

Investor/Analyst Presentation FY 2016



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Agenda

1. Overview
 2. Operating Environment
 3. Funding and Liquidity
 4. Credit Risk and Asset Quality
 5. Profitability and Capital
 6. Operational Highlights & Management Guidance
- 

Overview



Sterling Bank at a Glance

The Company

Sterling Bank is a full service national commercial Bank with balance sheet size in excess of N1 trillion

Focus segments



Retail, Commercial and Corporate Clients

Active Customers



>1,600,000

Channels



189 business offices
776 ATMs and 1871 POS

Headcount



>2,260 Professional Employees

Auditors



Building a better working world

Ernst & Young

Accounting

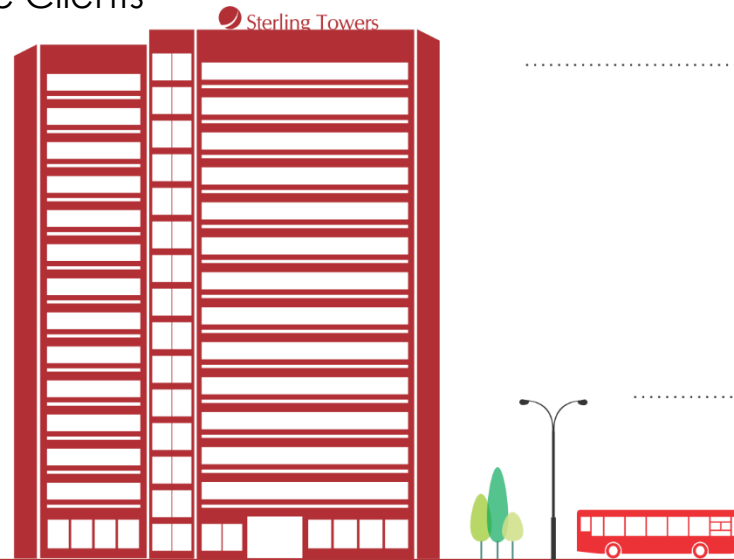
IFRS

International Financial Reporting Standards (IFRS)

Listing



Nigerian Stock Exchange



Strategic goals

Mid-term (2017-2021)



5% market share measured by deposits



ROAE above peer group average



Low single digit cost of funds



Diverse retail funding base



Non-performing loans below peer group average



Diversified income streams with top quartile position in all our operating areas



Investment grade credit rating



Double digit revenue growth YoY

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)



Great place to work



A trusted operator materially impacting all our segments of business participation

Performance highlights

Financials (N'm)

Total Assets	Loans & Advances	Deposits	Equity
834,190	468,250	584,734	85,660
Gross Earnings	Operating Income	Profit Before Tax	Profit After Tax
68,325	68,325	6,000	5,162
Net Interest Margin	Cost-to-income Ratio	Cost of Risk	Pre-tax ROAE
9.3%	74.1%	2.5%	6.6%

Channels

Branches	ATMs	POS
189	776	1,871

Ratings



A3 Short term rating

BBB Long term rating

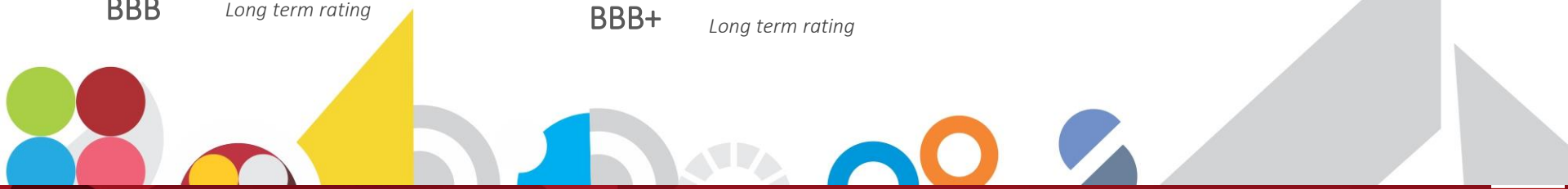


A2 Short term rating

BBB+ Long term rating



B2 Long term rating



Operating Environment



Macro profile

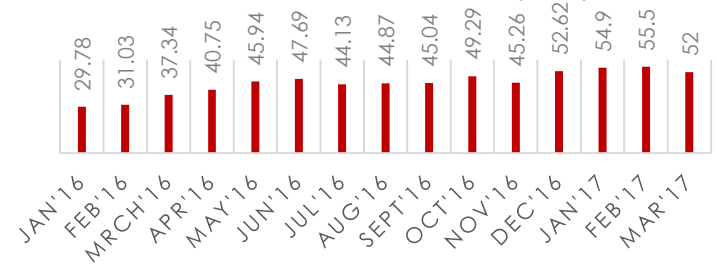
Global

- The global economy improved in the first quarter of 2017;
- Booming labour market and strong domestic consumption boosted growth in advanced economies despite uncertain geopolitical climate;
- In emerging markets and developing economies, recovering commodity prices are easing some of the pressures on Government finances and fiscal reforms;
- Brent Crude rose to US\$58 due to OPEC's production cut, but increasing Shale inventories pushed down prices to range between US\$50 - US\$55 towards the end of the first quarter 2017.

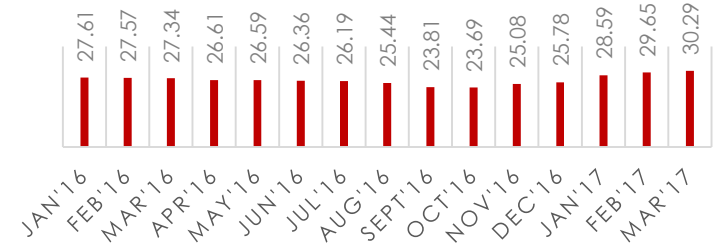
Domestic

- NBS report showed that the economy contracted by 1.3% in Q4 2016 and 1.5% for the full year;
- External reserves crossed US\$30bn on March 8, 2017 (highest in 17 months) and have continued to rise;
- Headline inflation rate trended downward in February 2017, the first time in sixteen months;
- CBN introduced new FX policies to boost liquidity in the FX market for retail transactions.

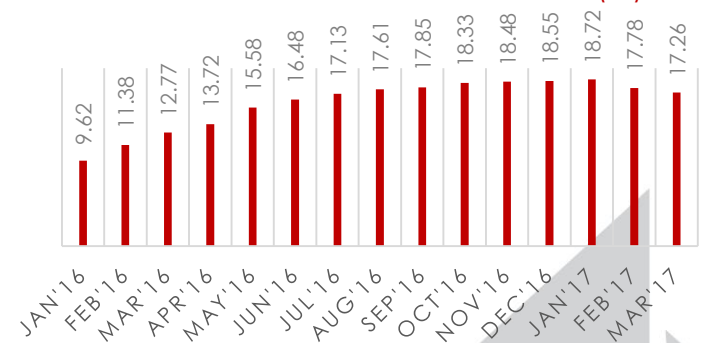
BRENT OIL PRICE TREND-(US\$)



FOREIGN RESERVES POSITION (US\$'BN)



HEADLINE INFLATION RATE (%)



Regulatory policy responses

S/No	Key Regulatory Actions	Rationale
1	<p>New policies for operation of the Nigerian Foreign Exchange Market:</p> <ul style="list-style-type: none"> ✓ The CBN commenced sale of FX to banks on a weekly basis for personal travel allowance, school fees and medical fees; ✓ The tenor of forward sales was reduced from the previous maximum cycle of 180 days to a maximum tenor of 60 days from the date of transaction; ✓ The CBN previously mandated banks to allocate 60% of their FX fund to manufacturing and 40% to all other transactions. Banks can now allocate funds at their own discretion. 	<p>To improve availability of foreign exchange and ease the difficulties experienced by Nigerians in obtaining FX for retail transactions;</p> <p>This move is also expected to reduce arbitrage in the foreign exchange market</p>
2	Secondary Market Intervention Sales (SMIS) of US\$500m	
3	<p>Review of the limit on foreign borrowings by Banks:</p> <ul style="list-style-type: none"> ✓ An increase in the aggregate foreign currency borrowing limit of a bank excluding inter-group and inter-bank (Nigerian banks) borrowing from 75% to 125% of shareholders' funds unimpaired by losses; ✓ All debts, with the exception of trade lines, should have a minimum fixed tenor of 5 years. 	To reduce foreign exchange risk on banks' balance sheet
4	Introduction of new charges for certain categories of cash deposits and withdrawals	To limit cash transactions nationwide and promote usage of electronic channels
5	MPC at its last committee meeting retained MPR at 14%; CRR at 22.5% and Liquidity ratio at 30%	To ensure price stability



Funding & Liquidity

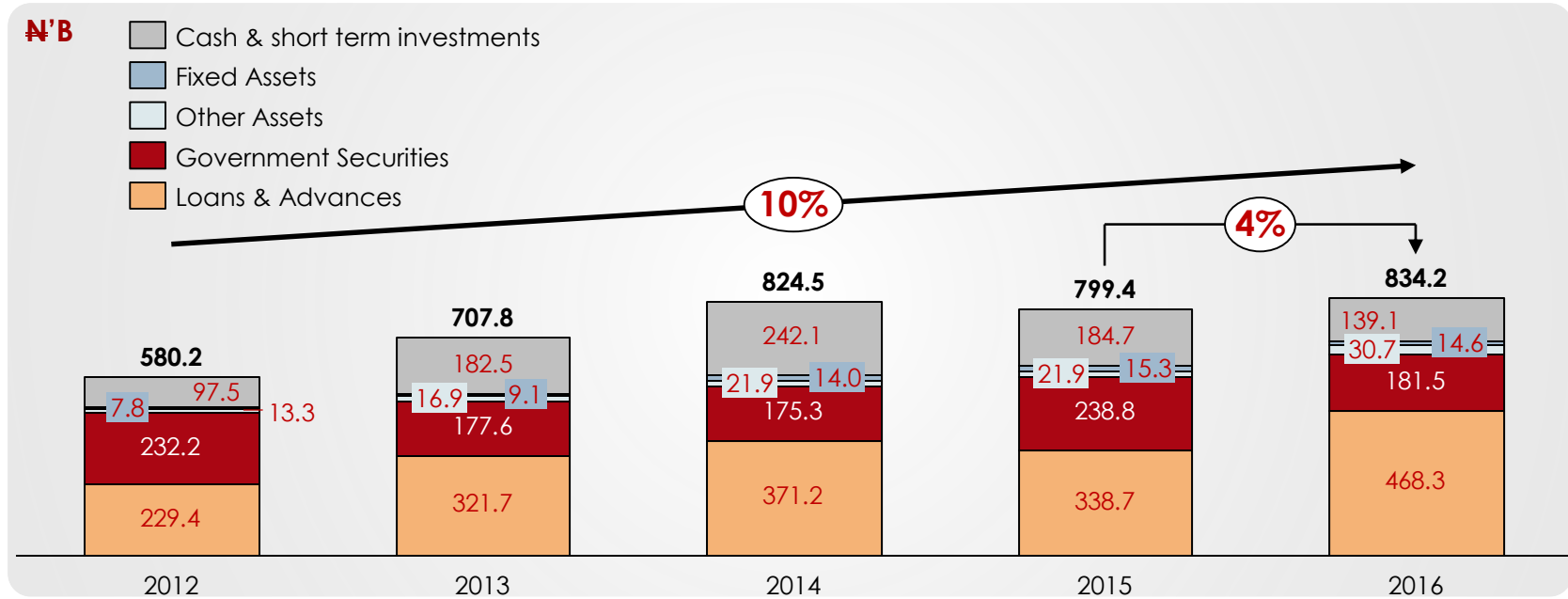


Highlights of financial position

Items in millions	2016		2015		Growth
	N'm	% of Total	N'm	% of Total	
ASSETS					
Cash and balances with CBN	107,859	12.9%	115,924	14.5%	-7.0%
Due from banks	31,289	3.8%	68,799	8.6%	-54.5%
Pledged assets	86,864	10.4%	69,338	8.7%	25.3%
Derivative financial assets	8	0.0%	-	0.0%	-
Loans and advances to customers	468,250	56.1%	338,726	42.4%	38.2%
Investments in securities	94,632	11.3%	169,532	21.2%	-44.2%
Investment in subsidiary	-	0.0%	-	0.0%	-
Other assets	21,676	2.6%	13,903	1.7%	55.9%
Property, plant and equipment	14,604	1.8%	15,258	1.9%	-4.3%
Intangible assets	2,037	0.2%	1,000	0.1%	103.6%
Deferred tax assets	6,971	0.8%	6,971	0.9%	-
TOTAL ASSETS	834,190	100.0%	799,451	100.0%	4.3%
LIABILITIES					
Deposits from banks	23,769	2.8%	-	0.0%	-
Deposits from customers	584,734	70.1%	590,889	73.9%	-1.0%
Derivative financial liabilities	8	0.0%	-	0.0%	-
Current income tax payable	942	0.1%	780	0.1%	20.7%
Other borrowed funds	82,450	9.9%	60,286	7.5%	36.8%
Debt securities issued	15,382	1.8%	4,564	0.6%	237.1%
Other liabilities	41,245	4.9%	47,367	5.9%	-12.9%
TOTAL LIABILITIES	748,530	89.7%	703,886	88.0%	6.3%
TOTAL EQUITY	85,660	10.3%	95,566	12.0%	-10.4%
TOTAL LIABILITIES AND EQUITY	834,190	100.0%	799,451	100.0%	4.3%



Assets growth trend

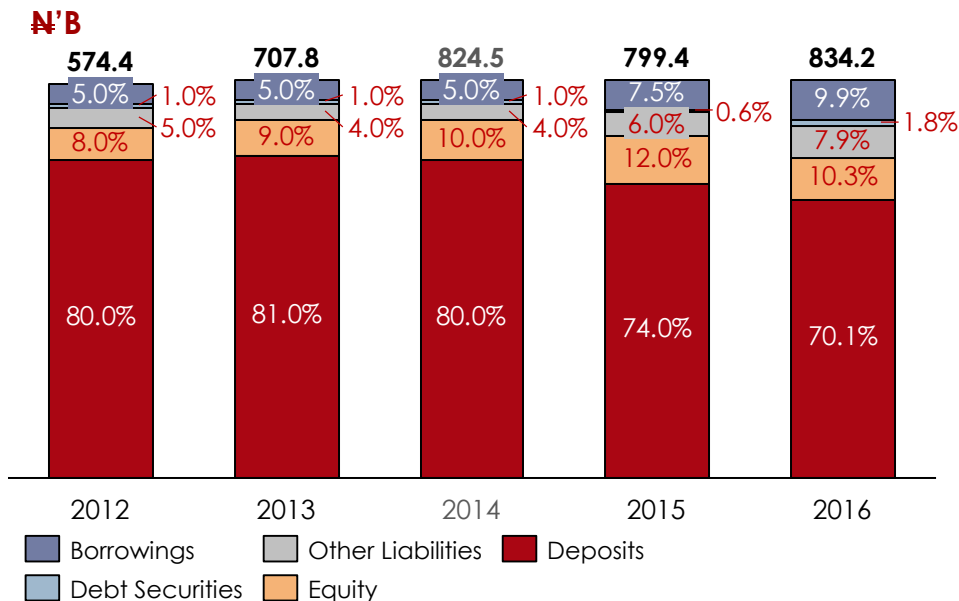


Comments

- Total assets grew by 4.3% to N834.2 billion representing a compound annual growth rate of 9.5% (CAGR: 2012-2016)
- Net loans and advances increased on account of forex revaluation to N468.3 billion
- Cash & short term investments include balances held with banks within and outside the country as well as money market placements which declined due to forex supply shortages and the attendant decline in trading activities



Funding mix

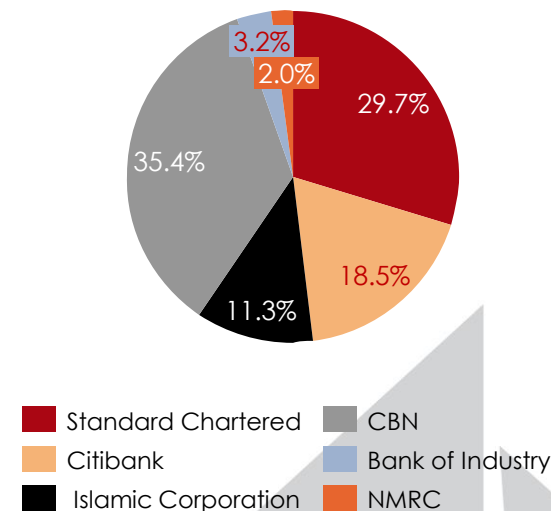


Comments

- Total deposits was relatively stable at N584.7 billion and remained the major source of funding at 70.1%
- Equity contributed 10.3% while borrowings contributed 9.9% of total assets
- Funding from Citibank, StanChart and Islamic Corp. accounted for 59.4% of borrowings while local funding sources accounted for 40.6%

Borrowings	2016 (N'm)	2015 (N'm)	Growth
Standard Chartered (US\$80m)	24,458	4,867	402.6%
Citibank (US\$50m)	15,268	19,138	-20.2%
Islamic Corporation (US\$30m)	9,283	5,972	55.5%
Goldman Sachs	-	8,261	-
AFREXIM	-	2,966	-
CBN-Agric-Fund	18,396	14,750	24.7%
CBN - MSME	1,006	135	643.6%
CBN-State ECA secured loans	9,761	-	-
Bank of Industry	2,227	3,049	-27.0%
Bank of Industry - power and aviation	391	1,148	-65.9%
Nigeria Mortgage Refinance Company	1,660	-	-

Funding by Source

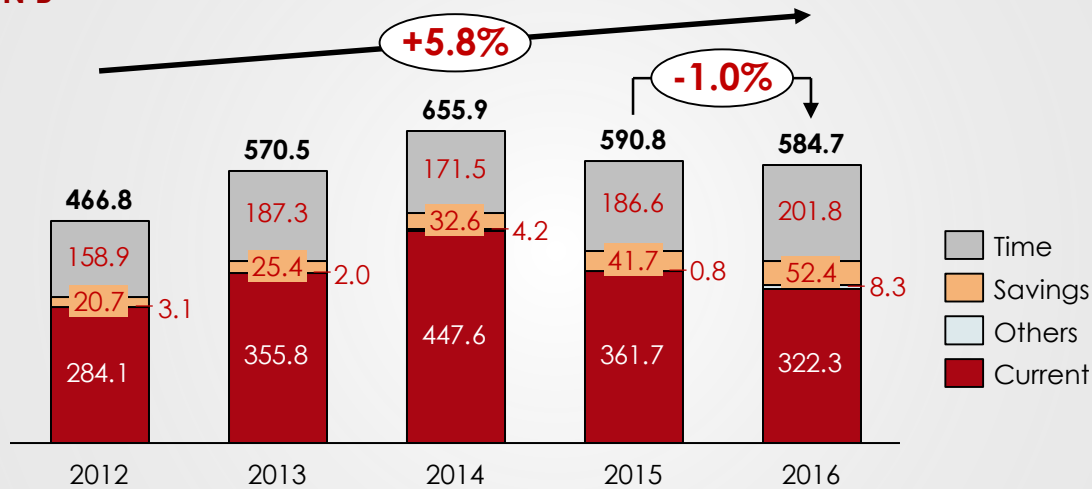


Total 82,450 60,286 36.8%

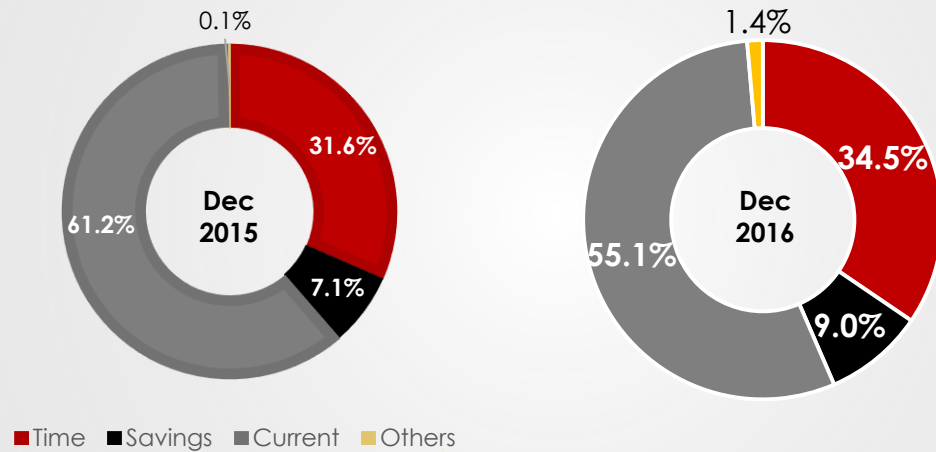
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Deposits

N'B



Deposit Mix



Comments

- Deposits grew at a compound annual growth rate of 6.0% (CAGR: 2012-2016) but remained relatively flat year-on-year at N584.7 billion
- Savings deposits rose by 25.5% to N52.3 billion supported by the on-going expansion of our distribution channels
- Term deposits increased by 8.2% as we tapped into wholesale funding sources at a very competitive pricing
- Cost of funds increased by 20 basis points to 6.3%

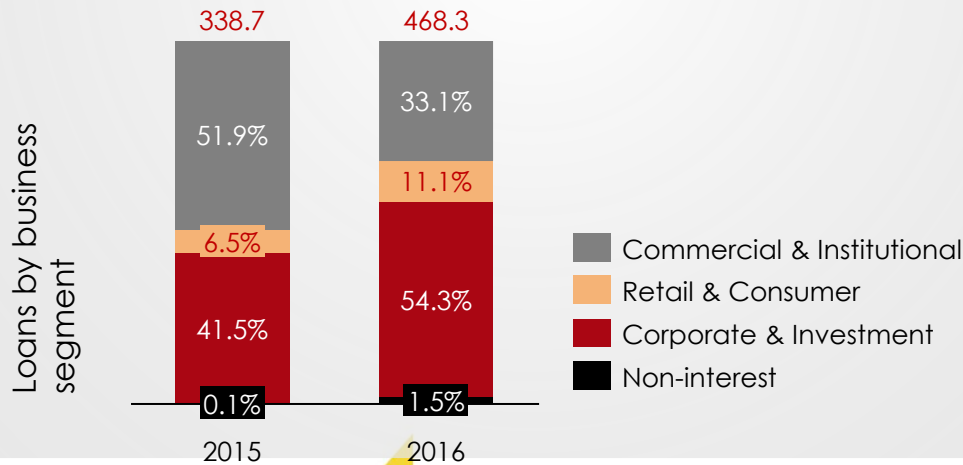
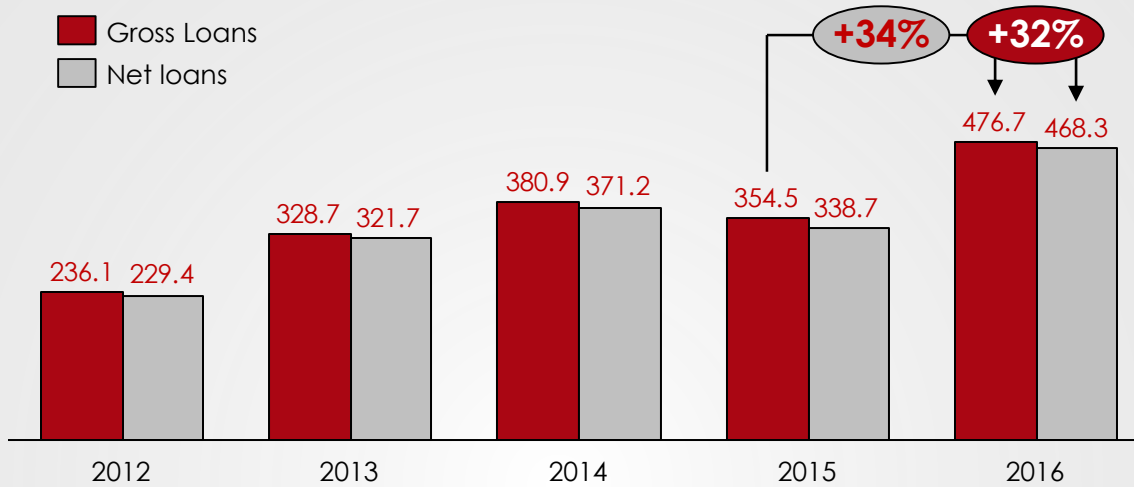
Credit Risk & Asset Quality



Loans and advances

N'B

■ Gross Loans
■ Net loans



Comments

- Gross loans increased by 34.5% and net loans by 38.2% to N476.7 billion and N468.2 billion respectively
- Growth in loans and advances was driven largely by forex revaluation; organic growth was 8.1%
- Commercial & Institutional Banking accounted for 33.1% of loans, Corporate & Investment Banking accounted for 54.3%, Retail & Consumer Banking accounted for 11.1%, while Non-interest Banking recorded 1.5% contribution

Loans and advances by sector

Sector	2016		2015		Growth
	N'mn	% of total	N'mn	% of total	
Agriculture	14,489	3.0%	13,146	3.7%	10.2%
Capital Market	58	0.0%	78	0.0%	-25.6%
Communication	17,578	3.7%	29,314	8.3%	-40.0%
Consumer	6657	1.4%	4,606	1.3%	44.5%
Education	902	0.2%	941	0.3%	-4.1%
Finance and insurance	12607	2.6%	12,770	3.6%	-1.3%
Government	34,482	7.2%	35,023	9.9%	-1.5%
Manufacturing	8,252	1.7%	8,003	2.3%	3.1%
Mining & quarrying	343	0.1%	353	0.1%	-2.8%
Mortgage	10,242	2.1%	12,011	3.4%	-14.7%
Oil - downstream	52,615	11.0%	43,957	12.4%	19.7%
Oil - upstream	126,517	26.5%	65,450	18.5%	93.3%
Oil & Gas Services	67,454	14.1%	32,277	9.1%	109.0%
Others	34749	7.3%	24,451	6.9%	42.1%
Power	24,031	5.0%	14,920	4.2%	61.1%
Real estate & construction	45998	9.6%	40,217	11.3%	14.4%
Transportation	13,364	2.8%	16,480	4.6%	-18.9%
Non-interest banking	6376	1.3%	479	0.1%	1231.1%
Total	476,713	100.0%	354,475	100.0%	34.5%



Loans and advances by currency

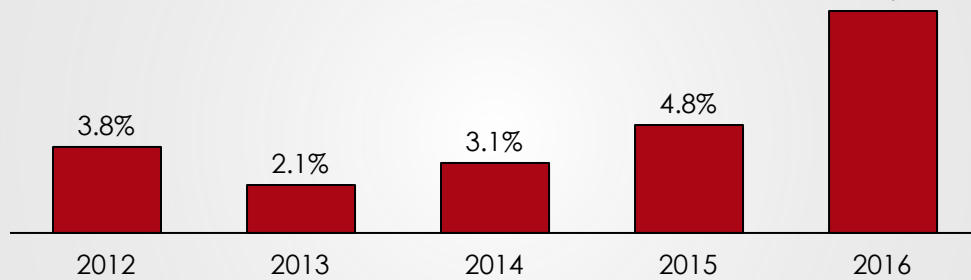
Sector (N'm)	LCY	FCY	Grand Total	% of Sector Loans in FCY
Agriculture	14,489	-	14,489	0.0%
Capital Market	58	-	58	0.0%
Communication	16,229	1,349	17,578	7.7%
Consumer	6,618	39	6,657	0.6%
Education	902	0	902	0.0%
Finance & Insurance	10,898	1,708	12,607	13.5%
Government	34,482	-	34,482	0.0%
Manufacturing	8,240	12	8,252	0.1%
Mining & Quarrying	343	-	343	0.0%
Mortgage	9,669	573	10,242	5.6%
Oil - downstream	43,898	8,716	52,614	16.6%
Oil - upstream	9,327	117,190	126,517	92.6%
Oil & Gas Services	30,739	36,714	67,454	54.4%
Others	32,063	2,686	34,749	7.7%
Power	1,173	22,858	24,031	95.1%
Real Estate & Construction	34,840	11,158	45,998	24.3%
Transportation	720	12,644	13,364	94.6%
Non-interest banking	6,376	-	6,376	0.0%
Total	261,065	215,648	476,713	45.2%

- Foreign currency (FCY) loans are largely concentrated in the following sectors – oil & gas and power sectors representing 75.4% and 10.6% contribution respectively



Asset quality

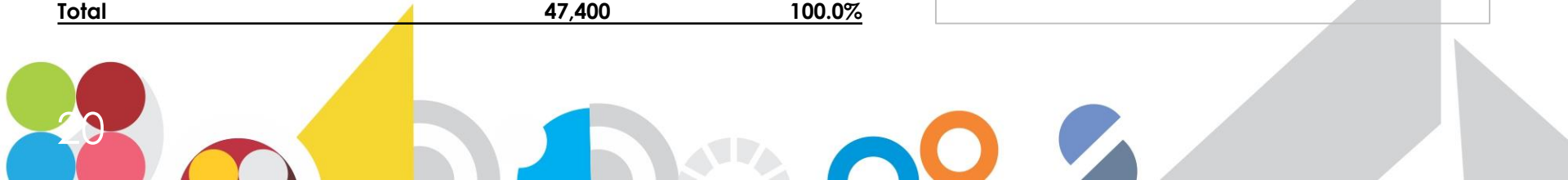
NPL Ratio



Sector (N'm)	Non-performing Loans	% of Total
Agriculture	115	0.2%
Communication	114	0.2%
Consumer	707	1.5%
Education	525	1.1%
Finance & Insurance	271	0.6%
Government	22	0.0%
Manufacturing	1,434	3.0%
Mortgage	1,069	2.3%
Oil - downstream	428	0.9%
Oil - upstream	23,215	49.0%
Oil & Gas Services	1,604	3.4%
Others	2,561	5.4%
Real Estate & Construction	2,318	4.9%
Transportation	12,581	26.5%
Non-interest banking	435	0.9%
Total	47,400	100.0%

Comments

- NPL ratio was 9.9% (Dec. 2015: 4.8%) arising from Management's proactive decision to be extremely conservative and prudent in recognizing early warning signs on some loans
- The proportion of NPLs due to Oil & Gas was 53.4% of which 49% was from the Upstream Oil & Gas sector
- Transportation sector recorded the second largest sector NPLs at 26.5%
- NPL ratio for the FCY loan book was 7.9%
- Cost of risk increased by 20 basis points to 2.5% from 2.3% in 2015
- We maintain a cautious stance on lending in this challenging period, overhauled our risk processes and made investments in credit solutions to improve asset quality and credit risk management



Profitability and Capital

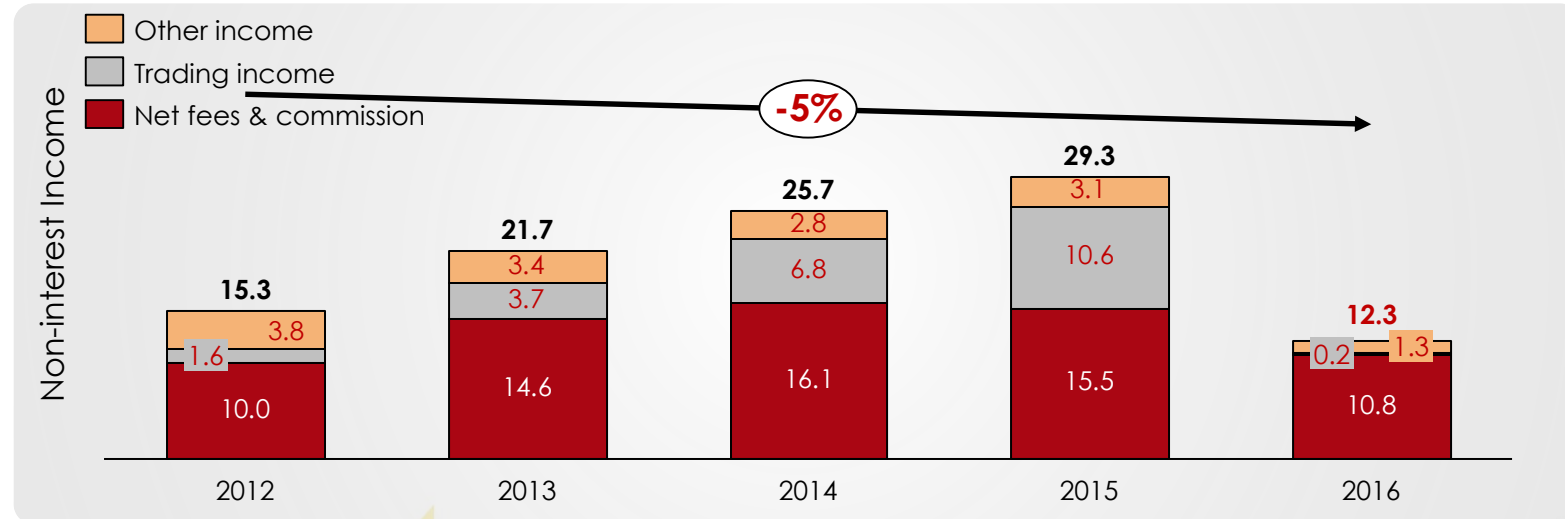
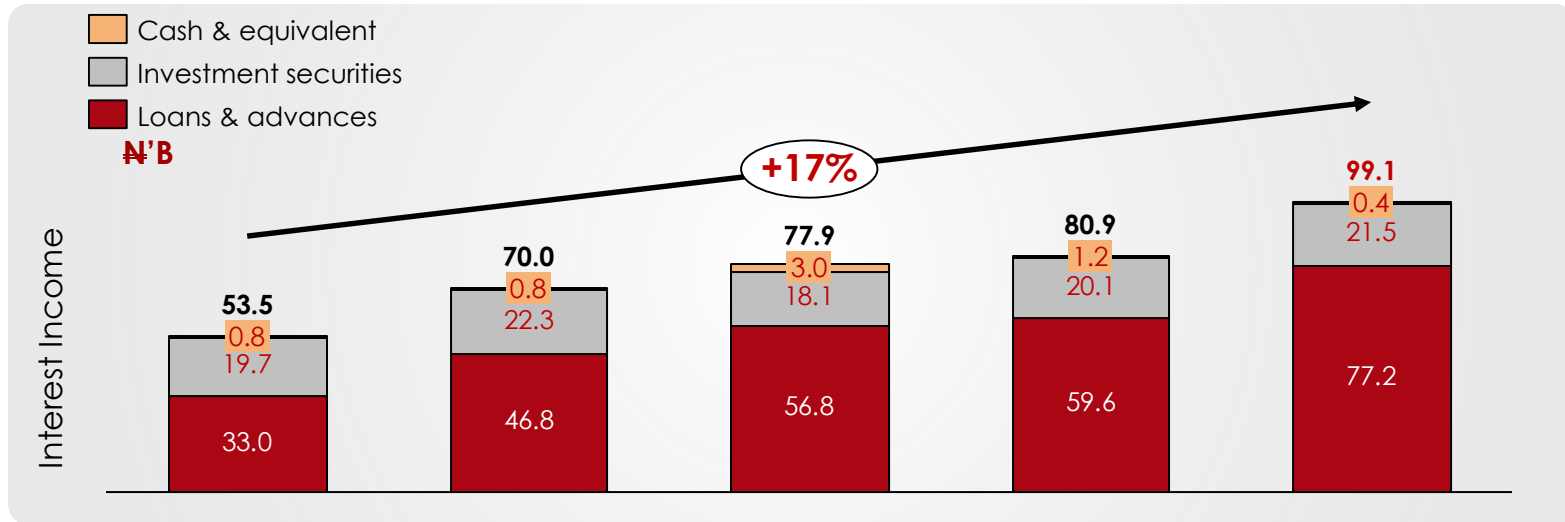


Income statement highlights

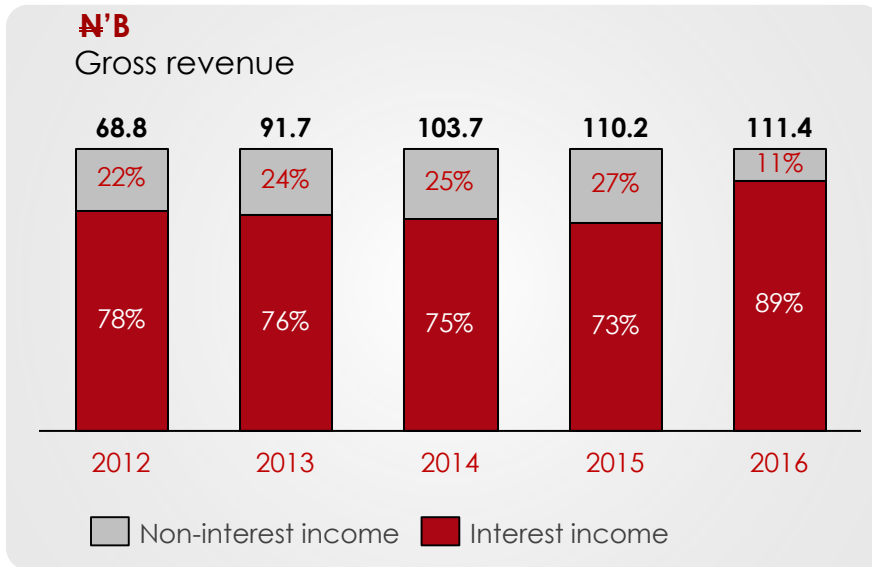
Items in millions	Group		Bank		Growth
	2016	% of Total	2015	% of Total	
Gross earnings	111,440	100.0%	110,194	100.0%	1.1%
Interest income	99,104	88.9%	80,909	73.4%	22.5%
Interest expense	-43,115	38.7%	-41,367	37.5%	4.2%
Net interest income	55,989	50.2%	39,542	35.9%	41.6%
Fees and commission income	10,788	9.7%	15,522	14.1%	-30.5%
Net trading income	235	0.2%	10,650	9.7%	-97.8%
Other operating income	1,313	1.2%	3,113	2.8%	-57.8%
Non-interest income	12,336	11.1%	29,285	26.6%	-57.9%
Operating income	68,325	61.3%	68,827	62.5%	-0.7%
Impairment charges	-11,714	10.5%	-8,151	7.4%	43.7%
Net operating income	56,611	50.8%	60,675	55.1%	-6.7%
	-	0.0%	-	0.0%	
Personnel expenses	-11,522	10.3%	-12,101	11.0%	-4.8%
Other operating expenses	-12,701	11.4%	-11,675	10.6%	8.8%
General and administrative expenses	-16,997	15.3%	-16,427	14.9%	3.5%
Other property, plant and equipment costs	-5,196	4.7%	-5,590	5.1%	-7.1%
Depreciation and amortization	-4,196	3.8%	-3,865	3.5%	8.6%
Total expenses	-50,611	45.4%	-49,659	45.1%	1.9%
	-	0.0%	-	0.0%	
Profit before income tax	6,000	5.4%	11,016	10.0%	-45.4%
Income tax expense	-838	0.8%	-724	0.7%	15.7%
Profit after income tax	5,162	4.6%	10,293	9.3%	-49.7%



Revenue evolution .../1

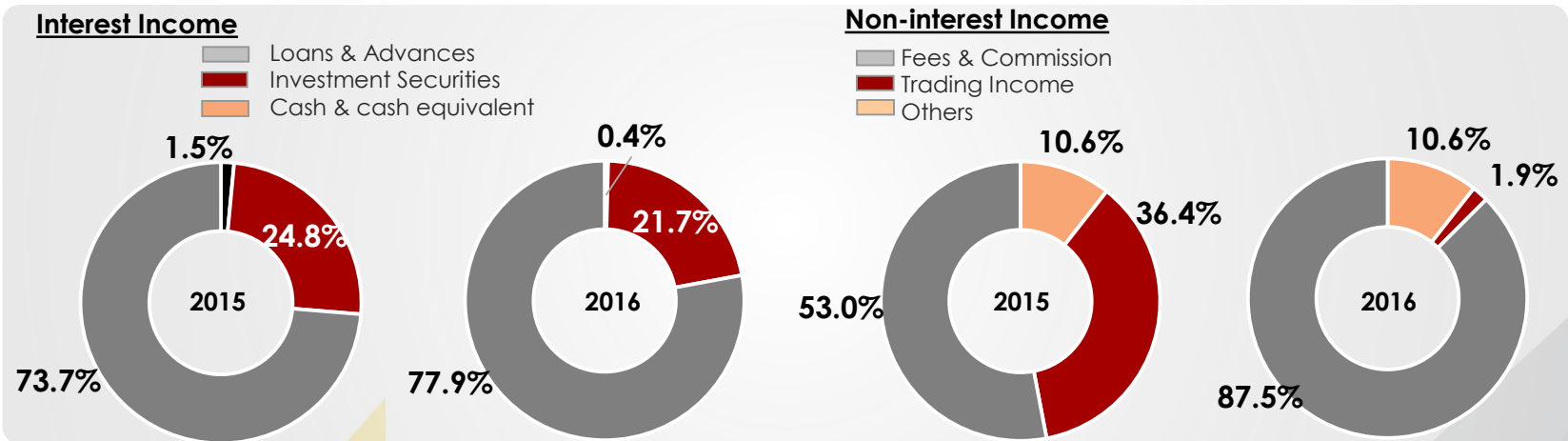


Revenue evolution .../2

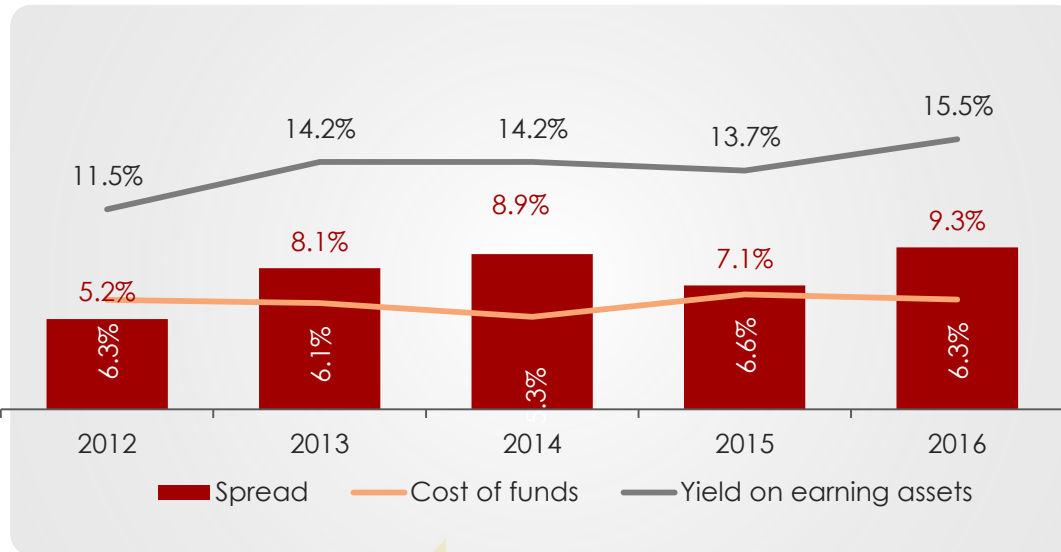
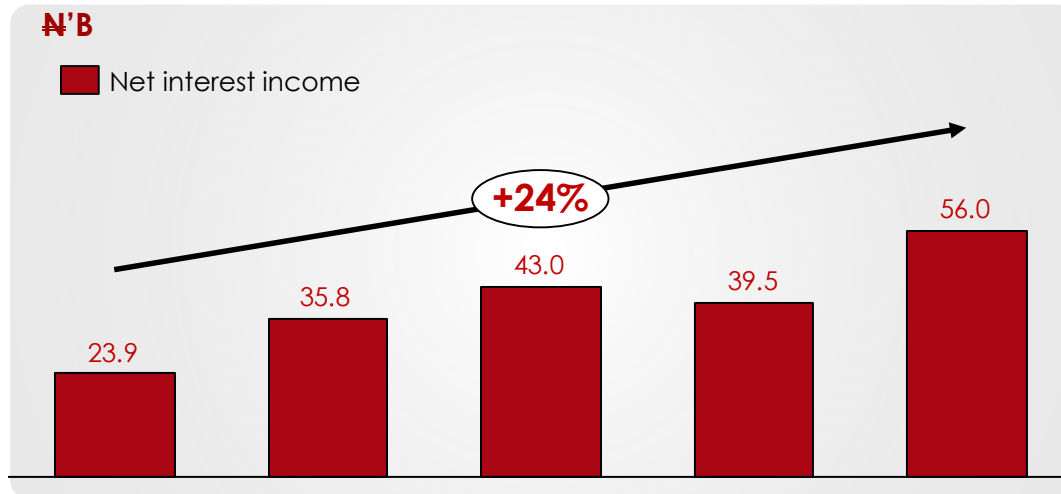


Comments

- Gross earnings rose for the 6th consecutive year to N111.4 billion, representing a compound annual growth rate of 12.8% (CAGR: 2012-2016)
- Earnings were boosted by interest income which rose by 22.5% to N99.1 billion representing 89% contribution
- Interest income from loans & advances and investment securities were the major sources of earning



Net interest income

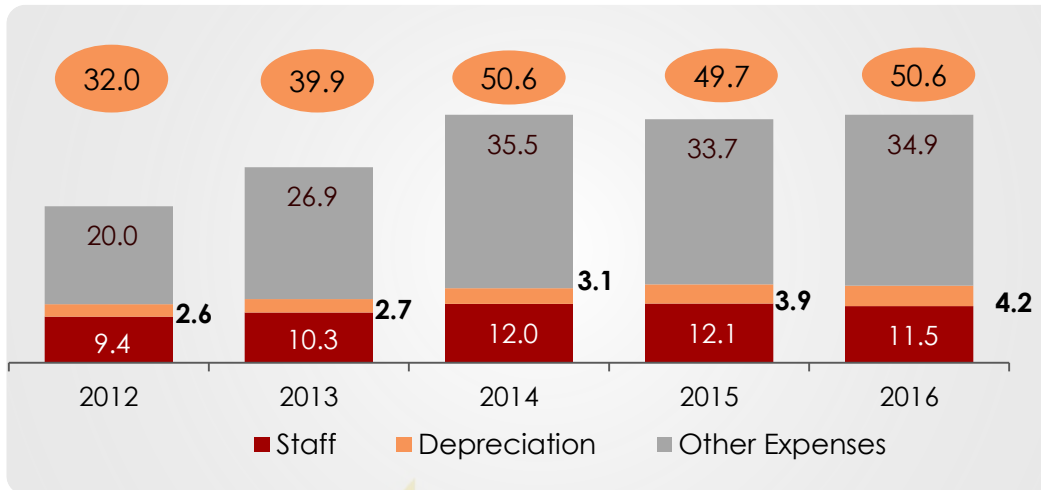
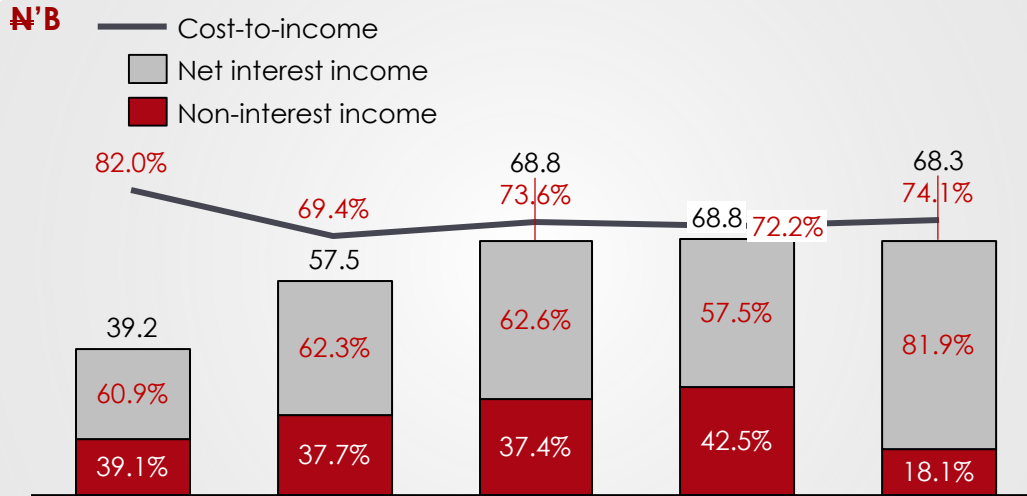


Comments

- Net interest income rose by 41.6% to N56.0 billion representing a compound annual growth rate of 23.7% (CAGR: 2012-2016)
- Growth in net interest income was boosted by the increase in interest income which outpaced the moderate increase of 4.2% in interest expense
- Yield on earning assets rose by 180 basis points to 15.6% (FY 2015: 13.8%), while funding costs increased by 20 basis points to 6.3% (2015 6.1%) reflecting a high interest rate environment
- Overall, net interest margin rose by 160 basis points to 9.3%
- We plan to focus on funding cost optimization in the coming period to further improve margins



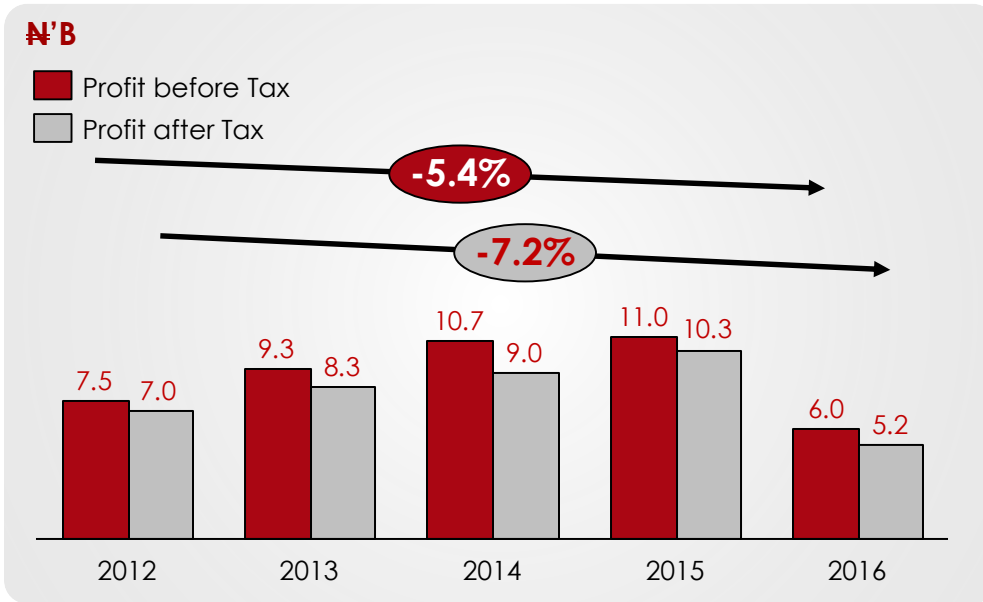
Operating Efficiency



Comments

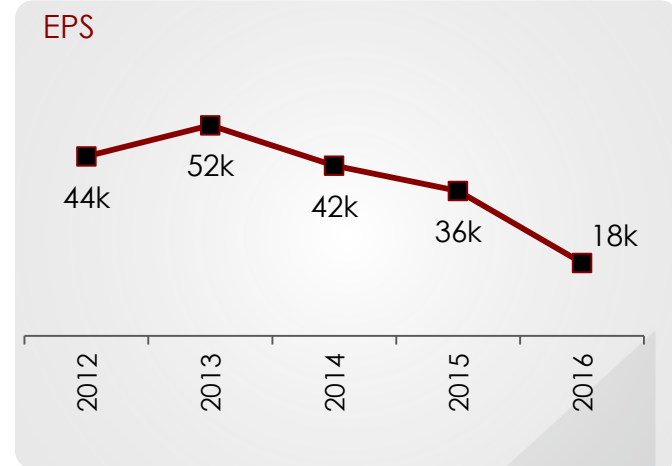
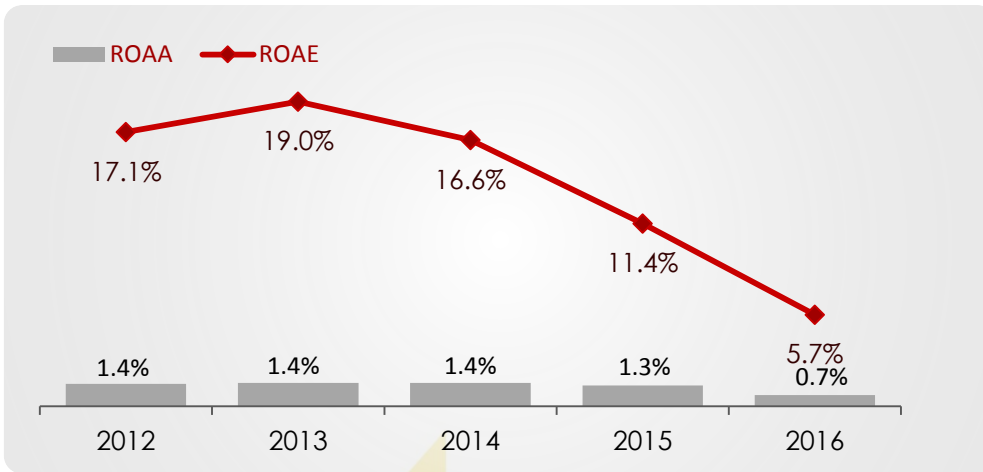
- Operating income remained flat at N68.3 billion (FY 2015: N68.8 billion), while net operating income was N56.6 billion
- Depreciation and amortisation increased by 8.6% to N4.2 billion due to the on-going investments in a number of technology-led service improvement initiatives across core and subsidiary systems, and channels optimization.
- Personnel cost declined by 4.8% to N11.5 billion, while other operating expenses (largely administrative and regulatory costs) increased by 3.6%
- Overall, we successfully limited the growth in operating expenses to 1.9% despite the high inflationary environment
- Cost-to-income ratio (excluding cost of risk) was 74.1% (FY 2015: 72.2%)

Profitability



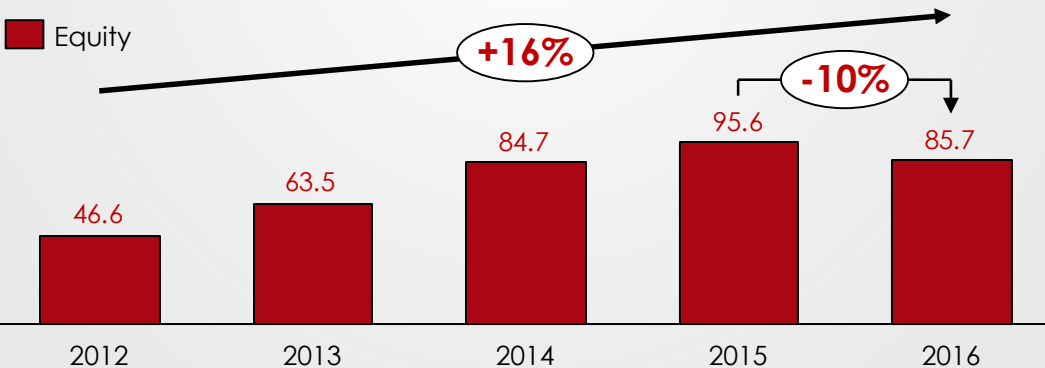
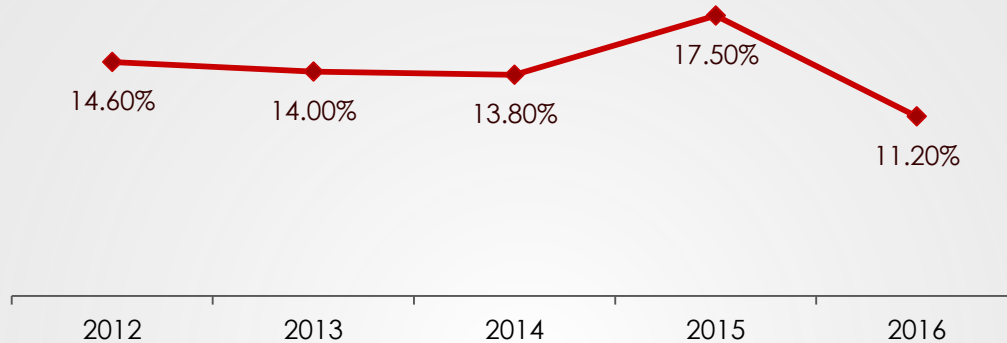
• Comments

- Despite pressure on earnings arising from macro economic head winds, we recorded PBT and PAT of N6.0 billion and N5.2 billion respectively
- Pre-tax Return on Average Equity (ROAE) was 6.6% (post-tax 5.7%); Return on Average Assets, 0.7%
- We will continue to explore innovative ways to improve revenue while simultaneously enhancing the overall efficiency of our business operations



Capital

Capital Adequacy Ratio



Comments

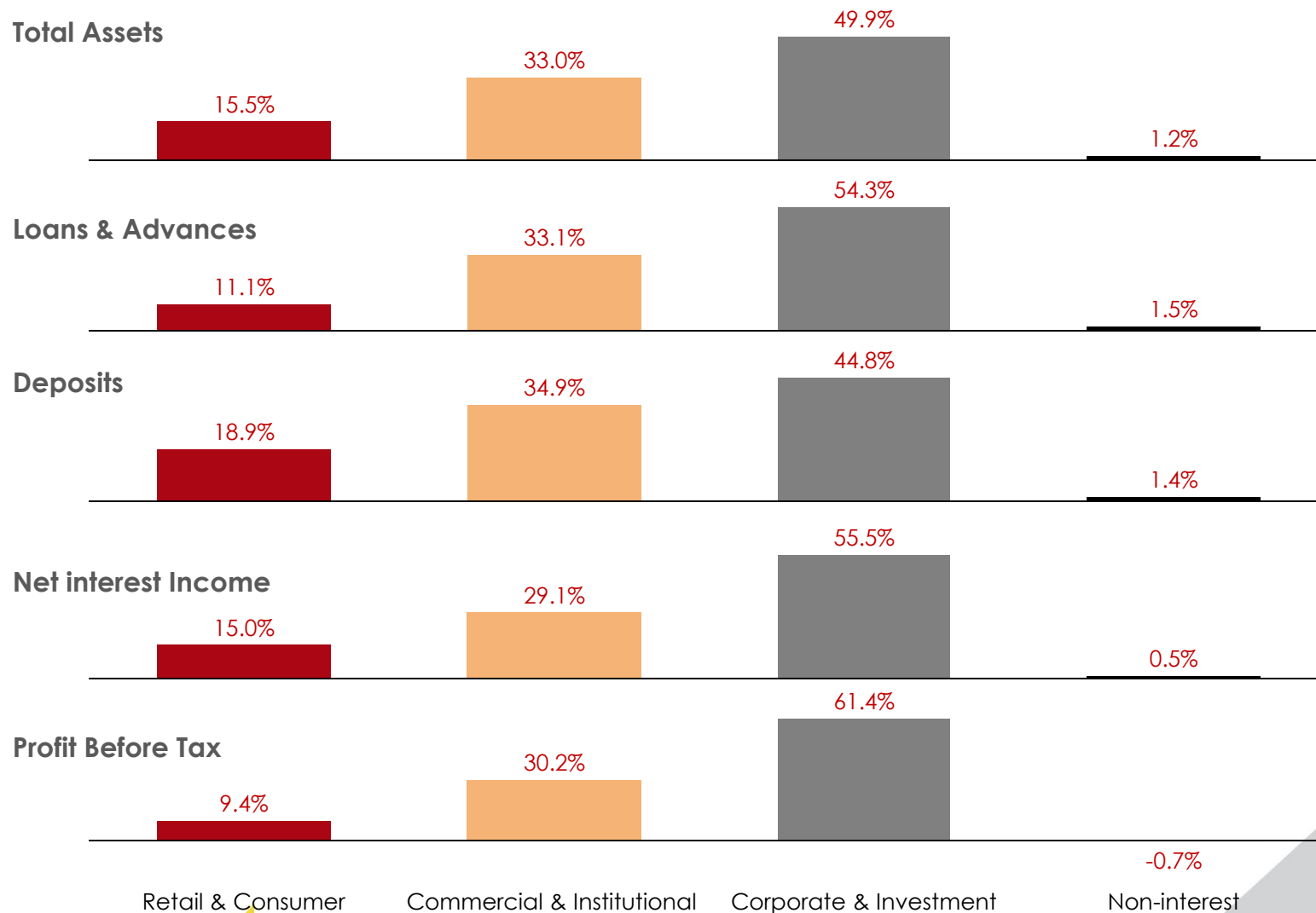
- Capital adequacy ratio was 120 basis points above the regulatory benchmark of 10%
- We successfully completed a 7-year fixed rate unsecured bond issuance of N8.0 billion of which 60% (N4.8 billion) qualified for tier 2 capital
- The launch of our Tier 2 Capital exercise culminating in the listing of the first tranche of these securities – Series 1 on the FMDQ OTC Exchange and the Nigeria Stock Exchange respectively;
- We plan to re-open the bond issuance in 2017 to enable us conclude the debt programme and build adequate capital buffers for our business

Financial ratios

Indicator	2012	2013	2014	2015	2016
Pre-Tax Return on Average Equity (annualized)	17.1%	19.0%	16.6%	12.2%	6.6%
Post-Tax Return on Average Equity (annualized)	15.9%	16.9%	13.9%	11.4%	5.7%
Return on Average Assets (annualized)	1.4%	1.4%	1.4%	1.4%	0.7%
Earnings per Share	44k	52k	42k	36k	18k
Yield on Earning Assets	11.5%	13.0%	14.2%	13.8%	15.6%
Cost of Funds	6.3%	6.1%	5.3%	6.1%	6.3%
Net Interest Margin	5.2%	6.8%	8.9%	7.7%	9.3%
Cost to Income	81.5%	69.4%	73.6%	72.2%	74.1%
NPL Ratio	3.8%	2.1%	3.1%	4.8%	9.9%
Capital Adequacy Ratio	14.6%	14.0%	14.0%	17.5%	11.2%
Loan to Deposit Ratio	49.5%	56.4%	56.6%	57.3%	80.1%



Performance by business segment



Operational Highlights & Management Guidance



Operational highlights

Technology, Risk Management & Operations

- The successful launch of a new CORE Banking Application – Temenos T24 in May 2016;
- The successful launch/upgrade of multiple solutions across the payments, productivity and mobility areas;
- Strong credit ratings assigned by Moody's Investor Services and GCR;
- Significant milestones achieved in the implementation of regulatory compliance and risk management initiatives e.g. Basel 2 adoption, ISO 27001 & 20001 re-certification, etc.

Innovation & Business Development

- The launch of **ChatPay**, an artificial intelligence (AI) powered platform that provides a range of payment and other banking services through multiple messaging platforms on social media;
- The successful launch of our **SAF Retail Store** and other award winning non-interest banking solutions;
- Our bank was chosen as the **preferred banking partner** for the Federal Government of Nigeria's Government Enterprise & Empowerment Program (**GEEP**), a social intervention initiative designed to provide credit to over 1.5million Nigerians with a focus on the youth and medium, small and micro enterprises;
- The **Market Women's Quick Cash** product launched in Kaduna. The scheme has been set up with the goal of reaching 1 million women in 3 years and aims to promote financial inclusion especially among female micro-entrepreneurs;
- Our **Diaspora Banking Proposition**, a solution designed to solve multiple challenges for the **Non-Resident Nigerian** community.



Operational highlights

Sustainability & Corporate Social Responsibility

- Our very successful Sterling Environmental Makeover (STEM) which continues to grow from strength to strength with partnerships formalized with environmental agencies in 14 states of the Federation;
- The 'Made in Nigeria' Campaign aimed at promoting locally made goods;
- Tree Planting and other CSR initiatives to support the communities where we operate.

Human Capital Development & Employee Relations Initiatives

- The formal accreditation of our Foundation School (Entry Level training) Program by the Chartered Institute of Bankers of Nigeria (CIBN);
- Our Flexi-work/Flexi-place initiative which is targeted at improving work-life balance and boosting workplace productivity;
- Employee wellness, health and fitness initiatives.



Management guidance

Guidance

Deposit growth >15%

Net loans growth <10%

Pre-tax Return on Average Equity (ROAE) >10%

Cost-to-income <70%

NPL ratio < 7.5%

Cost of funds <5%



Thank you

