

# Sterling Bank Plc

## Analyst/Investor Presentation

### Q3 2017

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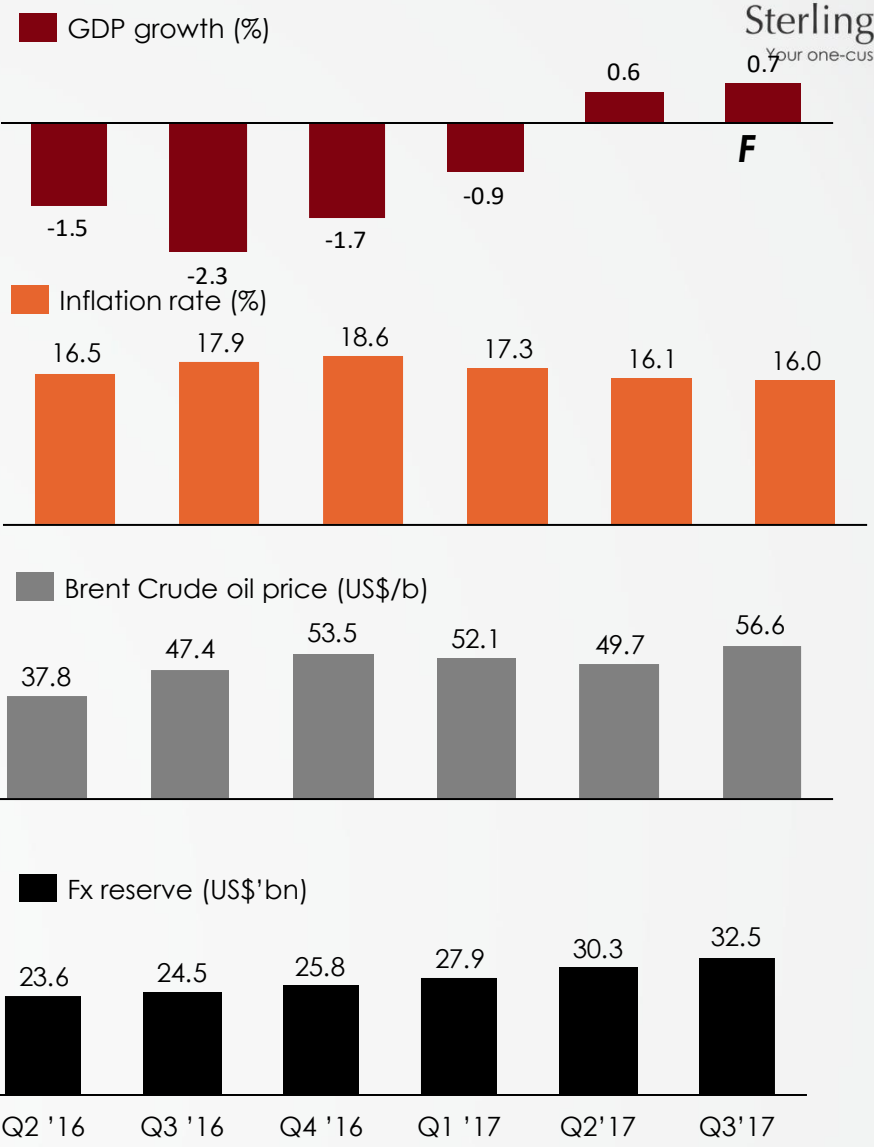


# Overview

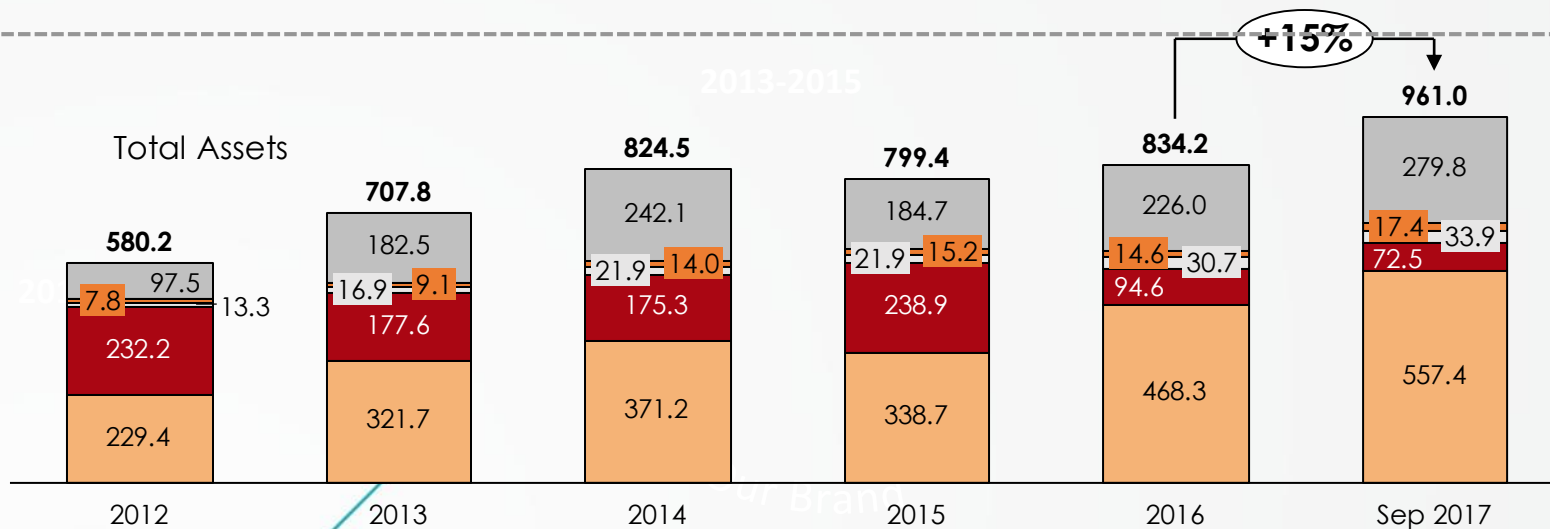
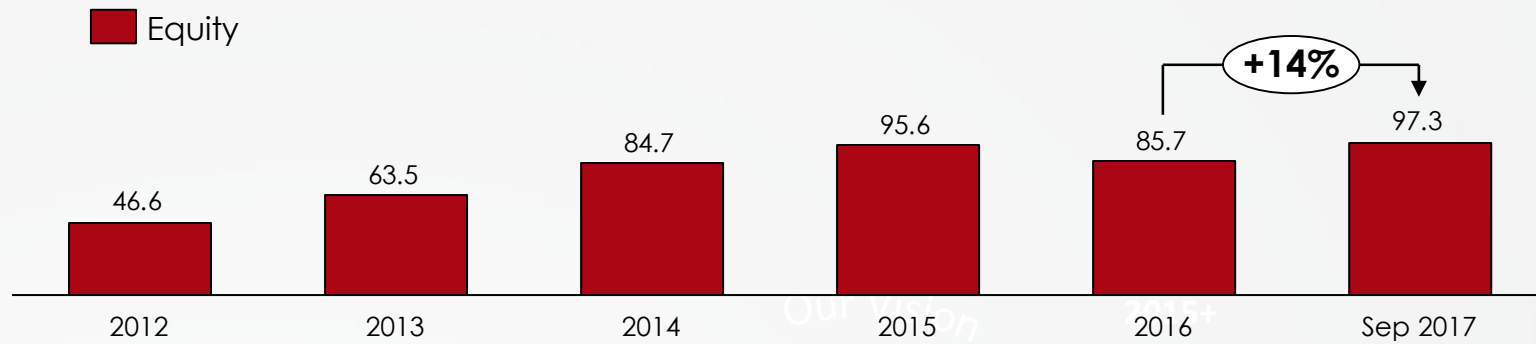


# Operating Environment

- GDP in two consecutive quarters of 2017 - Q1 (-0.9%); Q2 (0.55%) marking a recovery from recession. We expect further growth in Q3 2017.
- Bonny Light has recorded a steady growth from US\$53.5pb in Dec. 2016 to US\$56.6pb as at end of September 2017
- Foreign reserves witnessed a 32.4% to US\$32.5 in Sept. 2017 from US\$24.5bn as at Sep. 2016
- Headline inflation rate continued to taper to close Q3 at 15.8% September 2017 from 18.6% in December 2016 an indication of improved macro conditions
- Exchange rate remained flat at N305.9/US\$
- 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



# Trend analysis – Equity & Total Assets

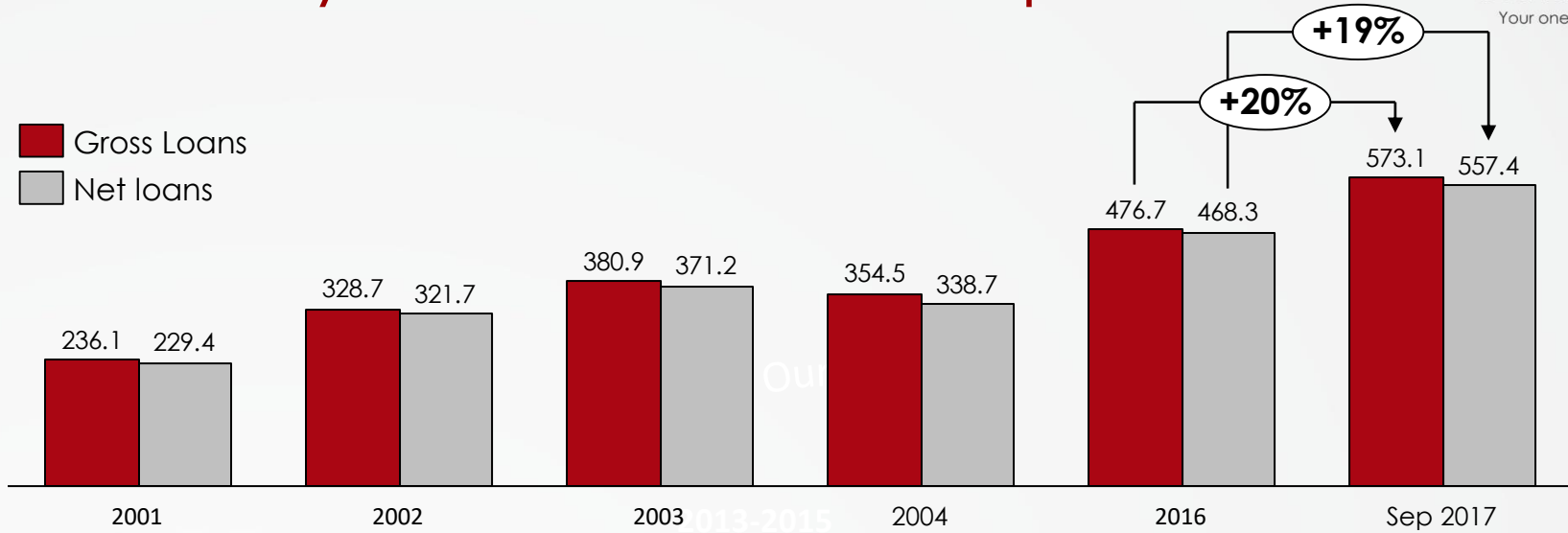


Cash & short term investments
  Fixed Assets
  Other Assets
  Government Securities
  Loans & Advances

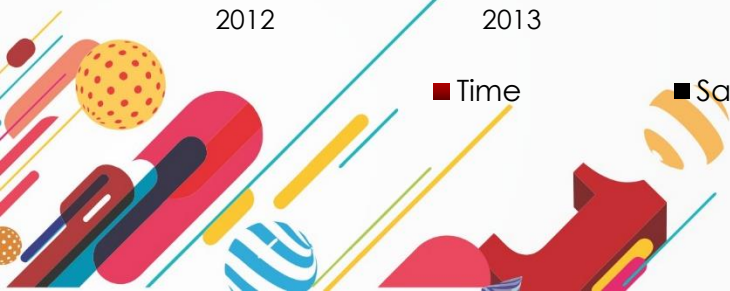
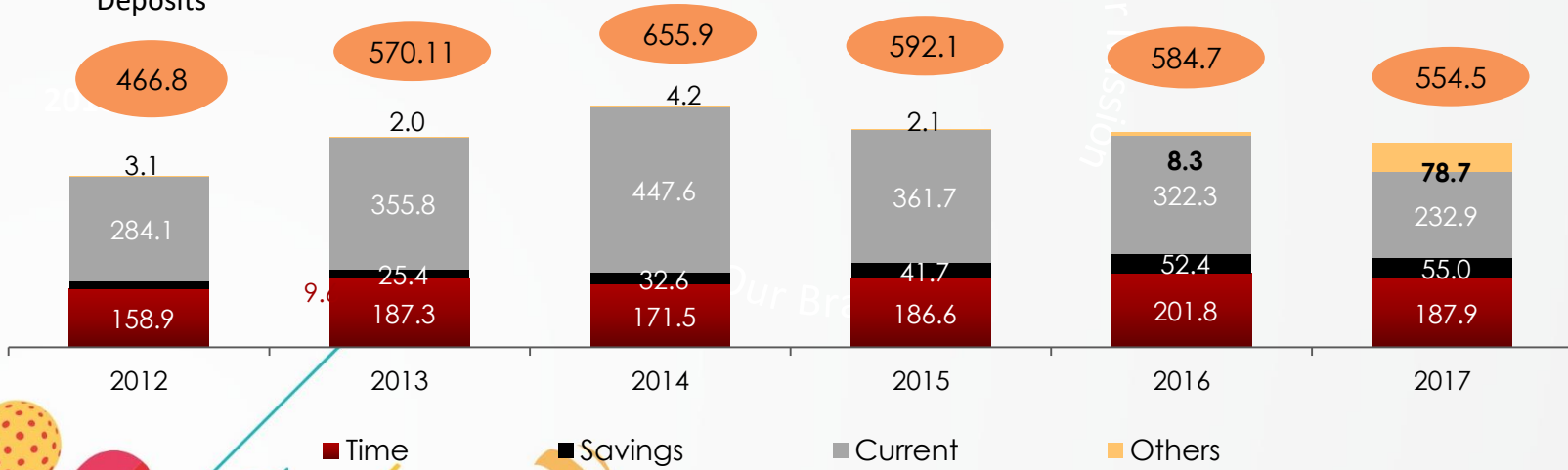


# Trend analysis – Loans and Deposits

■ Gross Loans  
■ Net loans



## Deposits





# Performance Review

## - Earnings analysis

# Income statement highlights

In millions of Naira	Sep-17	% Of Earnings	Sep-16	% Of Earnings	% Growth
<b>Gross Revenue</b>	<b>94,305</b>	<b>100%</b>	<b>79,651</b>	<b>100%</b>	<b>18%</b>
Interest income	78,288	83%	68,893	86%	14%
Interest expense	(41,383)	44%	(27,375)	34%	51%
<b>Net interest income</b>	<b>36,905</b>	<b>39%</b>	<b>41,518</b>	<b>52%</b>	<b>-11%</b>
Fees and commission income	9,036	10%	8,229	10%	10%
Net Trading income/(Loss)	2,420	3%	1,391	2%	74%
Other operating income	4,561	5%	1,138	1%	301%
<b>Operating income</b>	<b>52,922</b>	<b>56%</b>	<b>52,276</b>	<b>66%</b>	<b>1%</b>
Impairment charges	(7,631)	8%	(7,199)	9%	6%
Personnel expenses	(8,660)	9%	(8,694)	11%	0%
Other operating expenses	(11,343)	12%	(10,442)	13%	9%
General and administrative expenses	(11,087)	12%	(12,931)	16%	-14%
Other property, plant and equipment cost	(4,044)	4%	(3,844)	5%	5%
Depreciation and amortization	(3,627)	4%	(3,096)	4%	17%
<b>Total expenses</b>	<b>(38,761)</b>	<b>41%</b>	<b>(39,008)</b>	<b>49%</b>	<b>-1%</b>
Profit before income tax	6,530	7%	6,069	8%	8%
Income tax expense	(658)	1%	(534)	1%	23%
<b>Profit for the period</b>	<b>5,872</b>	<b>6%</b>	<b>5,535</b>	<b>7%</b>	<b>6%</b>

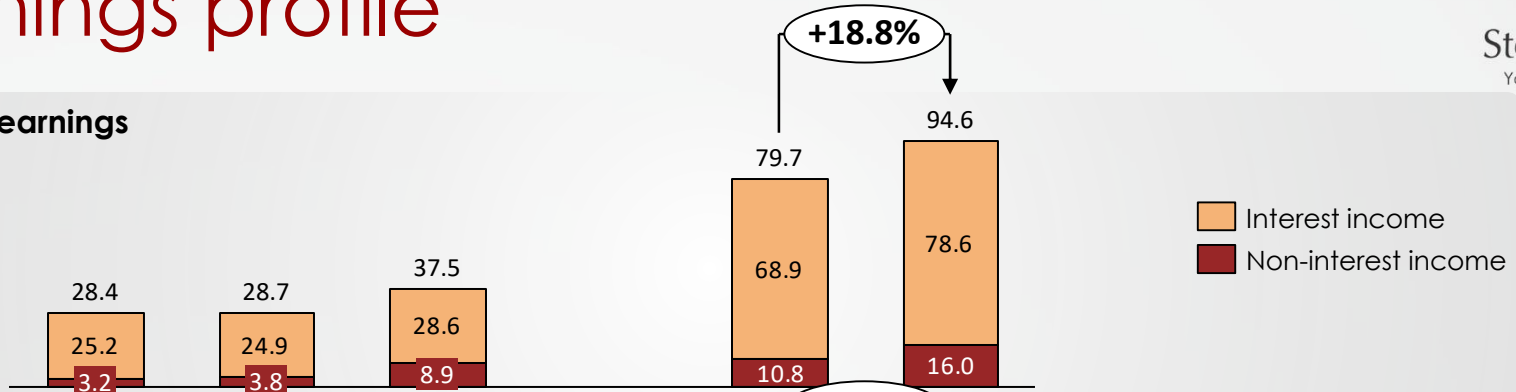




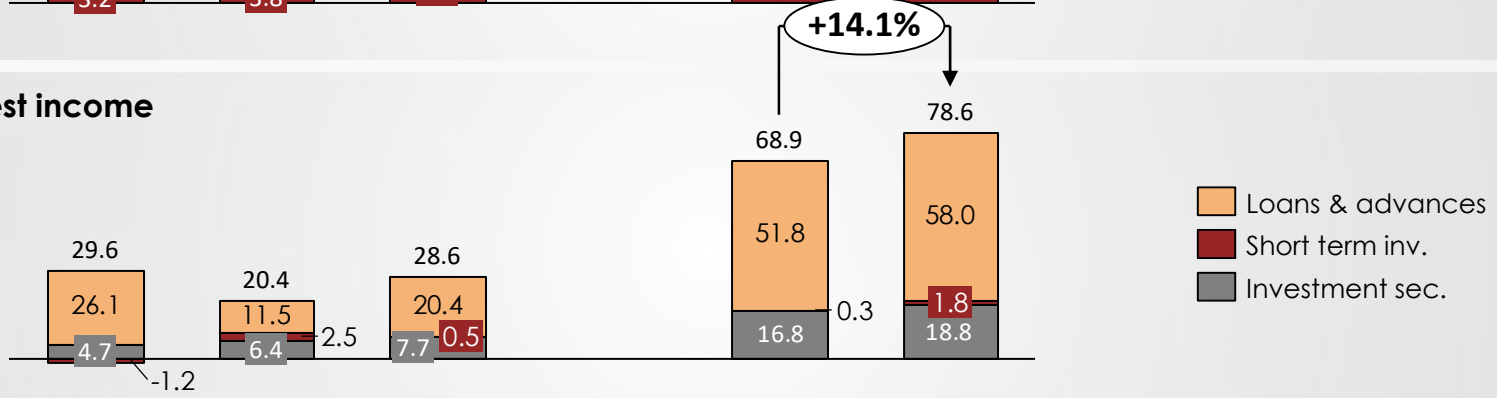
# Earnings profile

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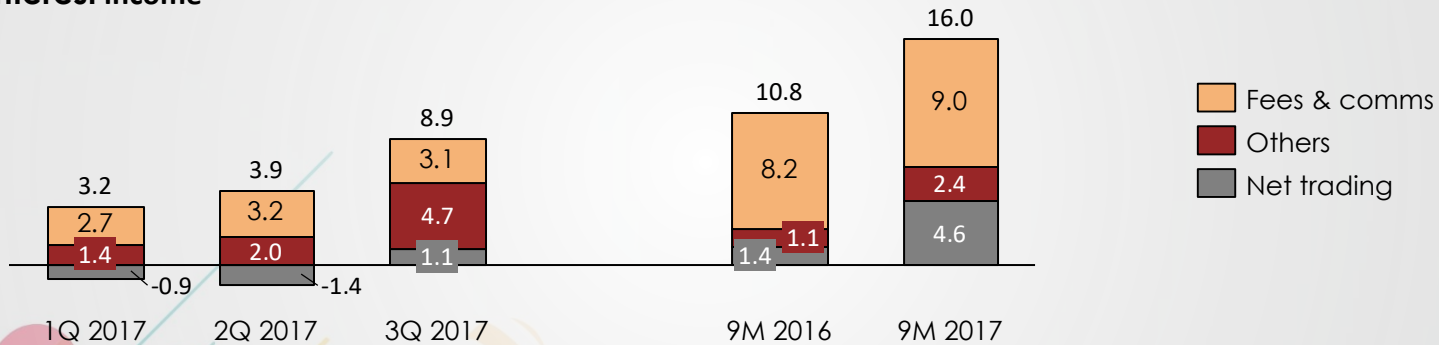
## Gross earnings



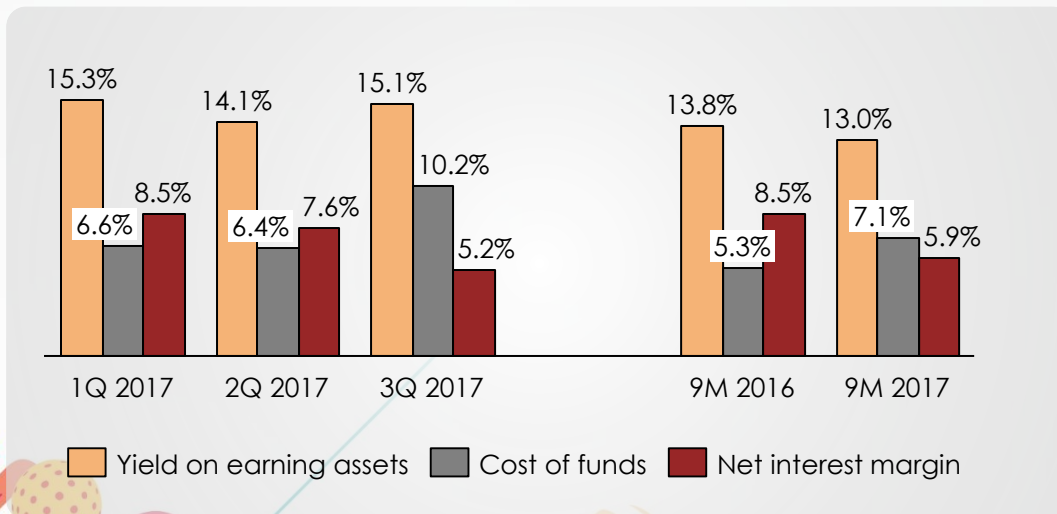
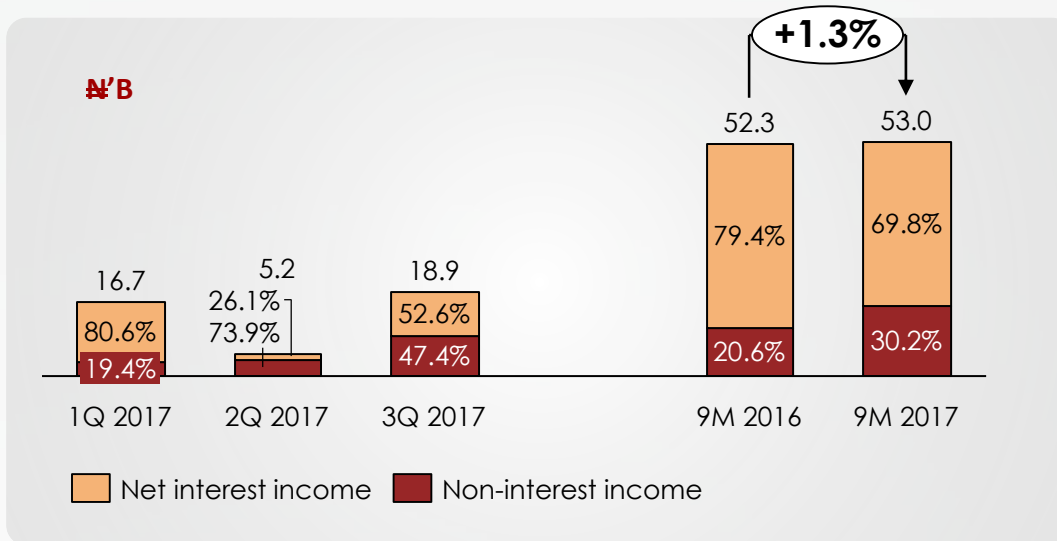
## Interest income



## Non-interest income



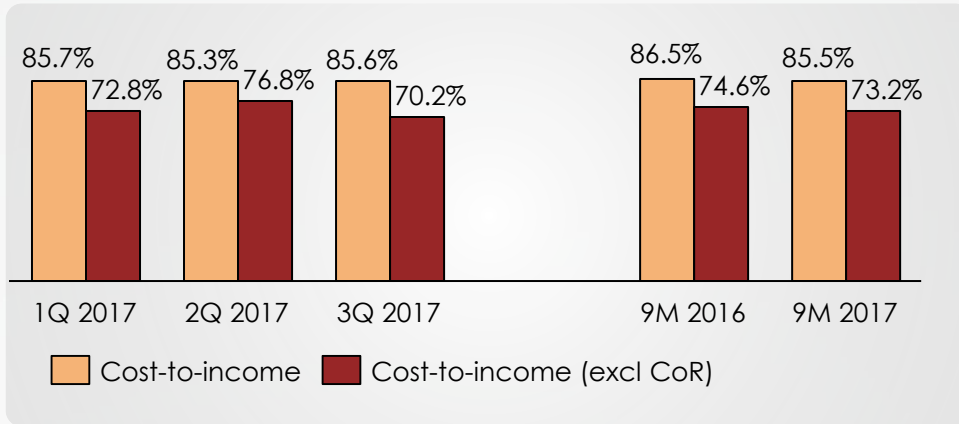
# Operating income



## Comments

- Earnings increased by 1.3% to N53 billion with interest income contributing 69.8% while non interest income contributes 30.2%
- 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 marginally 80 basis points to 13.0% YoY, while cost of funds increased to 7.1% to 5.3% resulting in net interest margin declining to 5.9% from 8.5%.
- 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

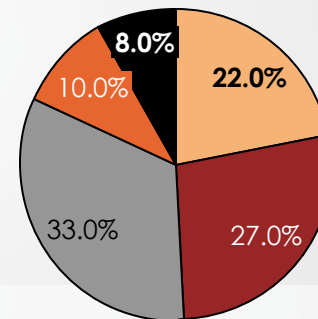
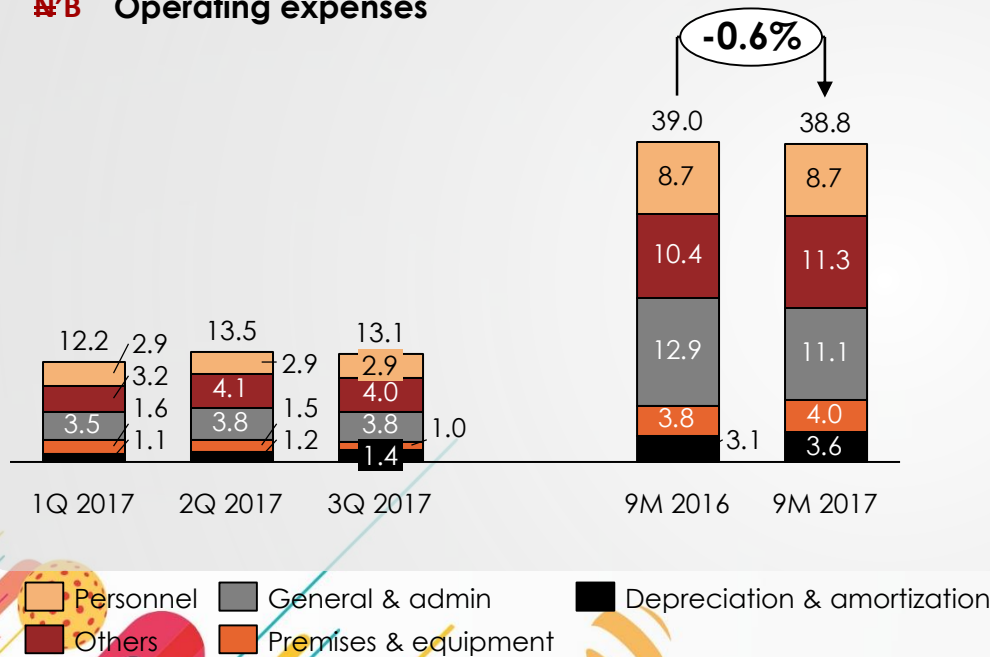
# Operating Efficiency



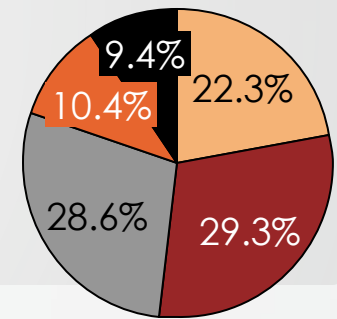
## Comments

- Operating expenses declined by 0.6% YoY to N38.8 billion as we continue to focus on operating efficiency.
- Cost-to-income ratio declined by 140 basis points to 73.2% as a result of continued strategic cost management
- General admin expenses accounted for a third of operating expenses and declined by 180 basis points
- Other operating expenses were largely regulatory costs

## N/B Operating expenses



9M 2016

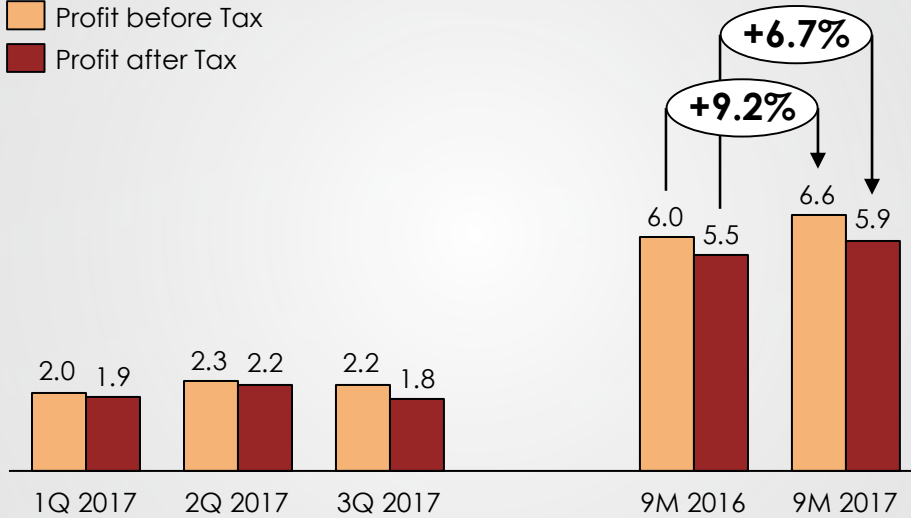


9M 2017

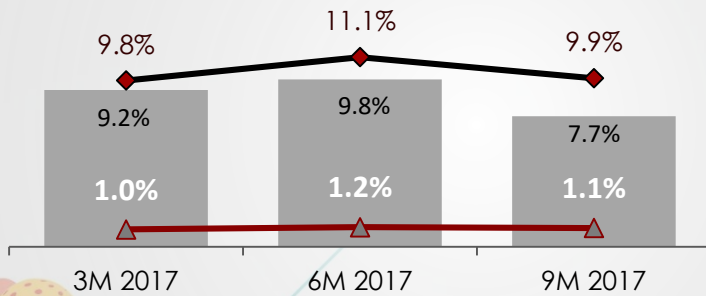
# Profitability

₦/B

Profit before Tax  
Profit after Tax



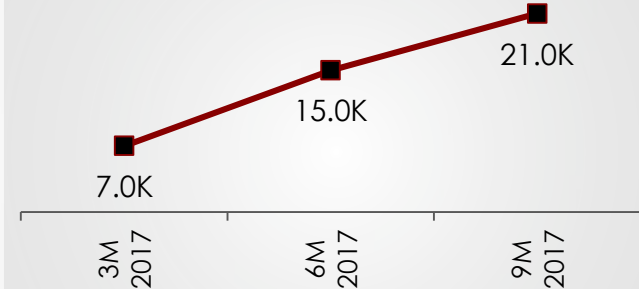
Post-tax ROAE   Pre-tax ROAE   ROAA



## Comments

- Earnings came improved as macro economic conditions improve to 21k from 18k YOY.
- Impairment charges increased by 37% to N7.2 billion impacting bottom-line
- 9M PBT increased by 9.2% to N6.6 billion, while PAT also increased by 9.2% to N5.9 billion
- Pre-tax ROAE remained competitive at 9.9% (post-tax 7.7%)

## EPS



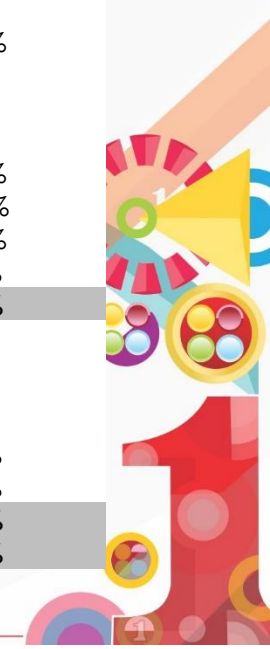


# Performance Review

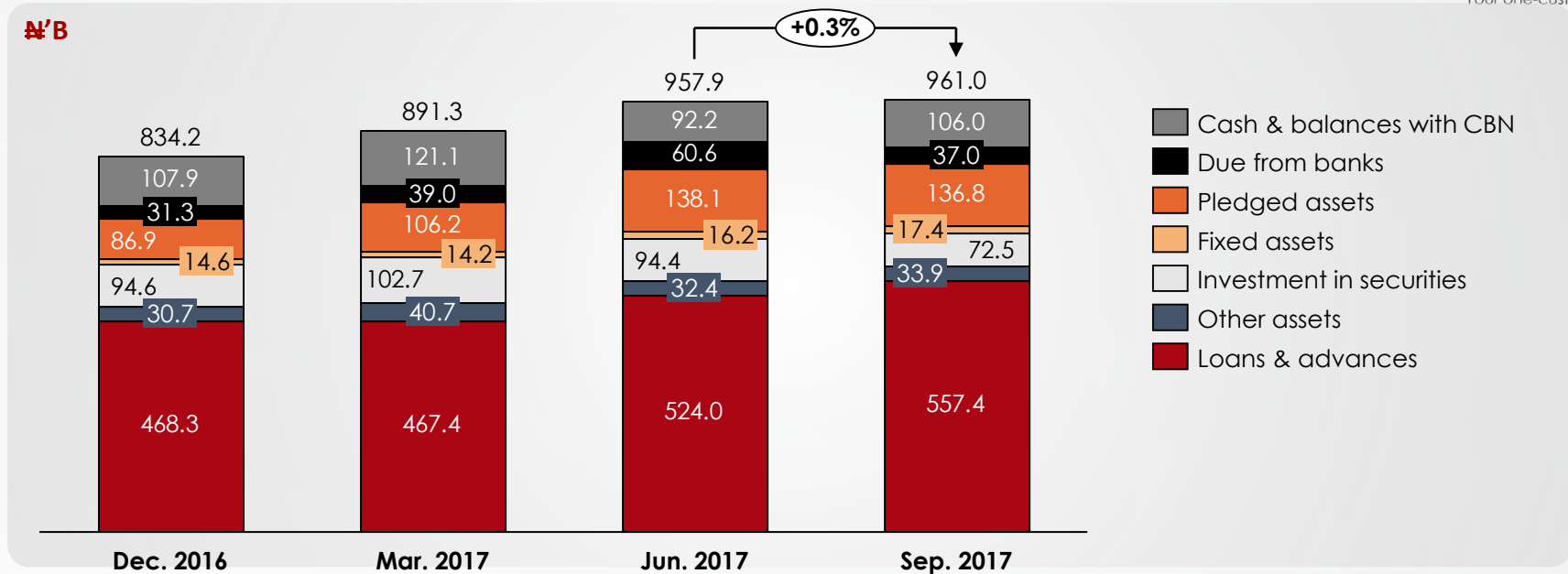
## - Balance sheet analysis

# Highlights of financial position

Assets	Sept 2017	% of Total Asset	Dec 2016	% of Total Asset	% Growth
Cash and balances with Central Bank of Nigeria	106,018	11.0%	107,859	12.9%	-1.7%
Due from Banks	36,954	3.8%	31,289	3.8%	18.1%
Pledged financial assets	136,819	14.2%	86,864	10.4%	57.5%
Derivative financial assets	-	0.0%	8	0.0%	-
Loans and advances to Customers	557,443	58.0%	468,250	56.1%	19.0%
Investment securities	72,490	7.5%	94,632	11.3%	-23.4%
Other assets	25,117	2.6%	21,676	2.6%	15.9%
Property, plant and equipment	17,431	1.8%	14,604	1.8%	19.4%
Intangible assets	1,775	0.2%	2,037	0.2%	-12.9%
Deferred tax assets	6,971	0.7%	6,971	0.8%	0.0%
<b>Total Assets</b>	<b>961,019</b>	<b>100.0%</b>	<b>834,190</b>	<b>100.0%</b>	<b>15.2%</b>
<b>Liabilities</b>					
Due to Banks					
Deposits from Banks	1,915	0.2%	23,769	2.8%	-91.9%
Deposits from Customers	554,476	57.7%	584,734	70.1%	-5.2%
Derivative financial liabilities	-	0.0%	8	0.0%	-
Current income tax liabilities	815	0.1%	942	0.1%	-13.5%
Other borrowed funds	229,340	23.9%	82,450	9.9%	178.2%
Debt securities issue	12,849	1.3%	15,382	1.8%	-16.5%
Other liabilities	64,292	6.7%	41,245	4.9%	55.9%
<b>Total Liabilities</b>	<b>863,687</b>	<b>89.9%</b>	<b>748,530</b>	<b>89.7%</b>	<b>15.4%</b>
<b>Equity</b>					
Share capital	14,395	1.5%	14,395	1.7%	0.0%
Share premium	42,759	4.4%	42,759	5.1%	0.0%
Retained earnings	11,245	1.2%	6,226	0.7%	80.6%
Equity reserves	28,933	3.0%	22,280	2.7%	29.9%
<b>Total equity</b>	<b>97,333</b>	<b>10.1%</b>	<b>85,660</b>	<b>10.3%</b>	<b>13.6%</b>
<b>Total Liabilities &amp; Equity</b>	<b>961,020</b>	<b>100.0%</b>	<b>834,190</b>	<b>100.0%</b>	<b>29.0%</b>



# Assets growth trend



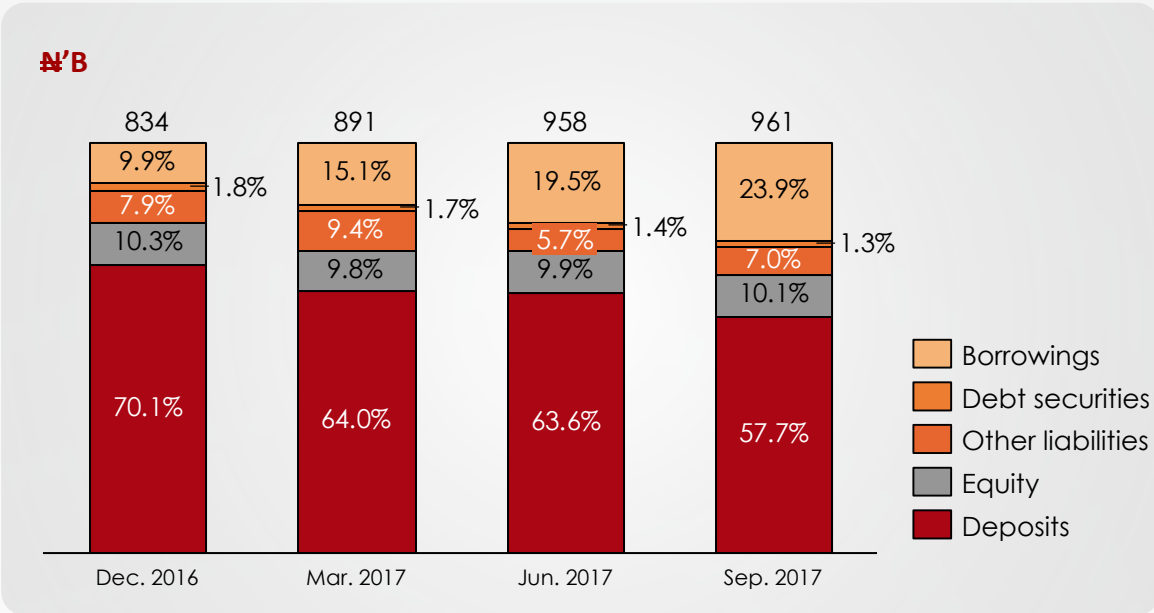
## Comments

- Total assets excluding contingent liabilities increased by 20 bias points to N961 billion (Dec. 2016: N834.2 billion)
- Loans and advances recorded the highest contribution with 58% penetration level (Dec. 2016: 56.1%)
- 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



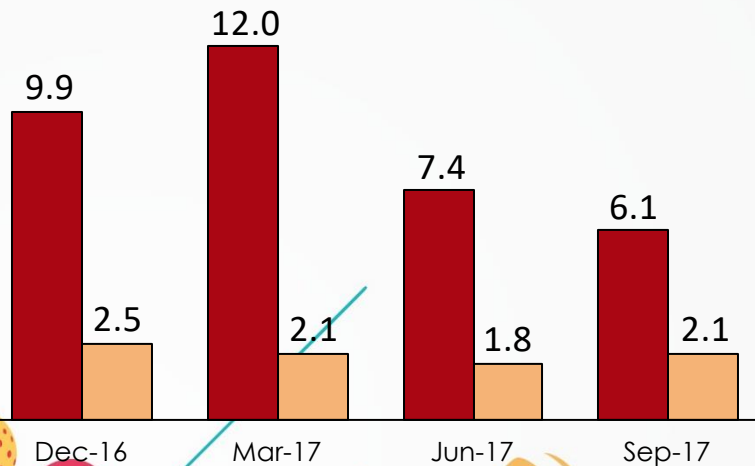
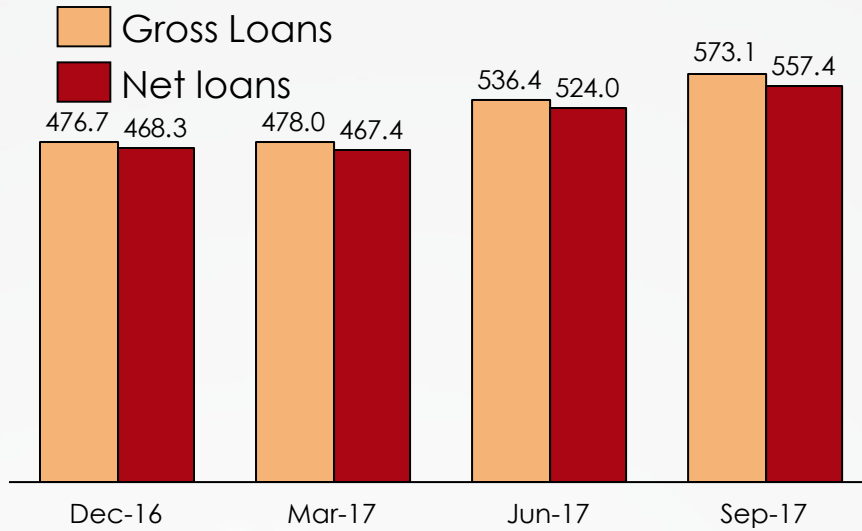
## Comments

- Deposits remained the major source of funding at 57.7%
- Borrowings increased by 20% supported by domestic funding sources which accounted for 49.8%





# Asset Quality



## Comments

- Non-performing loans to gross loans (NPL ratio) declined by 380 basis points to 6.1%%, while cost of risk declined by 40 basis points to 2.1%)
- Oli and Gas, Transportation sectors account for the highest foreign currency loans as a proposition to total sector loans.
- 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

	9m 2017	% Of Total Loan	Dec-16	% Of Total Loan	% Growth
Agriculture	16,422	2.9%	14,489	3.0%	13.3%
Capital Market	0	0.0%	58	0.0%	-
Communication	2,579	0.5%	17,578	3.7%	-85.3%
Consumer	6,484	1.2%	6,657	1.4%	-2.6%
Education	797	0.1%	902	0.2%	-11.7%
Finance & Insurance	39,636	7.1%	12,607	2.6%	214.4%
Government	79,587	14.3%	34,482	7.2%	130.8%
Manufacturing	7,029	1.3%	8,252	1.7%	-14.8%
Oil - downstream	51,885	9.3%	52,957	11.1%	-2.0%
Oil - upstream	125,496	22.5%	126,517	26.5%	-0.8%
Oil & Gas Services	63,515	11.4%	67,454	14.1%	-5.8%
Others	51,390	9.2%	44,991	9.4%	14.2%
Power	25,819	4.6%	24,031	5.0%	7.4%
Real Estate & Construction	60,807	10.9%	45,998	9.6%	32.2%
Transportation	15,317	2.7%	13,364	2.8%	14.6%
NIB	10,681	1.9%	6,376	1.3%	67.5%
Grand Total	557,443	100.0%	476,713	100.0%	16.9%



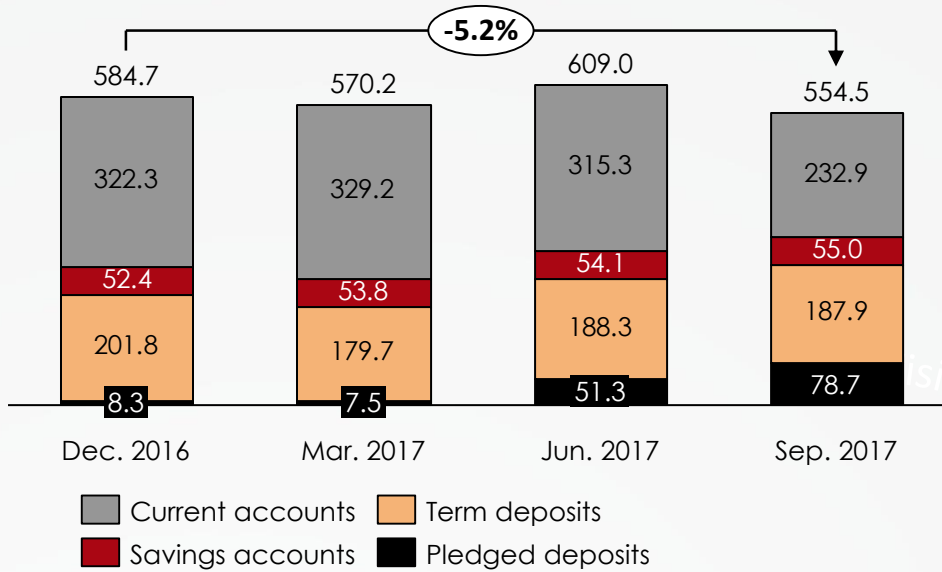
# Gross loans by currency

SECTORS	LCY	FCY	Total loans	% OF SECTOR LOANS IN FCY
Agriculture	16,422	-	16,422	-
Capital Market	0	-	-	-
Communication	2,139	439	2,579	17.0%
Consumer	6,449	34.88	6,484	0.5%
Education	797	0.12	797	0.0%
Finance & Insurance	39,529	106.82	39,636	0.3%
Government	79,587	-	79,587	-
Manufacturing	7,028	-	7,029	-
Oil - downstream	46,773	5,112	51,885	9.9%
Oil - upstream	10,081	115,414	125,496	92.0%
Oil & Gas Services	26,480	37,034	63,515	58.3%
Others	49,216	2,174	51,390	4.2%
Power	1,312	24,506	25,819	94.9%
Real Estate & Construction	49,108	11,699	60,807	19.2%
Transportation	1,949	13,367	15,317	87.3%
NIB	10,681	-	10,681	0.0%
Grand Total	347,552	209,891	557,443	37.7%



# Deposits

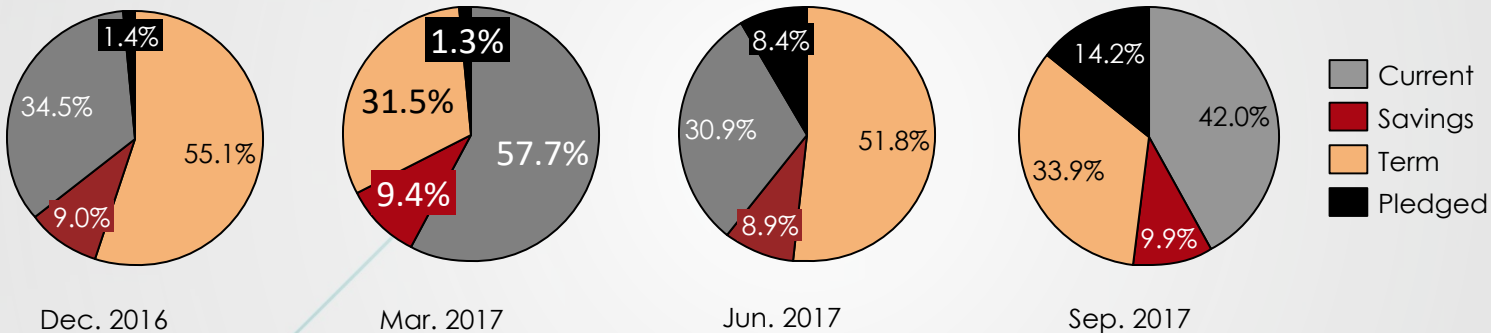
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## Comments

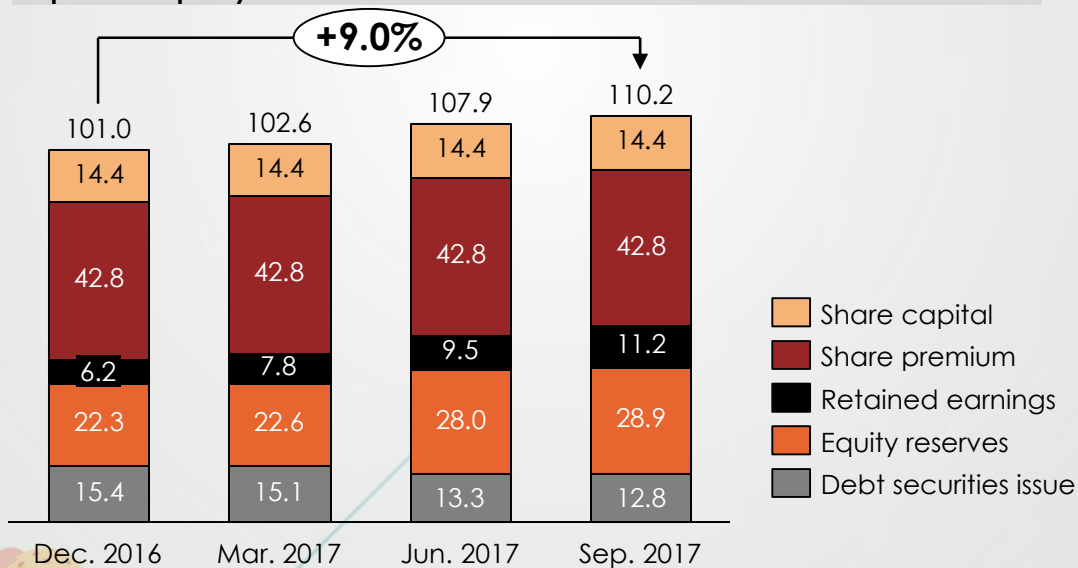
- Deposits declined marginally by 5.2% to N554.5billion (Dec. 2016: N584.7 billion)
- Low cost deposits accounted for 41.7% of total deposits (Dec. 2016: 64.1%), while wholesale funds accounted for 48.1%
- Savings deposits rose by 5% and accounted for 10% of total deposits (Dec. 2016:9%) re-affirming the benefits of our retail drive

## Deposit Mix



# Capital

Items N'm	Sep-17	Dec-16	% Growth
Tier 1 capital	77,573	80489	-3.6%
Tier 2 capital	569	-7476	
<b>Total regulatory capital</b>	<b>78,142</b>	<b>73013</b>	<b>7.0%</b>
-			
<b>Risk-weighted assets</b>	<b>685,990</b>	<b>680514</b>	<b>0.8%</b>
Tier 1 ratio	11.31%	12.00%	
Tier 2 ratio	0.08%	-1.00%	
<b>Capital adequacy ratio</b>	<b>11.39%</b>	<b>11.20%</b>	



## Comments

- Capital adequacy ratio remained above regulatory benchmark at 11.39% threshold
- Shareholders' funds increased by 9% due to fair value adjustment on available for sale investments
- We remain committed to our plan to conclude the N35 billion tier 2 capital raise in the coming year



# Performance Review

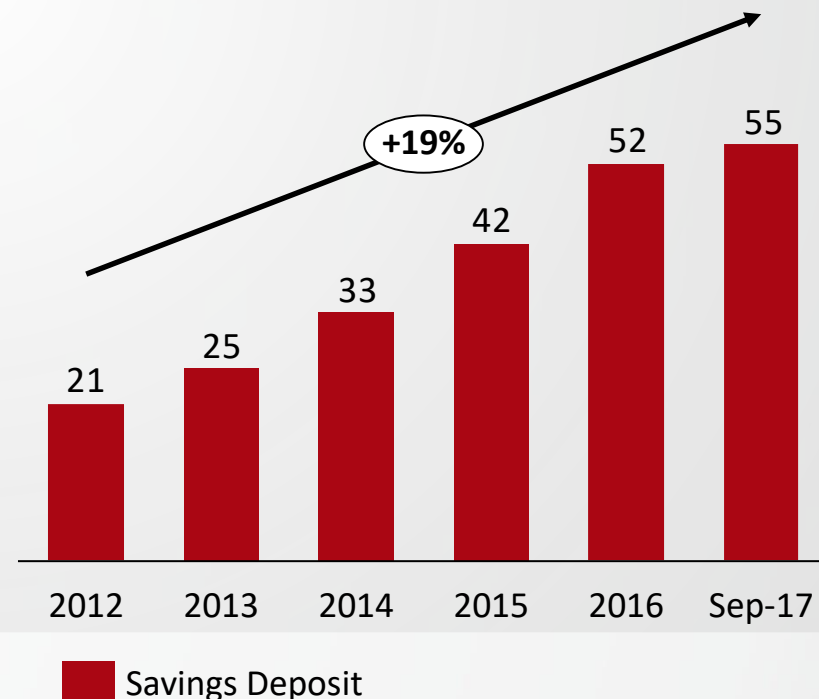
## - Retail Business Analysis

# Deposit and Risk Asset Trend

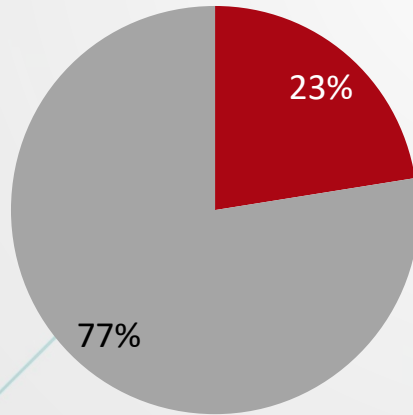
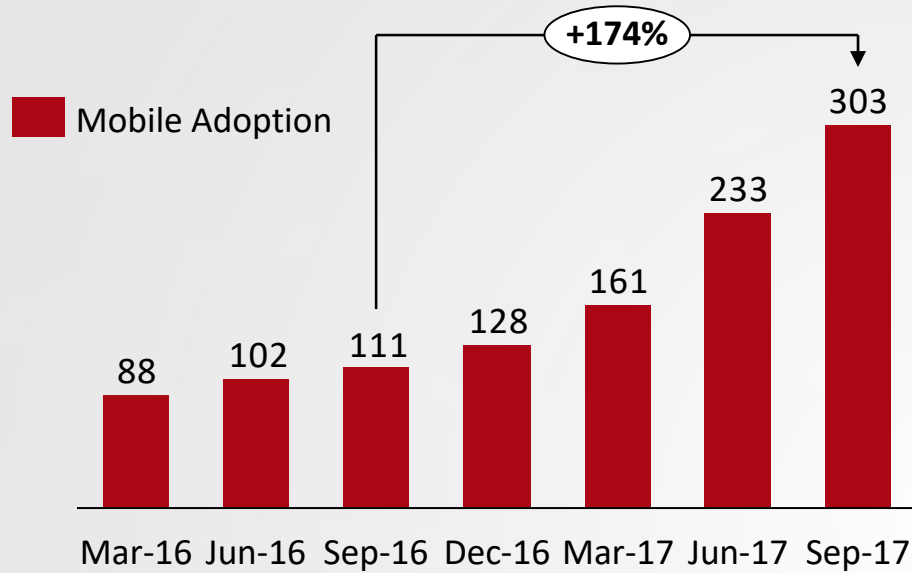
Region	Retail Loans N'm	% Of Total
ABUJA	335,919	3.0%
APAPA	1,318,001	12.0%
IKEJA	1,474,215	13.4%
IKORODU	151,556	1.4%
LAGOS EKO	1,470,736	13.3%
LAGOS VICTORIA	1,609,128	14.6%
MID WEST	171,519	1.6%
NORTH CENTRAL	167,246	1.5%
NORTH EAST	55,667	0.5%
NORTH WEST	523,214	4.7%
SOUTH EAST-1	412,089	3.7%
SOUTH EAST-2	126,884	1.2%
SOUTH SOUTH	1,342,202	12.2%
SOUTH WEST 1	335,548	3.0%
SOUTH WEST 2	79,015	0.7%
YABA	1,449,620	13.2%
Total	11,022,560	100.0%

### Comments

- We have continued to drive our retail business with our saving deposit growing by 19% from 2012 to date.
- Risk asset from regions within Lagos constitute the largest portion of total retail loans with Apapa, Ikeja, Lagos Eko, Lagos Victoria and Yaba at 12%, 13.3%, 14.6%, 13.2% respectively.



# Mobile Banking



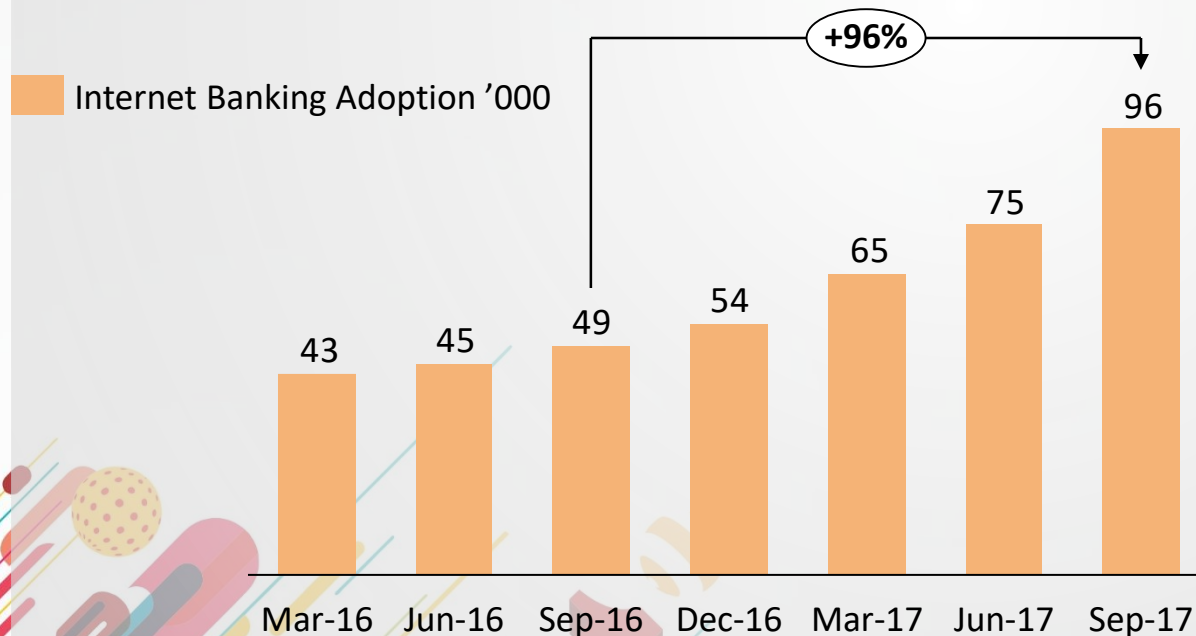
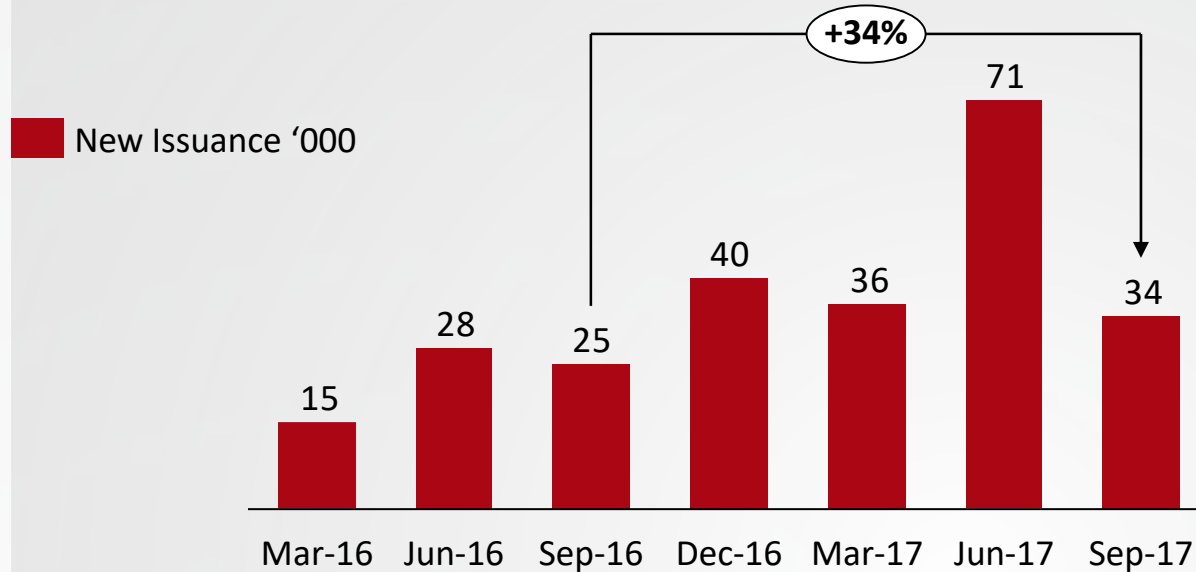
MOBILE APP USSD

## Comments

- Our mobile channels comprising of USSD and Mobile Application are the fastest growing channels at 174% YoY growth.
- We have 77% percent of our active mobile banking users on our USSD platform with 23% accounting for our mobile application platform.



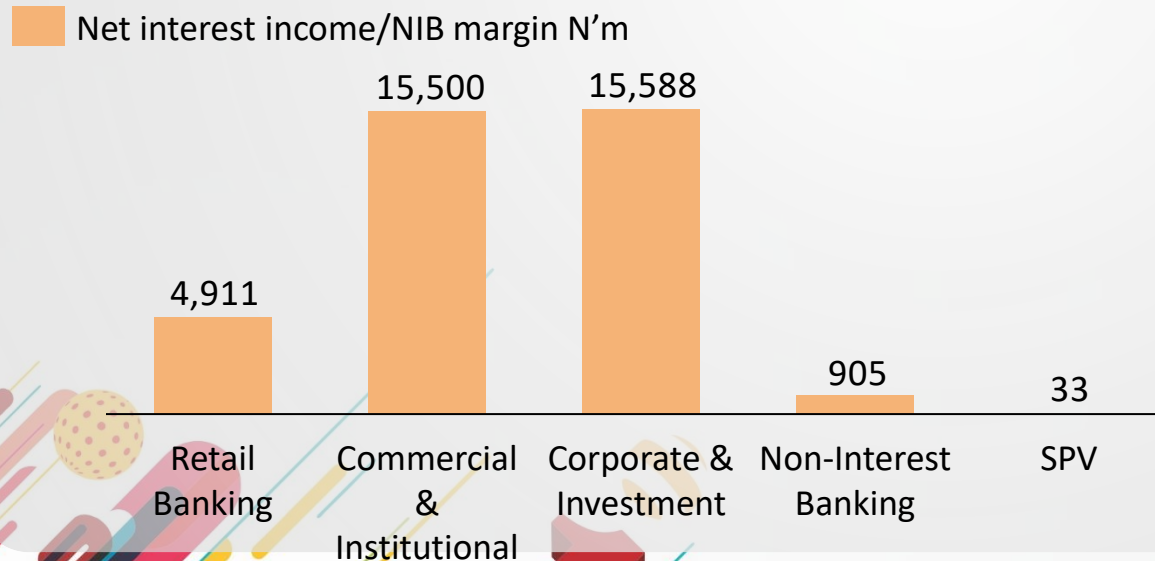
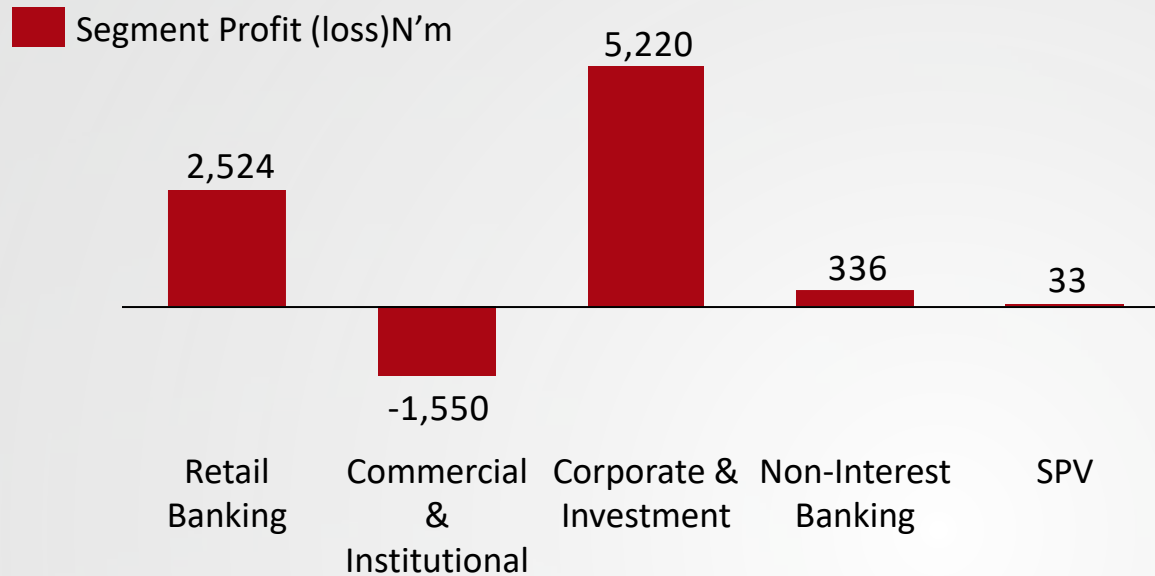
# ATM Card & Internet Banking Adoption



## Comments

- Card penetration continues to grow as our retail drive expands. With YoY growth of card issuances growth at 34%.
- Our Internet banking adoption continues to improve with YoY growth of 96%.

# Segment Contribution

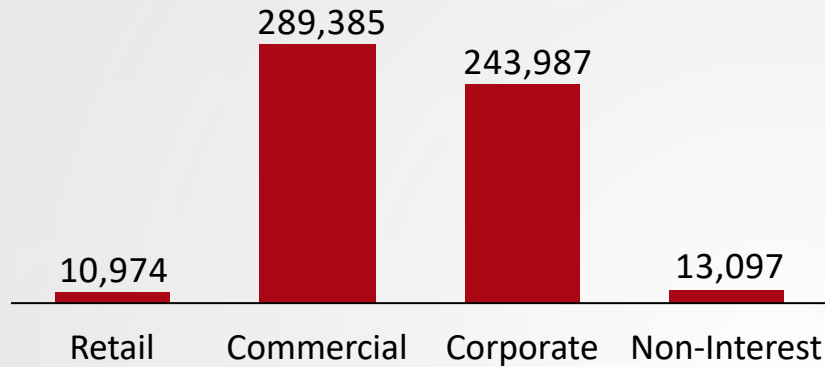


## Comments

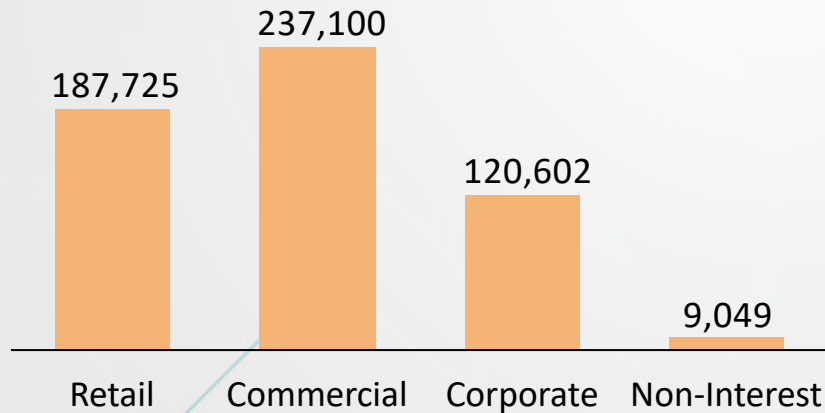
- Corporate and investment banking contributes the ..% to bottom line
- Followed closely by retail banking which contributes ...%
- Corporate banking contributes 42.2% and 42% respectively to total Net interest income/NIB margin these businesses constitute largest contribution the year

# Segment Contribution

Loans & Advances N'm



Deposit Liabilities N'm



## Comments

- our commercial business carries the highest amount of our loan book at N289 Billion closely matched by our Corporate business with N243 Billion
- Non-interest banking business continues to grow as risk asset closed Q3 at N13 Billion.
- Our retail drive continues to bear fruits as it contributes 34% of total banks deposit.
- While commercial business constitutes 43% of the banks deposit base.

# Financial ratios

Indicator	Q3 2016	FY 2016	Q3 2017
Pre Tax Return on Average Equity	9.1%	6.60%	9.6%
Post Tax Return on Average Equity	8.3%	5.70%	8.6%
Return on Average Assets	1.0%	7.00%	1.0%
Earnings per Share	19k	18k	21k
Yield on Earning Assets	13.8%	15.60%	14.6%
Cost of Funds	5.3%	6.30%	7.4%
Net Interest Margin	8.5%	9.30%	7.2%
Cost-to-income Ratio	74.6%	74.1%	73.2%
Non-performing Loan Ratio	2.5%	9.90%	6.1%
Cost of Risk	1.8%	2.1%	1.8%
Capital Adequacy Ratio (Basel 2)	10.7%	11.20%	11.4%
Loan to Deposit Ratio (Net)	83.2%	80.10	101%



# Key Take-Aways

- Adoption of our various digital channels continues to improve across all channels, as we continues to focus on the reliability and stability of our platforms.
- We are positioned to take advantage of emerging opportunities in education, health and transportation through partnerships with technology companies within these sectors.
- We Continued utilization of trade confirmation lines with increase in lines and business volumes impacting overall bottom line.
- We continue to experience improvement in profitability and asset quality as the as we focus on efficiency.
- We also continued to diversify our funding base leading to a 147.6% increase in long term funding.
- Our balance sheet and local currency liquidity buffers remain solid.





THANK YOU