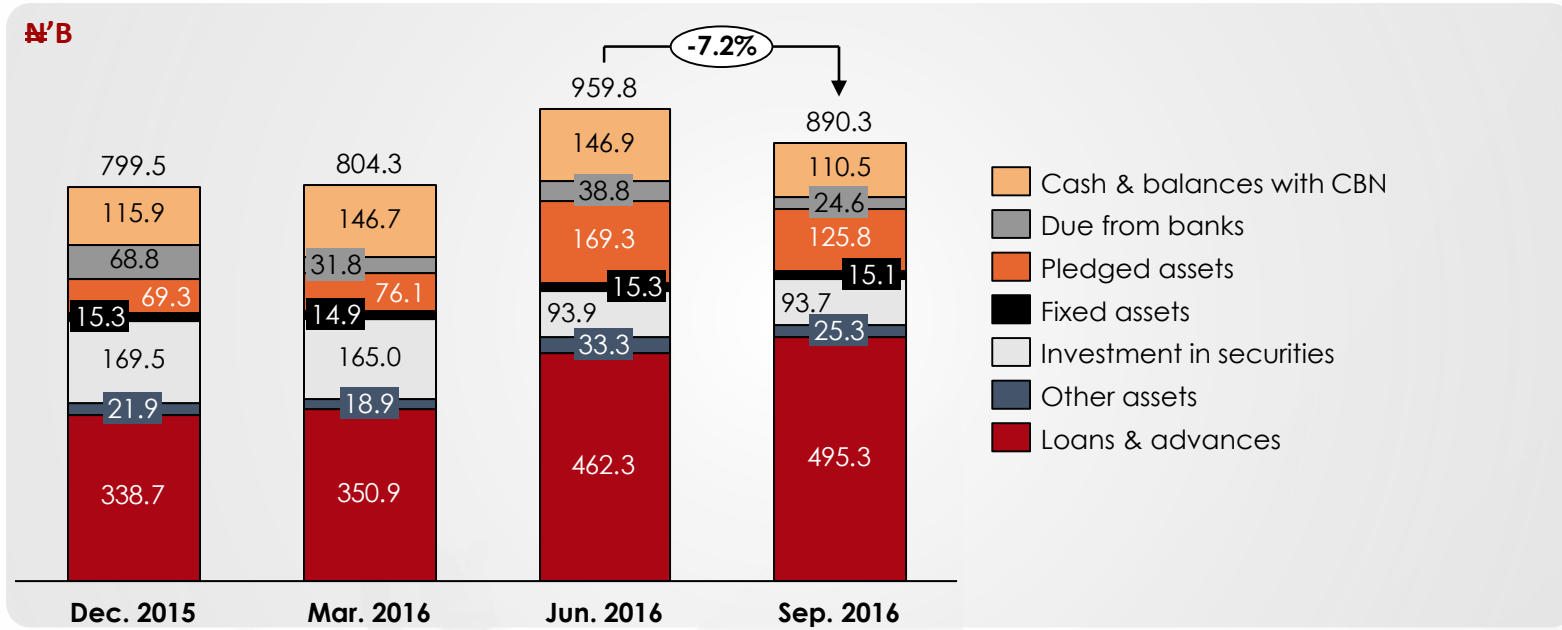
# Highlights of financial position

		% of Total		% of Total	
	Sep-16	Asset	Dec-15	Asset	% Growth
<b>Assets</b>					
Cash and balances with Central Bank of Nigeria	110,514	12.40%	115,924	14.50%	-4.70%
Due from Banks	24,557	2.80%	68,799	8.60%	-64.30%
Pledged financial assets	125,771	14.10%	69,338	8.70%	81.40%
Derivative financial assets	9	0.00%	0	0.00%	0.00%
Loans and advances to Customers	495,284	55.60%	338,726	42.40%	46.20%
Investment securities:	739,347	83.10%	0	0.00%	0.00%
- Held for trading	2,035	0.20%	4,693	0.60%	-56.60%
- Available-for-sale	64,503	7.30%	119,479	15.00%	-46.00%
- Held to maturity	27,187	3.10%	45,360	5.70%	-40.10%
Other assets	16,475	1.90%	13,903	1.70%	18.50%
Property, plant and equipment	15,107	1.70%	15,258	1.90%	-1.00%
Intangible assets	1,882	0.20%	1,000	0.10%	88.10%
Deferred tax assets	6,971	0.80%	6,971	0.90%	0.00%
<b>Total Assets</b>	<b>890,296</b>	<b>100.00%</b>	<b>799,451</b>	<b>100.00%</b>	<b>11.40%</b>
<b>Liabilities</b>					
Due to Banks	20,404	2.30%	0		
Deposits from Banks	50,572	5.70%	0		
Deposits from Customers	595,085	66.80%	590,889	73.90%	0.70%
Derivative financial liabilities	9	0.00%	0	0.00%	0.00%
Current income tax liabilities	639	0.10%	780	0.10%	-18.10%
Other borrowed funds	72,509	8.10%	60,286	7.50%	20.30%
Debt securities issue	9,307	1.10%	4,564	0.60%	103.90%
Other liabilities	59,518	7.00%	47,367	6.00%	26.00%
<b>Total Liabilities</b>	<b>808,044</b>	<b>90.80%</b>	<b>703,886</b>	<b>88.10%</b>	<b>15.00%</b>
<b>Total equity</b>	<b>82,252</b>	<b>9.20%</b>	<b>95,566</b>	<b>12.00%</b>	<b>-13.90%</b>





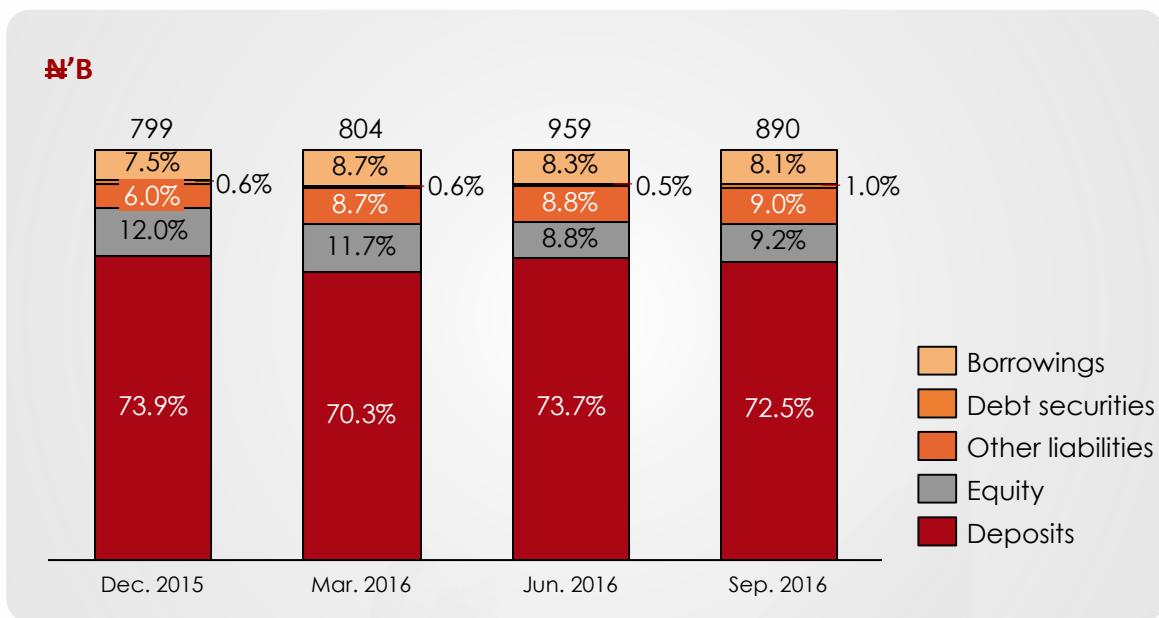
# Assets growth trend



## Comments

- Total assets excluding contingent liabilities increased by 11.4% to N890.3 billion (Dec. 2015: N799.5 billion)
- Loans and advances recorded the highest contribution with 55.6% penetration level (Dec. 2015: 42.4%)
- Decline in investment securities due to securities pledged as collateral for borrowings, LCs and electronic transactions
- We remained focused on balance sheet optimization in order to maximize asset yield

# Funding mix



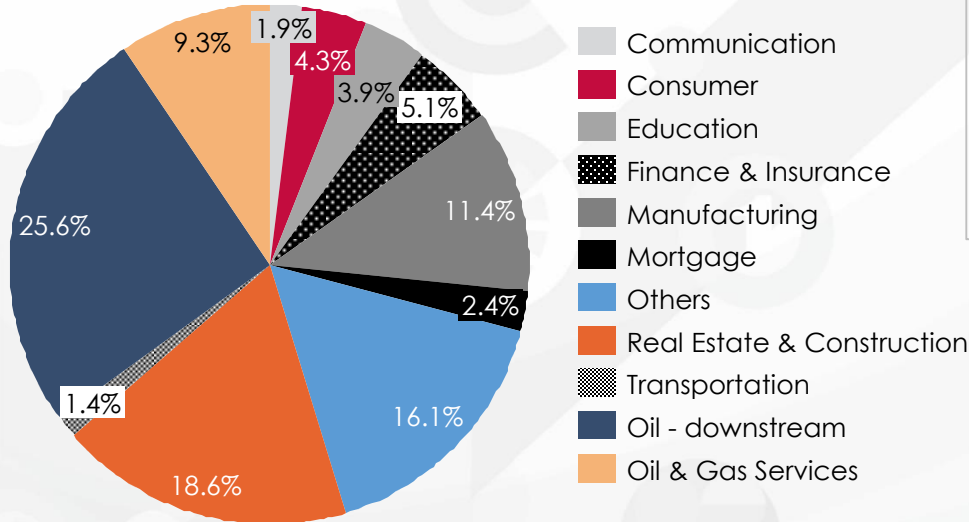
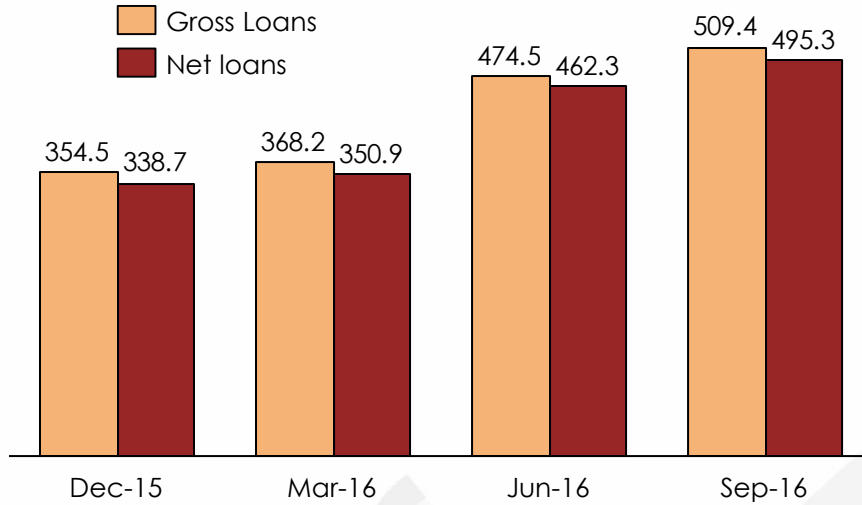
### Comments

- Deposits remained the major source of funding at 72.5%
- Borrowings increased by 20% supported by domestic funding sources which accounted for 49.8%

Borrowings (N'mn)	Sep. 2016	% Total Funding	2015	% Total Funding
Citibank	15,593	21.5%	19,138	31.7%
Islamic Corporation Development Bank	9,912	13.7%	5,972	9.9%
State Bank of India	10,913	15.1%	-	0.0%
Standard Chartered	-	-	4,867	8.1%
AFREXIM	-	-	2,966	4.9%
Goldman Sachs	-	-	8,261	13.7%
<b>Total</b>	<b>36,419</b>	<b>50.2%</b>	<b>41,203</b>	<b>68.3%</b>
BOI	2,401	3.3%	4,197	7.0%
CBN-Agric-Fund	3,486	4.8%	14,750	24.5%
CBN - MSME Fund	30,203	41.7%	135	0.2%
<b>Total</b>	<b>36,090</b>	<b>49.8%</b>	<b>19,082</b>	<b>31.7%</b>
<b>Total Funding</b>	<b>72,509</b>	<b>100.0%</b>	<b>60,286</b>	<b>100.0%</b>

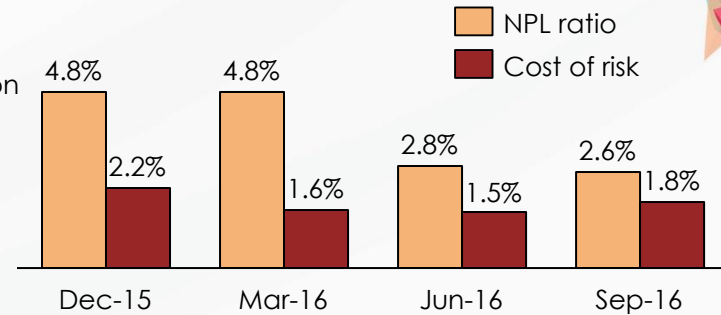


# Asset Quality



## Comments

- Non-performing loans to gross loans (NPL ratio) declined by 20 basis points to 2.6%, while cost of risk increased by 30 basis points to 1.8%
- Non-Performing loans (predominantly LCY denominated loans) were adequately covered in excess of 100% (coverage ratio)
- Oil & gas loans are spread among the various sub-sectors with 64% in foreign currency; the sector recorded the highest sector contribution driven by naira devaluation;
- We have restructured all loans perceived to be affected by the challenges in the oil & gas sector to accommodate flexibility of repayment



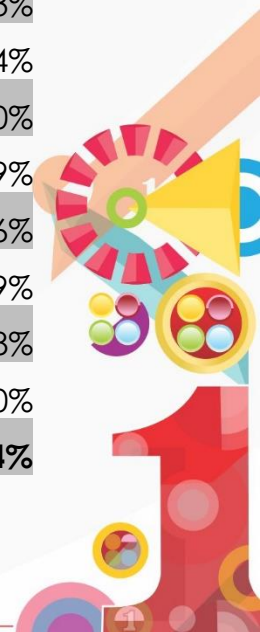
# Gross loans by sector

Sector (N'mn)	2016		2015		%
	9M 2016	% of Total	FY 2015	% of Total	
Agriculture	11,717	2%	13,146	4%	-11%
Capital Market	78	0%	79	0%	-1%
Communication	45,592	9%	29,314	8%	56%
Consumer	7,159	1%	4,606	1%	55%
Education	955	0%	941	0%	1%
Finance & Insurance	10,640	2%	12,770	4%	-17%
Government	47,746	9%	35,023	10%	36%
Manufacturing	9,002	2%	8,003	2%	12%
Mining & Quarrying	318	0%	353	0%	-10%
Mortgage	11,384	2%	12,011	3%	-5%
Oil - downstream	46,766	9%	43,957	12%	6%
Oil - upstream	104,948	21%	65,450	18%	60%
Oil & Gas Services	68,308	13%	32,277	9%	112%
Others	38,795	8%	24,451	7%	59%
Power	23,779	5%	14,920	4%	59%
Real Estate & Construction	55,334	11%	40,217	11%	38%
Transportation	24,240	5%	16,480	5%	47%
Non-interest banking	2,639	1%	479	0%	451%
<b>Total</b>	<b>509,401</b>	<b>100%</b>	<b>354,476</b>	<b>100%</b>	<b>44%</b>



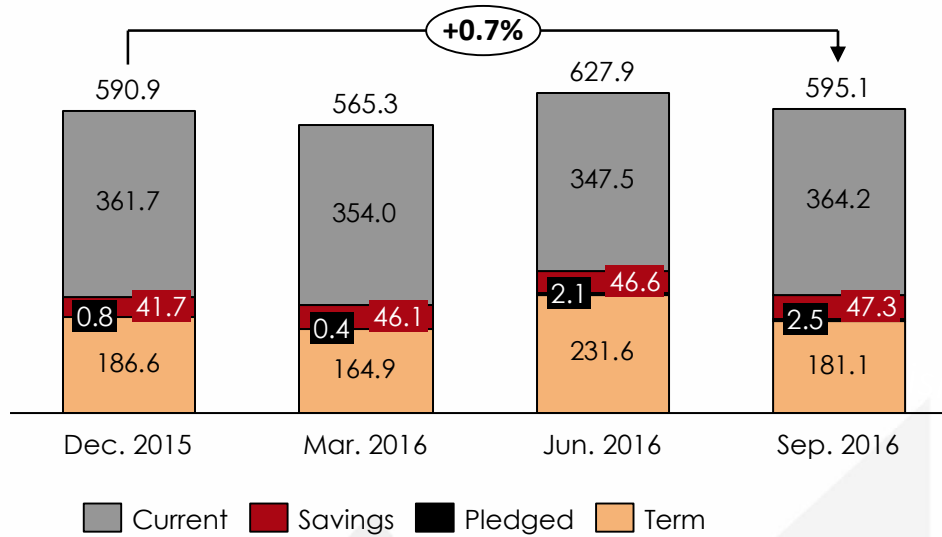
# Gross loans by currency

Sectors (N'mn)	FYC	LCY	TOTAL	% of Sector Loan in FYC
Agriculture	-	11,717	11,717	0%
Capital Market	-	78	78	0%
Communication	30,918	14,673	45,592	68%
Consumer	123	7,036	7,159	2%
Education	0	955	955	0%
Finance & Insurance	0	10,640	10,640	0%
Government	-	47,746	47,746	0%
Manufacturing	12	8,990	9,002	0%
Mining & Quarrying	-	318	318	0%
Mortgage	385	10,999	11,384	3%
Oil & Gas	140,753	79,269	220,022	64%
Other Public Utilities	-	0	0	0%
Others	3,454	35,341	38,795	9%
Power	22,943	836	23,779	96%
Real Estate & Construction	10,736	44,598	55,334	19%
Transportation	16,557	7,683	24,240	68%
Non-Interest Banking	-	2,639	2,639	0%
<b>Total</b>	<b>225,881</b>	<b>283,520</b>	<b>509,400</b>	<b>44%</b>



# Deposits

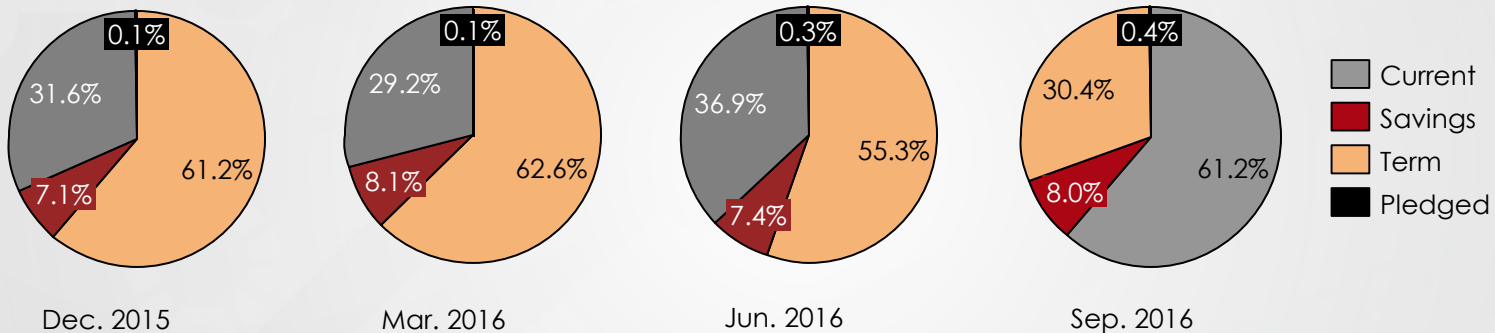
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## Comments

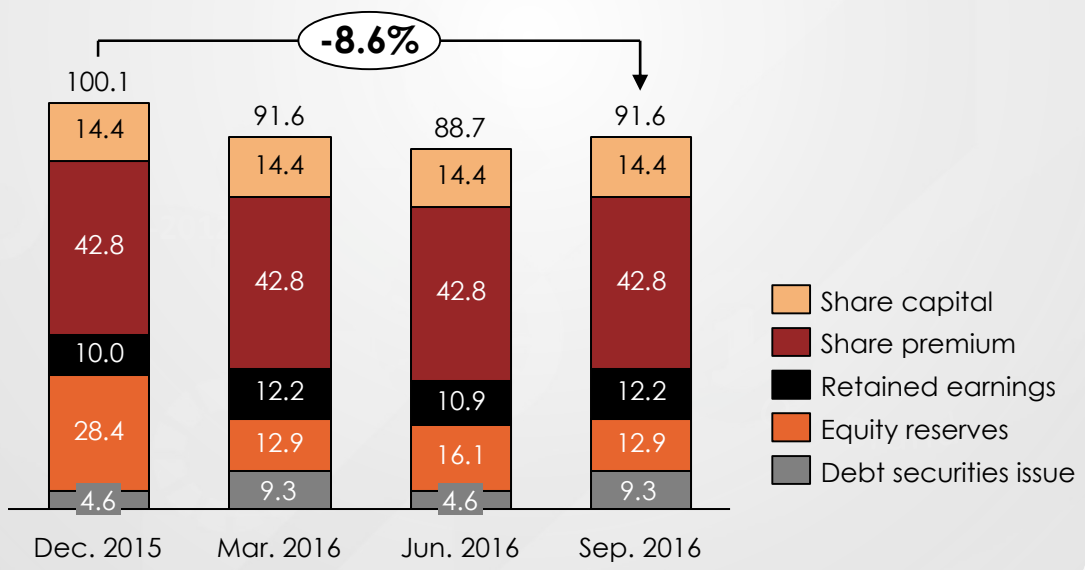
- Deposits increased marginally by 0.7% to N595.1 billion (Dec. 2015: N590.9 billion)
- Low cost deposits accounted for 69.1% of total deposits (Dec. 2015: 68.3%), while wholesale funds accounted for 30.9%
- Savings deposits rose by 13.4% and accounted for 8% of total deposits (Dec. 2015: 7.1%) re-affirming the benefits of our retail drive

## Deposit Mix



# Capital

R'B		
Items (N'm)	Sept 2016	Dec-15
Total Qualifying Capital	73,013	85,262
Risk-Weighted Assets	680,514	487,487
Capital Adequacy Ratio (Basel II)	10.7%	17.5%

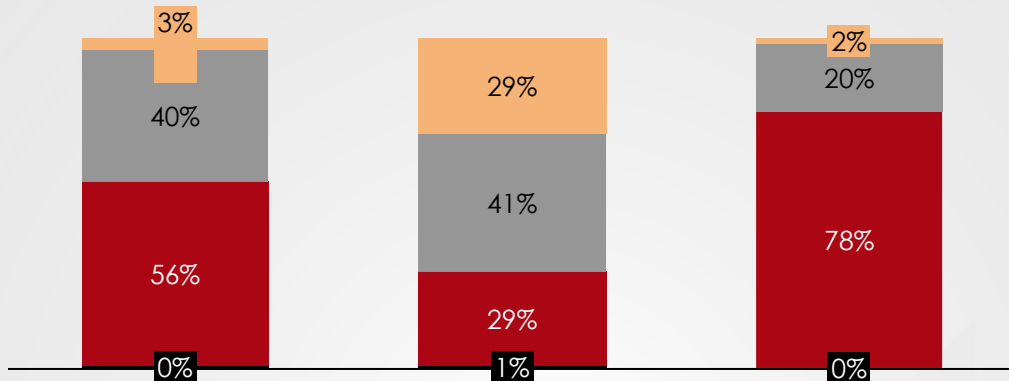


- ### Comments
- Capital adequacy ratio was impacted by FX revaluation but remained above regulatory threshold
  - Decline in Shareholders' funds due to fair value adjustment on available for sale investments
  - We raised additional Tier 2 capital of N7.9 billion out of which N4.7 billion qualified for capital thereby providing additional buffer for our business
  - We remain committed to our plan to conclude the N35 billion tier 2 capital raise in the coming year

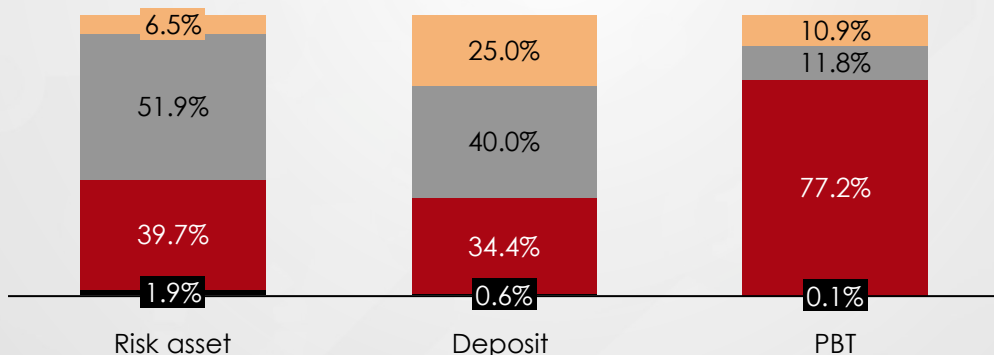


# Segment Contribution

% Sept 2016



Dec 2015



■ Retail Banking      ■ Corporate & Investment  
■ Commercial & Institutional      ■ Non-Interest Banking

## Comments

- Corporate banking recorded the highest contribution to risk assets at 56% (Dec. 2015: 40%) in line with our strategy to lend to corporates
- Retail banking contribution to deposits has continued to improve as we deepen our penetration in the retail banking space
- Our non-interest banking business remains a viable source of funding and contributes positively to bottom-line





# Financial ratios

Indicator	Q3 2015	FY 2015	Q3 2016
Pre Tax Return on Average Equity	12.8%	12.2%	9.1%
Post Tax Return on Average Equity	11.6%	11.4%	8.3%
Return on Average Assets	1.4%	1.4%	1.0%
Earnings per Share	26k	36k	19k
Yield on Earning Assets	14.1%	13.7%	13.8%
Cost of Funds	6.2%	6.6%	5.3%
Net Interest Margin	7.9%	7.1%	8.5%
Cost-to-income Ratio	73.3%	72.2%	74.6%
Non-performing Loan Ratio	4.9%	4.8%	2.5%
Cost of Risk	2.1%	2.3%	1.8%
Capital Adequacy Ratio (Basel 2)	19.3%	17.5%	10.7%
Loan to Deposit Ratio (Net)	54.6%	57.3%	83.2%



# Key take-aways

- Deployed a new core banking application to improve service delivery across core and subsidiary systems and enhance productivity
- We raised tier 2 capital in order to build additional resilience under the current difficult macro-economic conditions, while also strengthening earnings capacity
- We established an Export and Infrastructure Desk, expected to drive foreign currency liability generation.
- We are migrating our customers to alternative channels, through our upgraded e-channels
- We have grown our active customer base by over 40% year-to-date with improved penetration across all digital channels.
- Our non-interest banking business has witnessed significant growth in deposits and profitability by 87% and 415% respectively
- Improvement in asset quality indicators reflects our robust risk management framework

THANK YOU



Sterling Bank  
The one-customer bank.

