



# Analyst / Investor Presentation

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Q3 2018

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# *Operating Environment*



# An update on the macro environment

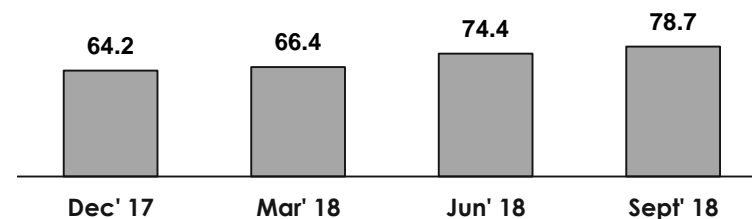
## Key economic indicators remain nominally positive

- The economy continued to grow - albeit at a slow pace - largely due to protracted stability in oil production and high prices achieving growth rate of 1.5% as at Q2'18;
- Headline inflation rose for the first time in 18 months to 11.28% as at Septembers, largely driven by a 13.2% y/y increase in food prices;
- In the period under review, Brent crude prices continued to hold above the \$70pb mark on the back of improved production levels; and
- Foreign reserves declined to \$44.3billion as at September 2018 from a peak of \$47.86billion in May 2018. This was on the back of reversals in capital flows caused by rising yields particularly in the US.

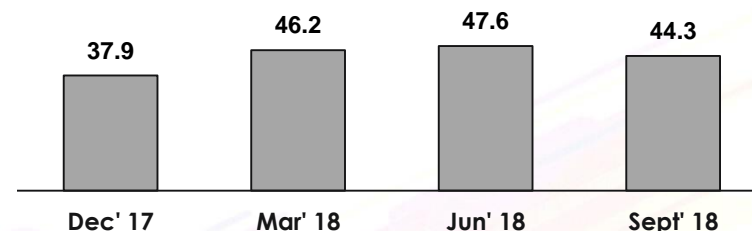
### On a regulatory standpoint:

- The Monetary Policy Rate (MPR) was held constant at 14%, CRR at 22.5% and liquidity ratio at 30% in response to inflationary pressures.

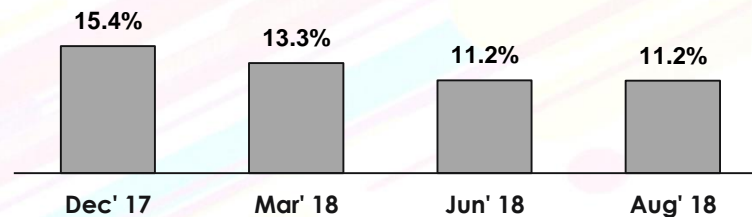
Brent Oil Price Trend-(US\$)



Foreign Reserves Position (US\$'bn)



Headline Inflation Rate (%)




# Performance highlights

## Financials (N'million)

<b>Total Assets</b> 1,080,009 ↑	<b>Loans &amp; Advances</b> 662,061 ↑	<b>Deposits</b> 723,280 ↑	<b>Equity</b> 106,167 ↑
<b>Gross Earnings</b> 114,610 ↑	<b>Operating Income</b> 60,848 ↑	<b>Profit Before Tax</b> 8,502 ↑	<b>Profit After Tax</b> 8,205 ↑
<b>Net Interest Margin</b> 6.2% ↑	<b>Cost-to-income Ratio</b> 80.0% ↓	<b>Cost of Risk</b> 0.8% ↑	<b>Pre-tax ROAE</b> 10.8% ↑

**POS**



5,500+

**ATM**



830+

**USSD**




739,746

**BRANCHES**



179

**CUSTOMERS**



>3,000,000

**STAFF**



2,253

**MOODY'S** B2

**FitchRatings** B-

**GCR** BBB

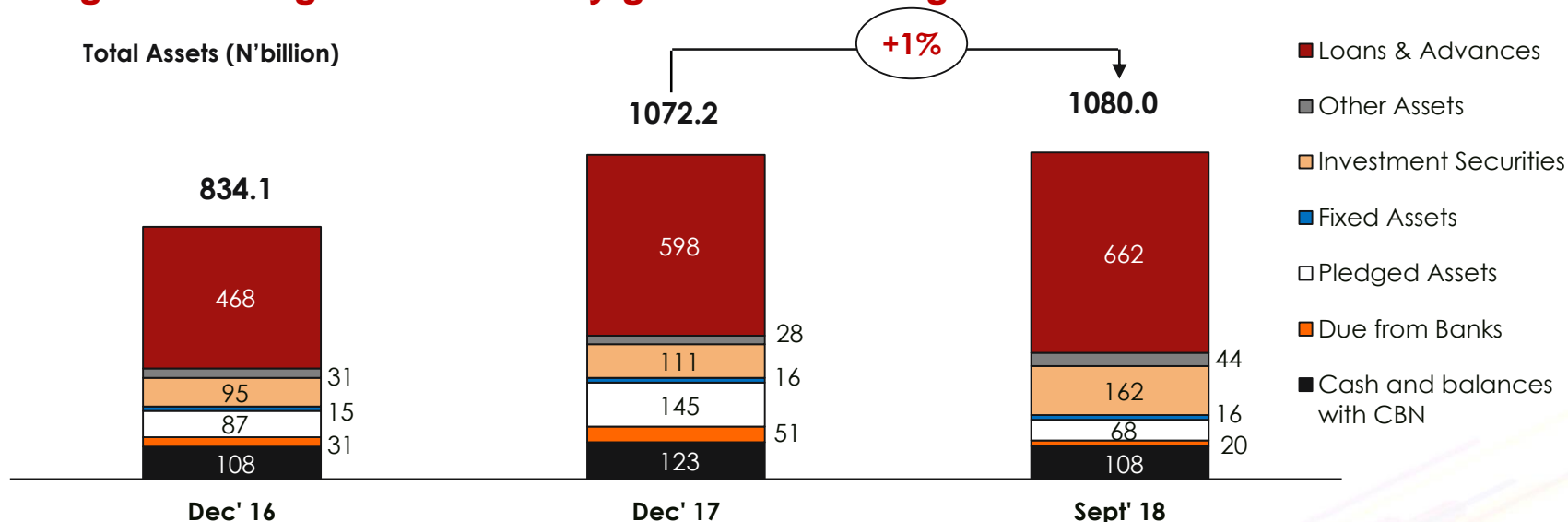
**DataPro** BBB+  
Compliance Solutions Company

# Funding & Liquidity



# Funding & Liquidity (1/5)

## Marginal asset growth driven by growth in lending and other assets



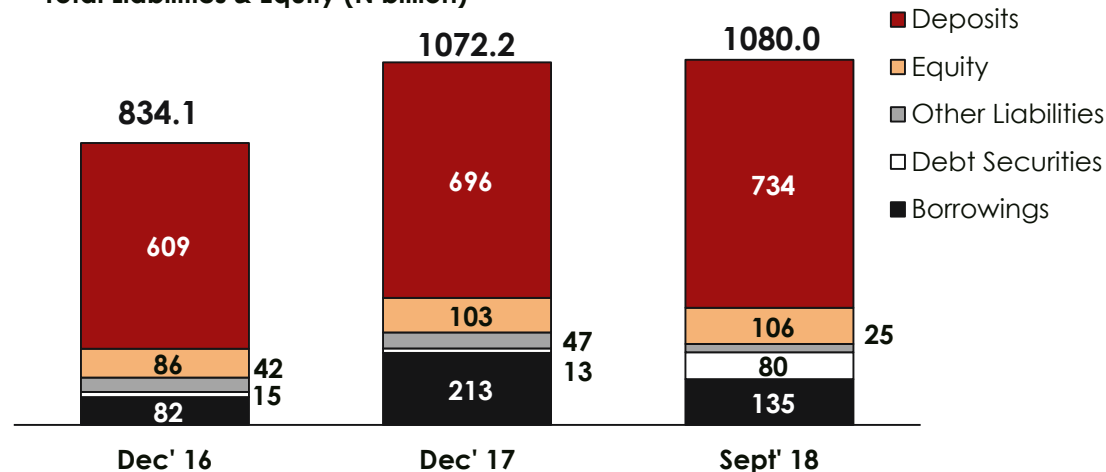
### Comments

- Total assets grew to N1,080 billion on the back of an increase in loans & advances and other assets growing by 10.7% and 57% respectively;
- Earning assets accounted for 76.3% of total assets at N824.0 billion (Dec. 2017: 73.1%);
- Yield on earning assets declined slightly by 40bps to 13.9% driven by interest rate environment (Dec. 2017: 14.3%).

# Funding & Liquidity (2/5)

## Customer deposits remain major source of funding

Total Liabilities & Equity (N'billion)



### Comments

- Customer deposits remained the major source of funding accounting for 67.9% of total assets (Dec 2017: 63.9%);
- Equity grew by 3.1% to N106.1 billion from N102.9 billion recorded in December 2017 on the back of an increase in retained earnings;
- Total Borrowings declined by 36.5% to N135.2 billion (Dec. 2017: N212.8 billion) due to repayments;
- Funding from domestic sources accounts for 84.1% of borrowings, while foreign sources accounted for 15.9%;
- Funding from the CBN and Bank of Industry represents intervention funds for on-lending to critical sectors.

### Borrowings

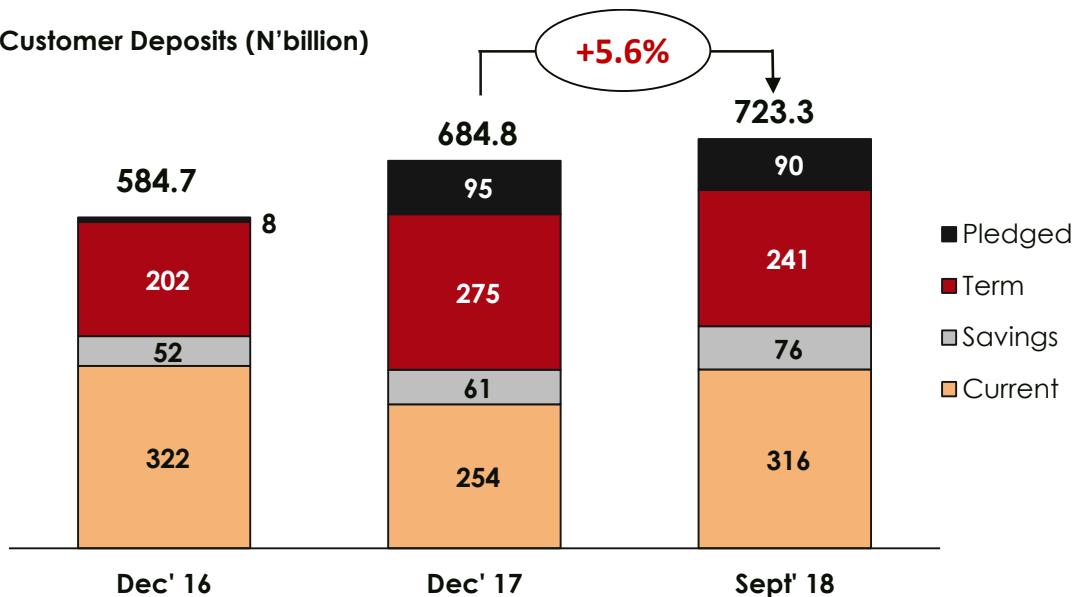
Foreign Sources	Sept-18 % of Total		Dec-17 % of Total		% Growth
Citibank	-	-	7,664	3.6%	-
Standard Chartered Bank	-	-	11,756	5.5%	-
African Export/Import Bank	15,221	11.3%	19,963	9.4%	-23.8%
Islamic Corporation Development Bank	6,293	4.7%	14,712	6.9%	-57.2%
<b>Total Foreign Sources</b>	<b>21,515</b>	<b>15.9%</b>	<b>54,095</b>	<b>25%</b>	<b>-60.3%</b>
Local Sources					
Central Bank Of Nigeria Due to BOI	111,115	82.2%	155,451	73.0%	-28.5%
NMRC	2,527	1.9%	1,622	0.8%	55.8%
<b>Total Local Sources</b>	<b>113,641</b>	<b>84.1%</b>	<b>158,751</b>	<b>75.0%</b>	<b>-28.4%</b>
<b>Total</b>	<b>135,156</b>	<b>100.0%</b>	<b>212,846</b>	<b>100.0%</b>	<b>-36.5%</b>



# Funding & Liquidity (3/5)

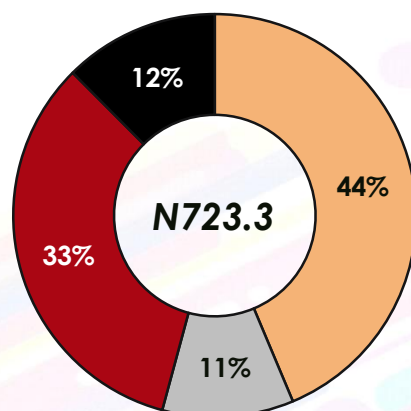
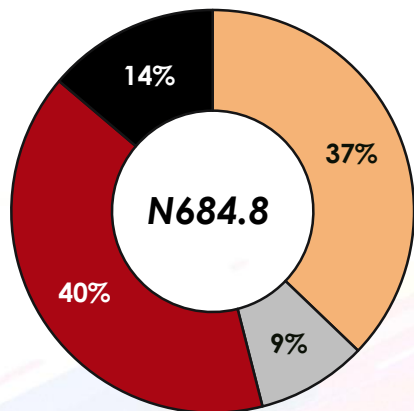
## Gradual shift in deposit mix towards lower cost funding

Customer Deposits (N' billion)



### Comments

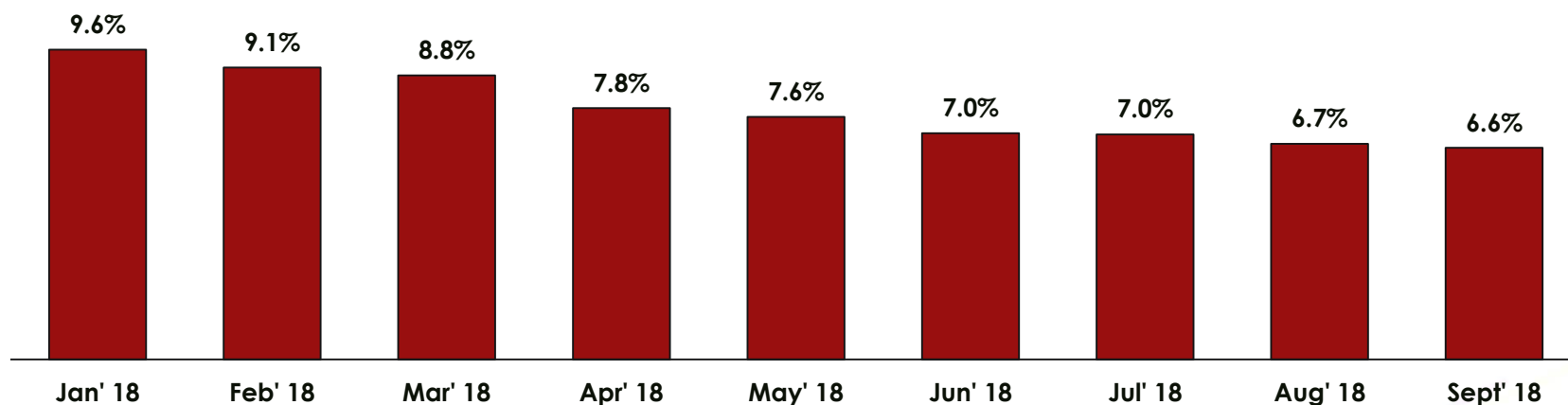
- Deposits increased by 5.6% to N723.3 billion from December 2017 as we continued to diversify our funding sources;
- CASA trend improved from 53% to 64% from FY 2017;
- Savings deposits grew by 24.7% and accounted by 11.2% of total deposits (Dec. 2017: 8.9%) re-affirming the banks retail focus;
- Wholesale deposits declined by 12.3% from December 2017;
- While low cost deposits increased by 24.4% from December 2017;



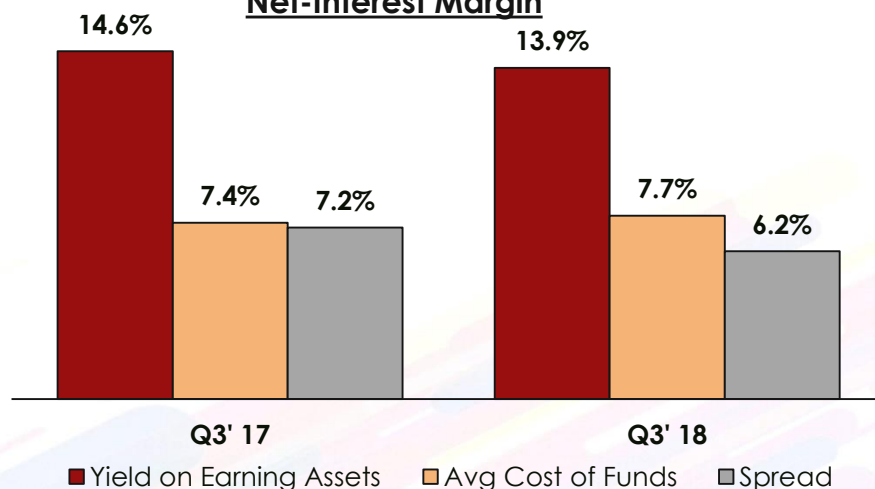
# Funding & Liquidity (4/5)

## Pricing strategy and low cost funding drive driving decline in monthly cost of funds

Cost of Funds (N'billion)



Net-Interest Margin



### Comments

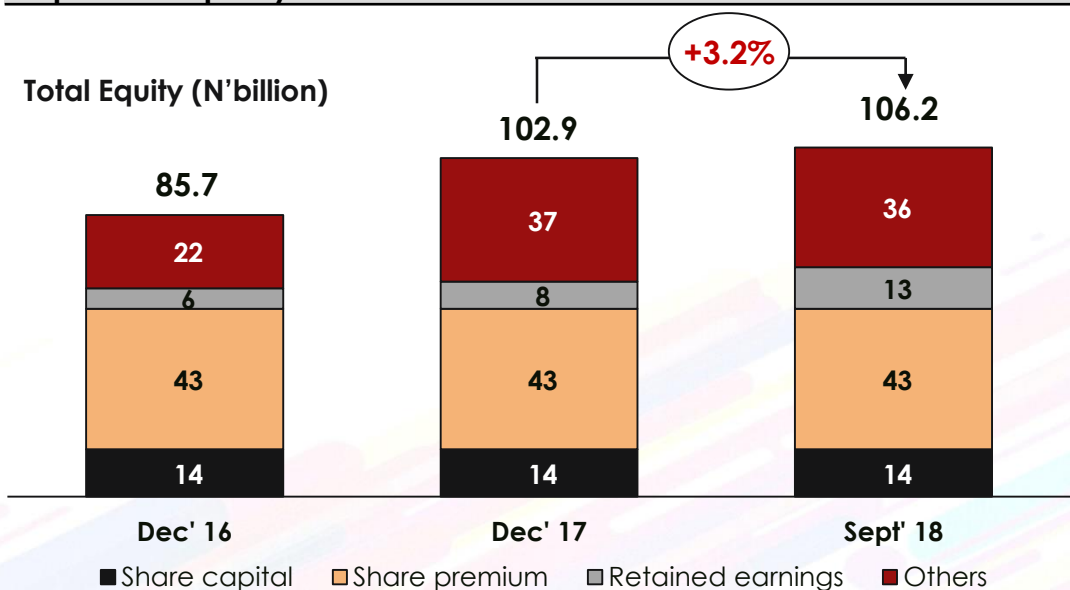
- Yield on earning assets declined by 70 basis points to 13.9% (Q3 2017: 14.6%) due to interest rate environment, while average funding costs increased by 30 basis points to 7.7% (Q3 2017: 7.4%);
- However monthly funding costs have been on the decline since January 2018 driven by pricing strategy and low cost funding dilution;
- Overall, net interest margin declined marginally by 100 basis points to 6.2%.

# Funding & Liquidity (5/5)

## Marginal decline in CAR, in spite of increase in shareholder funds

### Capital Adequacy

Items (N'm)	Sept. 2018	Dec. 2017	% Growth
Tier 1 capital	80,274	80,498	-0.3%
Tier 2 capital	3,905	2,578	51.4%
<b>Total regulatory capital</b>	<b>84,179</b>	<b>83,076</b>	<b>1.3%</b>
<b>Risk-weighted assets</b>	<b>737,765</b>	<b>708,114</b>	<b>4.2%</b>
Tier 1 ratio	10.8%	11.4%	
Tier 2 ratio	0.5%	0.4%	
<b>Capital adequacy ratio</b>	<b>11.4%</b>	<b>11.7%</b>	<b>-0.3%</b>



### Comments

- Capital adequacy ratio reduced by 30bps to 11.4% albeit above the regulatory benchmark of 10%;
- Tier 1 capital, adjusted for regulatory deductions was relatively flat at N80.2 billion, representing 95.3% of total regulatory capital;
- We successfully concluded a Series 2 Notes issuance of N19.7 billion under our N39 billion debt issuance program, achieving subscriptions 1.6x the initial targeted series 2 amount. Upon receipt of the relevant regulatory approvals, proceeds of this issuance would be recognized as Tier II capital.

# *Credit Risk & Asset Quality*



# Loans and Advances by Sector

## Loans to individuals recorded the highest growth driven by SPECTA

Loans and Advances by Sector		Sept-2018		Dec-2017		Growth
Sectors	N'm	% of Total	N'm	% of Total	%	
Agriculture	56,339	8.4%	50,091	8.1%	12.5%	
Communication	15,757	2.4%	17,287	2.8%	-8.8%	
Consumer	11,968	1.8%	5,720	0.9%	109.2%	
Education	271	0.0%	884	0.1%	-69.4%	
Finance and insurance	34,551	5.2%	40,322	6.5%	-14.3%	
Government	48,491	7.3%	38,724	6.3%	25.2%	
Manufacturing	5,313	0.8%	6,680	1.1%	-20.5%	
Mortgage	6,045	0.9%	8,877	1.4%	-31.9%	
Oil & Gas – downstream	77,018	11.5%	77,668	12.6%	-0.8%	
Oil & Gas – upstream	126,353	18.9%	121,593	19.7%	3.9%	
Oil & Gas – Services	89,148	13.4%	52,328	8.5%	70.4%	
Others	63,197	9.5%	64,706	10.5%	-2.3%	
Power	16,999	2.5%	22,665	3.7%	-25.0%	
Real estate & construction	72,470	10.9%	62,085	10.1%	16.7%	
Transportation	29,004	4.3%	20,681	3.3%	40.2%	
Non-interest banking	13,983	2.1%	26,496	4.3%	-47.2%	
<b>TOTAL</b>	<b>662,061</b>	<b>100.0%</b>	<b>617,577</b>	<b>100.0%</b>	<b>8.0%</b>	

# Loans and Advances by Currency

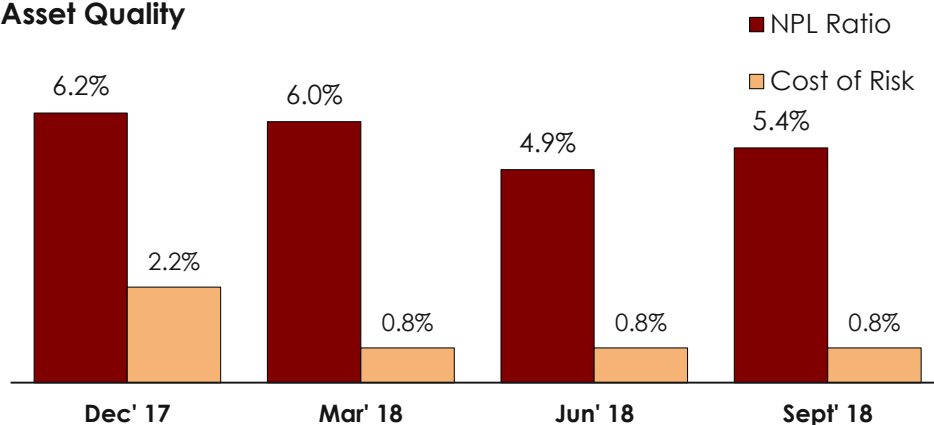
## FCY loans accounting for just under a third of total loan book

Loans and Advances by Currency					
Sectors	FCY		LCY		
	N'm	% of Total	N'm	Total	% of Total
Agriculture	-	-	56,339	56,846	-
Communication	-	-	15,757	15,457	-
Consumer	57	0.0%	11,909	11,966	0.5%
Education	-	-	270	270	-
Finance and insurance	-	-	34,551	34,551	-
Government	-	-	48,490	48,490	-
Manufacturing	1	0.0%	5,311	5,312	0.0%
Mortgage	311	0.1%	5,734	6,045	5.1%
Oil & Gas – downstream	8,795	4.2%	68,197	76,992	11.4%
Oil & Gas – upstream	116,855	55.9%	9,497	126,352	92.5%
Oil & Gas – Services	38,588	18.5%	50,588	89,176	43.3%
Others	875	0.4%	62,321	63,196	1.4%
Power	16,894	8.1%	104	16,998	99.4%
Real estate & construction	12,589	6.0%	59,880	72,469	17.4%
Transportation	14,062	6.7%	14,942	29,004	48.5%
Non-interest banking	-	-	13,983	13,983	-
<b>TOTAL</b>	<b>209,027</b>	<b>100.0%</b>	<b>457,873</b>	<b>662,061</b>	<b>31.3%</b>

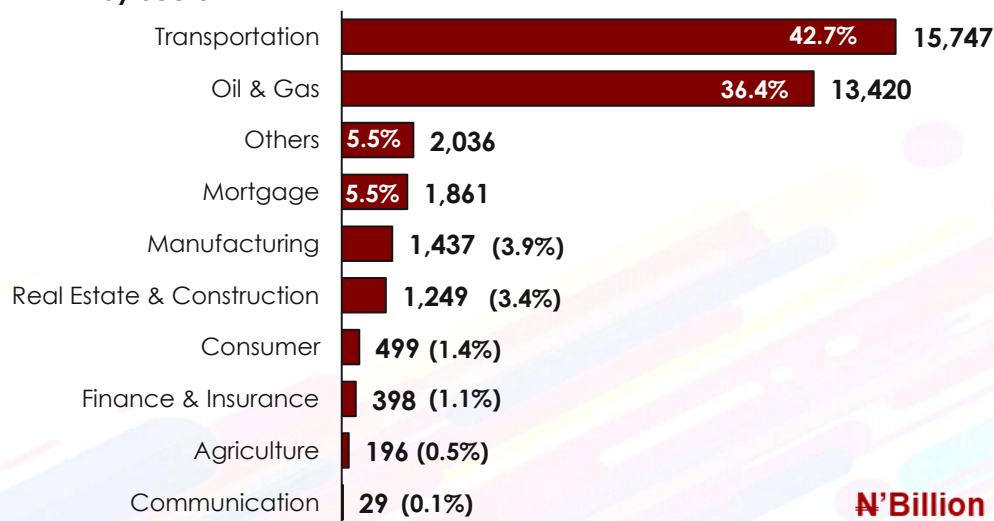
# Asset quality

## Improvement in asset quality largely driven by loan growth and credit recoveries

Asset Quality



NPL by Sector



N' Billion

### Comments

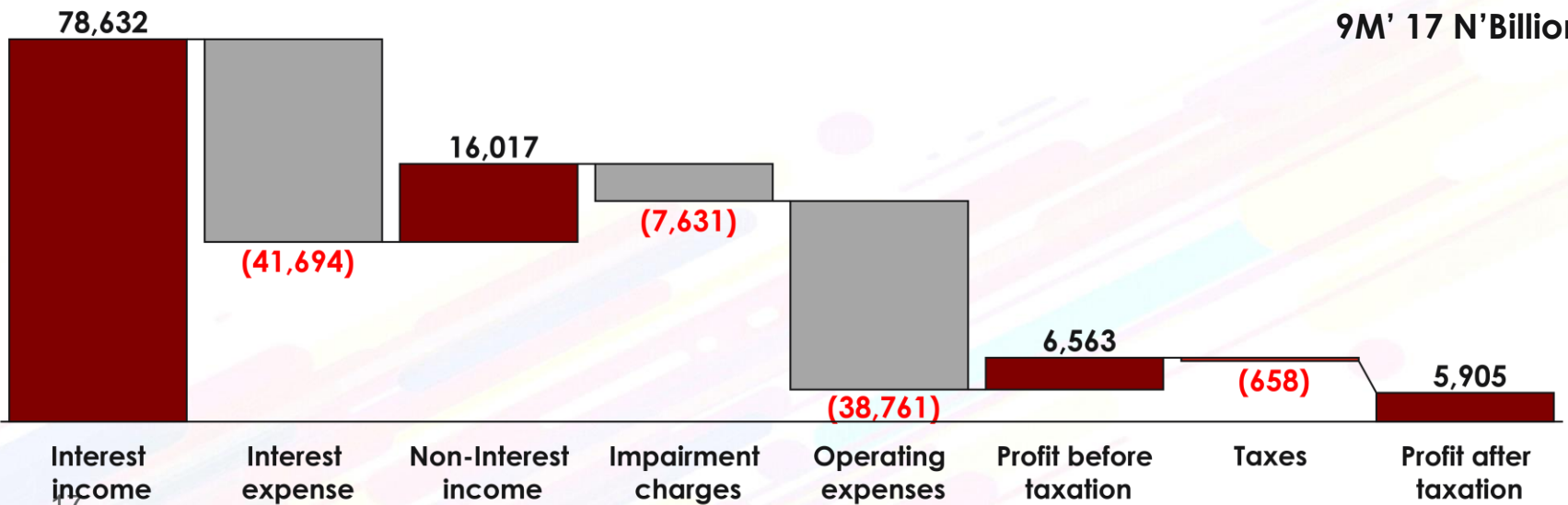
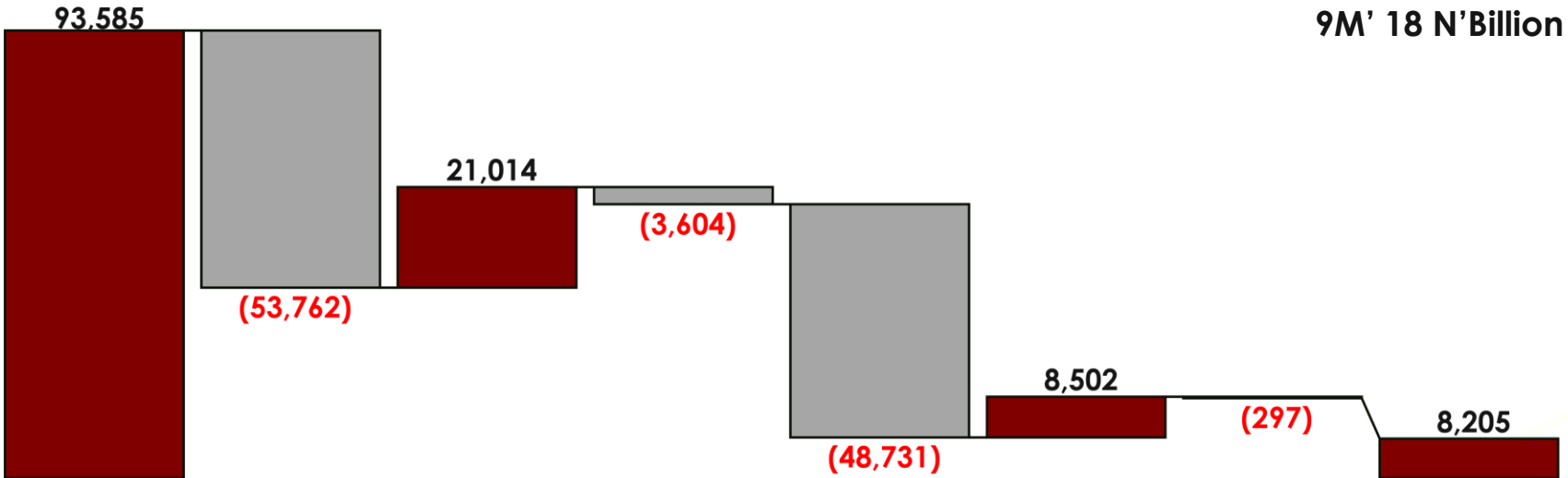
- Cost of risk and NPL ratio declined by 140 and 80 basis points to 0.8% and 5.4% respectively from December 2017;
- NPL balance stood at N36.8b relative to an increase of N113b in gross loans from N573b to N686b.
- The muted growth in NPL volume was driven by loan recoveries of N1.2bn and highly conservative credit underwriting standards for new loan origination;
- We continue to maintain a selective stance to lending with a focus on fully cash-backed transactions.
- Our NPL coverage ratio was 64% as at September 2018;
- Outlook for year end NPL ratio remains sub 5%.

# Earnings Profile





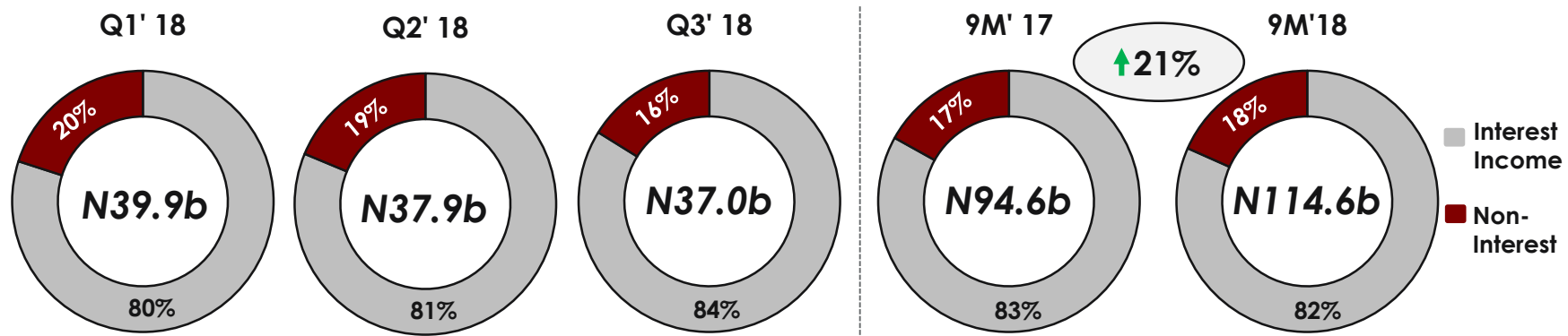
# Overview of Income Statement



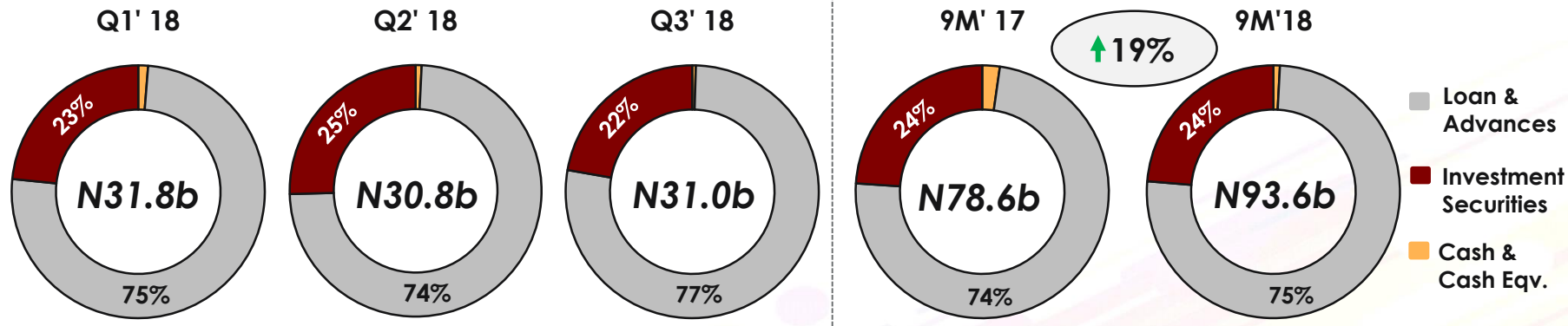
Interest income    Interest expense    Non-Interest income    Impairment charges    Operating expenses    Profit before taxation    Taxes    Profit after taxation

# Revenue evolution (1/2)

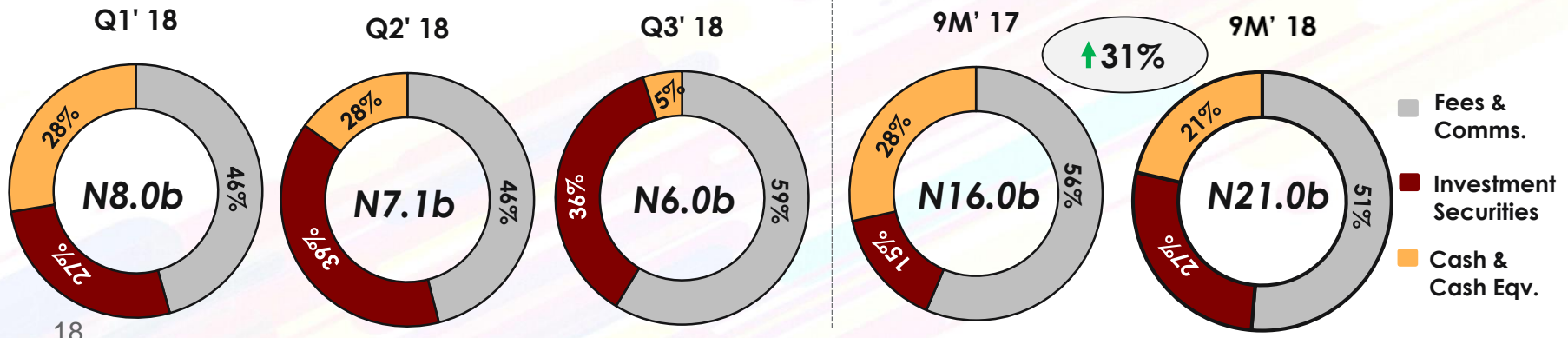
Gross Earnings



Interest Income



Non-Interest Income

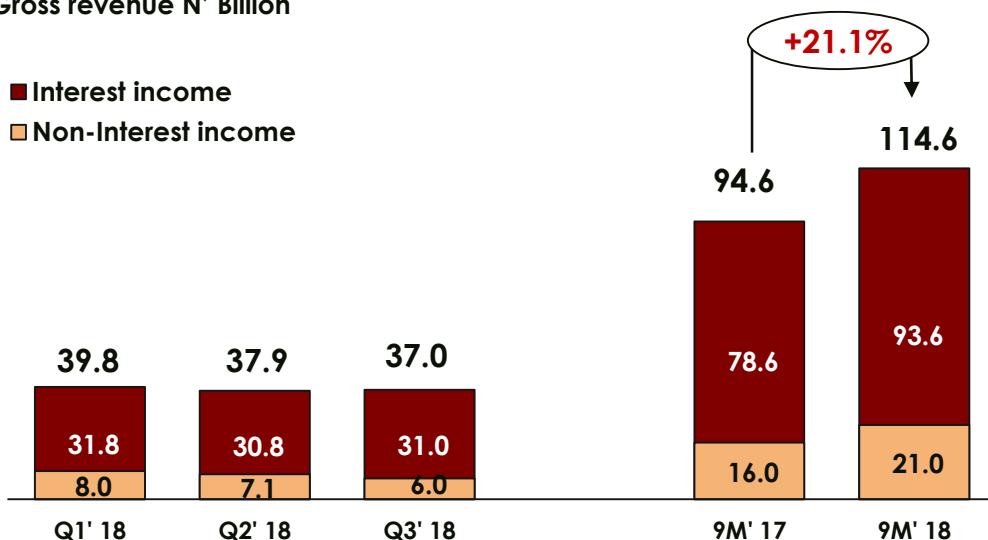


# Revenue evolution (2/2)

## Sustained growth in non-interest revenue contributing to earnings momentum

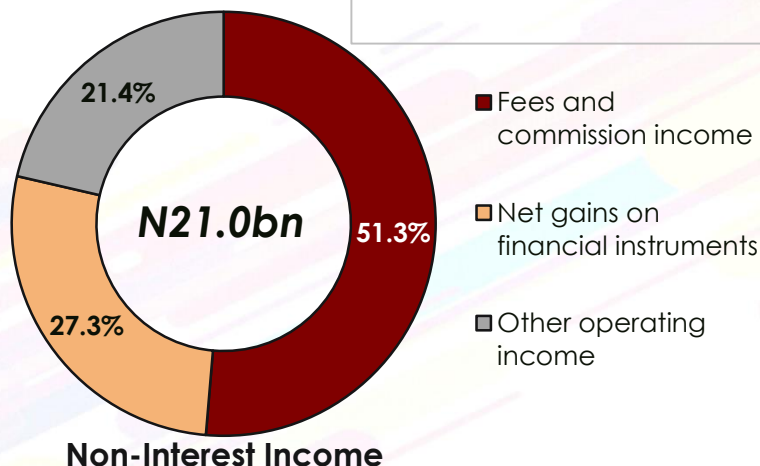
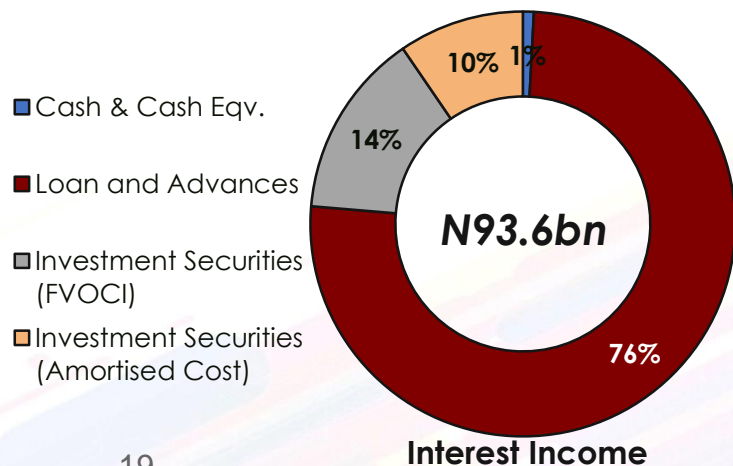
Gross revenue N' Billion

■ Interest income  
■ Non-Interest income



### Comments

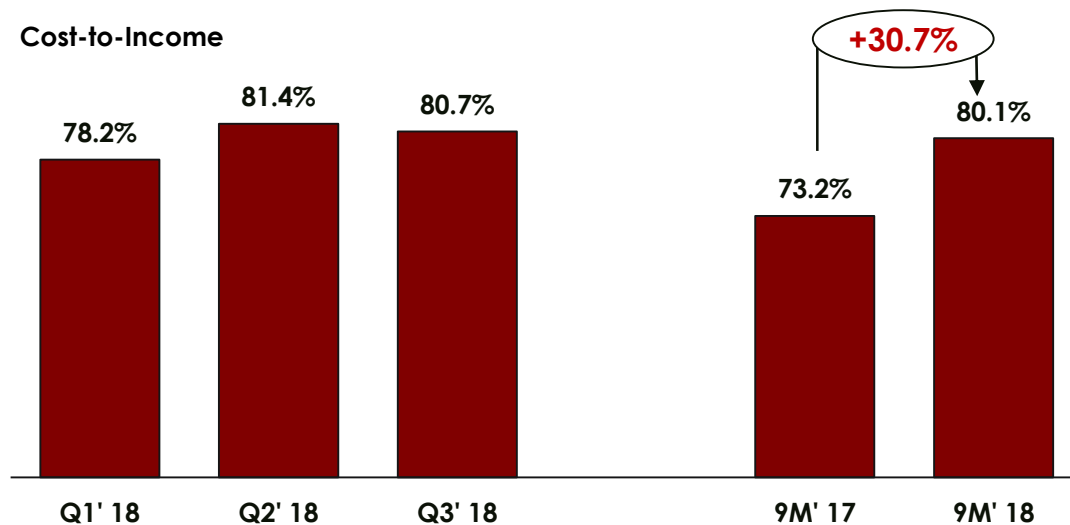
- Gross earnings grew by 21.1% to N114.6 billion from N94.6.0 billion as at Q3 2017 driven by a 31.2% increase in non-interest income;
- Interest income from loans & advances and investment securities were the major sources of earnings;
- Increase in non-interest income was driven by a growth in trading income as well as a 58.5% growth in transaction banking revenues, emphasizing our commitment to our retail drive.



# Operating Efficiency

## General admin expenses and investments in technology remain key drivers of OPEX

Cost-to-Income

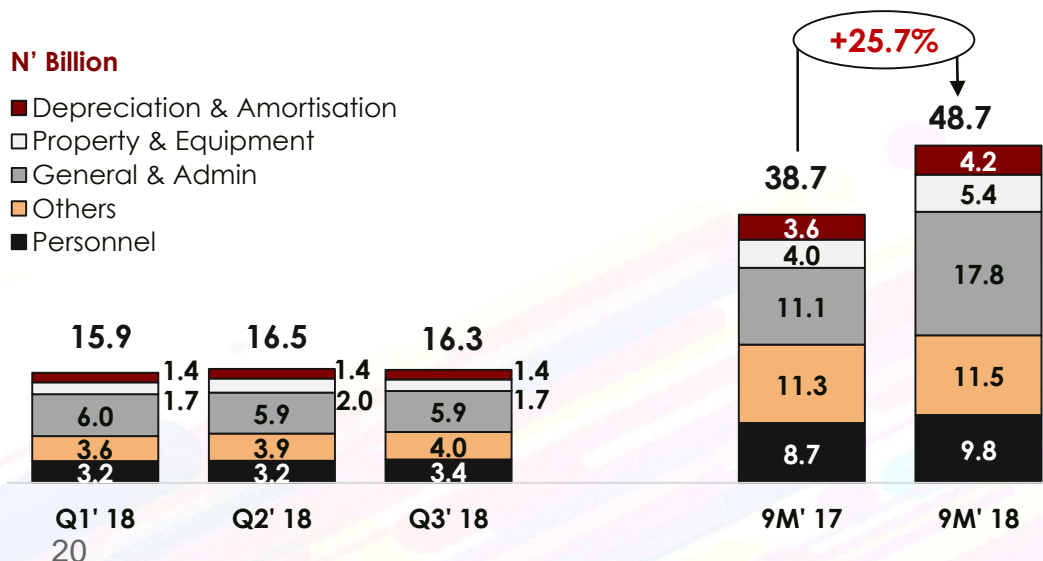


### Comments

- Operating expenses increased by 25.8% y-o-y to N48.7 billion on the back of business expansion and regulatory cost.
- Personnel up 10% while general administration expenses grew by 60.3%;
- Depreciation and amortization also grew by 16.6% y-o-y;
- Credit loss expenses declined by 52.6% to N3.6 billion.

N' Billion

- Depreciation & Amortisation
- Property & Equipment
- General & Admin
- Others
- Personnel

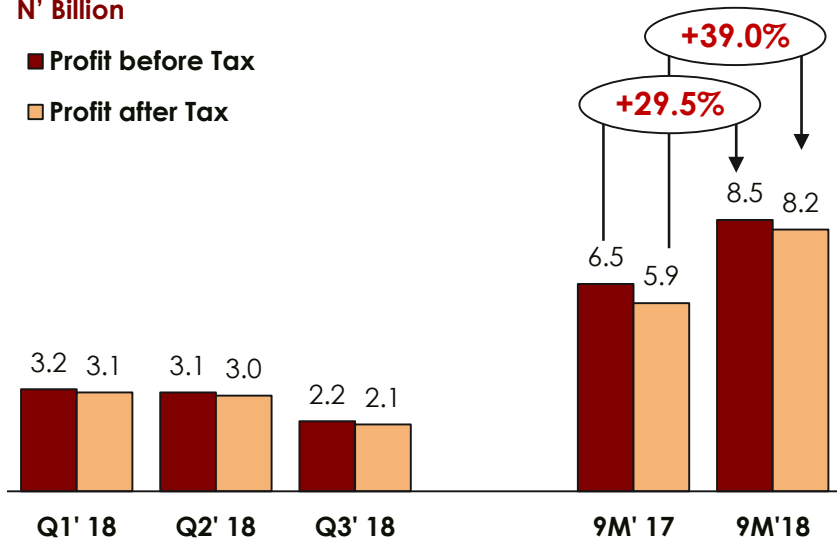


# Profitability

Overall we sustained steady growth in our bottom line

N' Billion

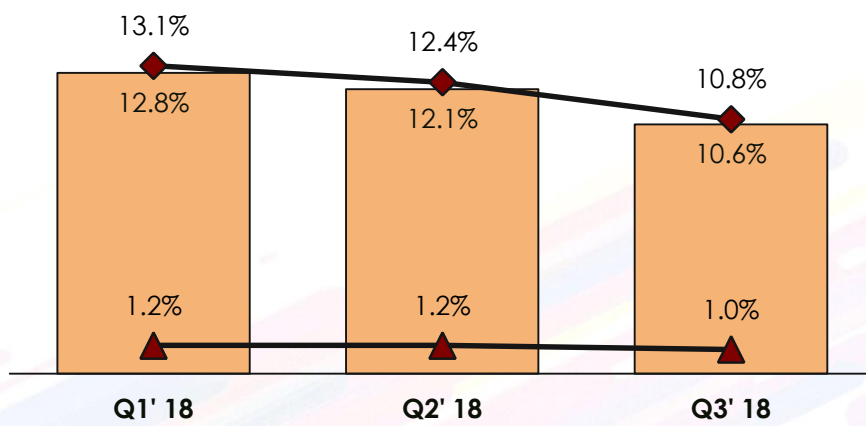
■ Profit before Tax  
■ Profit after Tax



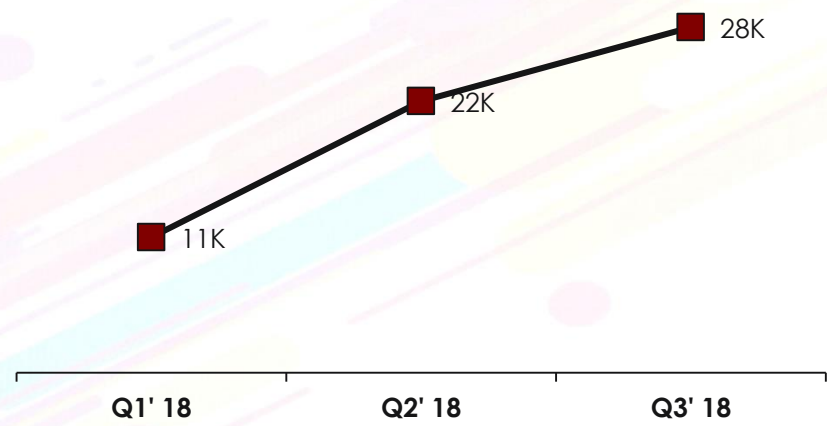
## Comments

- Profit before tax grew by 29.5% to ₦8.5 billion y-o-y;
- Profit after tax grew by 39.0% to ₦8.2 billion y-o-y achieving a post-tax Return on Average Equity of 10.4%;
- We recorded a Return on asset ratio of 1.0% on the strength of improved bottom-line.

■ Post-Tax ROAE    ◆ Pre-Tax ROAE    ▲ ROAA



Earnings per Share

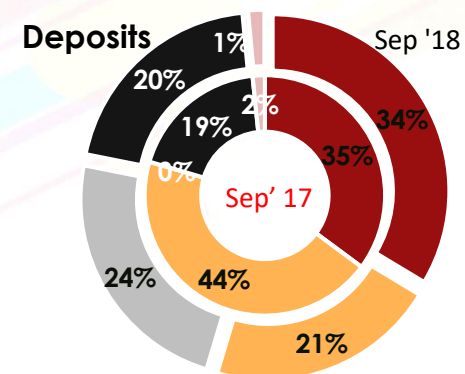
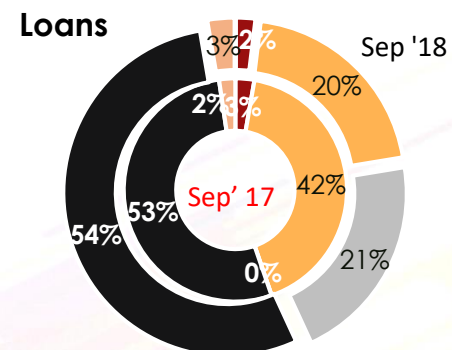
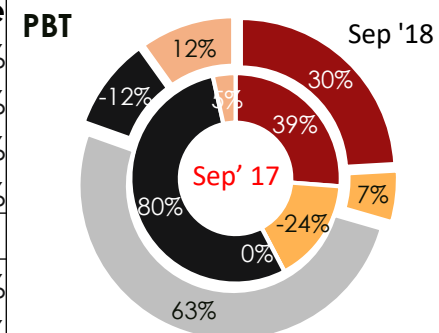


# *Business Segment Performance*



# Business Segment Performance

	Underlying in N'b	Sep-18	Sep-17	Variance
<b>RETAIL BANKING</b>	Total Revenue	9.8	8.5	15%
	Profit Before Tax	2.5	2.5	0%
	Loans and Advances	12.7	15.3	-17%
	Customer Deposit	243.1	194.9	25%
<b>COMMERCIAL BANKING</b>	Total Revenue	8.2	21.0	-61%
	Profit Before Tax	0.6	(1.6)	-136%
	Loans and Advances	135.6	234.1	-42%
	Customer Deposit	152.1	246.1	-38%
<b>INSTITUTIONAL BANKING</b>	Total Revenue	15.8	-	-
	Profit Before Tax	5.3	-	-
	Loans and Advances	137.2	-	-
	Customer Deposit	170.0	-	-
<b>CORPORATE AND INVESTMENT BANKING</b>	Total Revenue	25.4	22.5	13%
	Profit Before Tax	(1.0)	5.2	-119%
	Loans and Advances	358.7	295.0	22%
	Customer Deposit	147.3	104.5	41%
<b>NIB</b>	Total Revenue	1.6	0.9	77%
	Profit Before Tax	1.0	0.3	209%
	Loans and Advances	17.8	13.1	36%
	Customer Deposit	10.8	9.1	19%



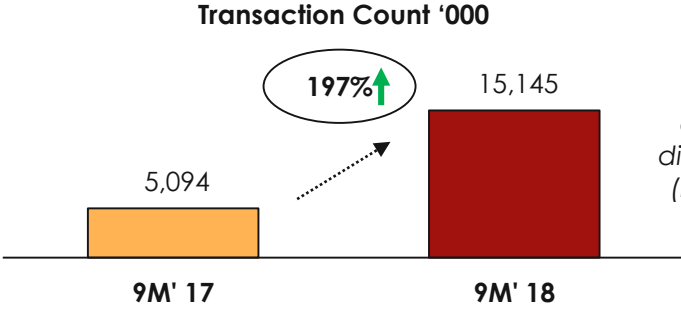
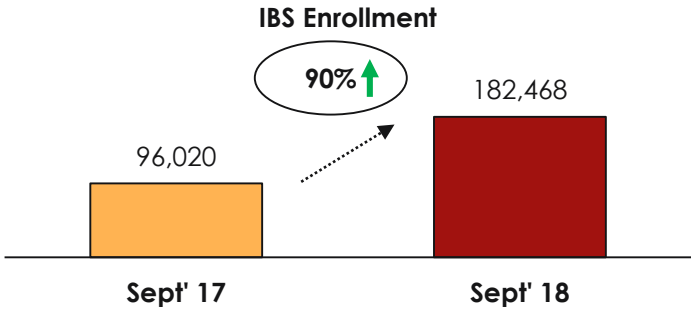
# *Channel Performance*



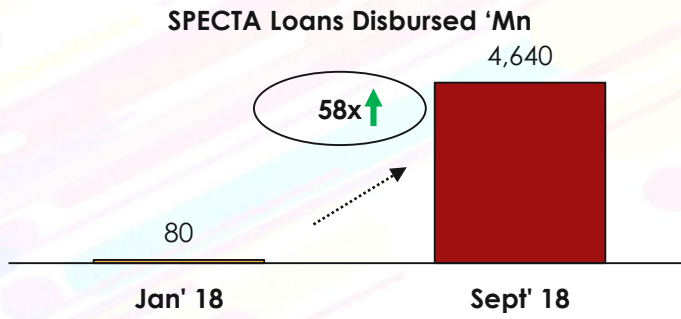
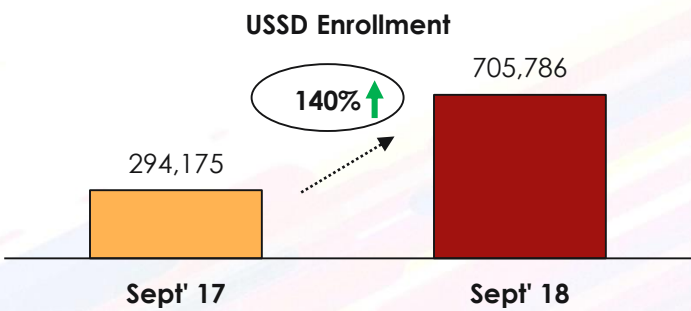
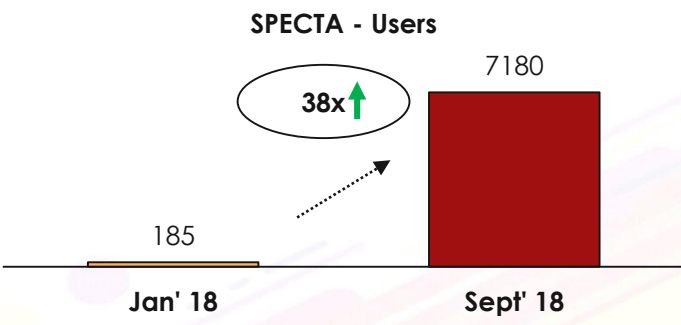
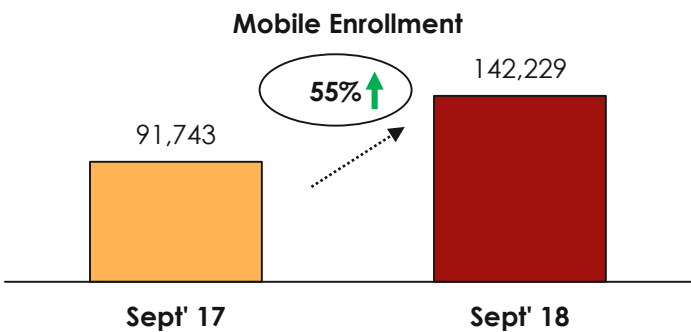


# Channel Performance

**We continue to gain traction with significant y-o-y growth across our digital platforms**



*\*Transaction count across digital platforms (IBS, USSD and Mobile).*



# Appendix



# 2018 Guidance

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## 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%**

# Financial ratios

Indicator	FY 2017	Q1 2018	Q2 2018	Q3 2018
Pre-Tax Return on Average Equity (annualized)	9.1%	13.1%	9.6%	10.8%
Post-Tax Return on Average Equity (annualized)	9.0%	12.8%	8.6%	10.4%
Return on Average Assets (annualized)	0.9%	1.2%	1.0%	1.0%
Earnings per Share	30k	11k	21k	28k
Yield on Earning Assets	14.3%	14.8%	14.6%	13.9%
Cost of Funds	7.4%	8.6%	7.4%	7.7%
Net Interest Margin	6.9%	6.2%	7.2%	6.2%
Cost to Income	71.5%	78.2%	73.2%	80.0%
NPL Ratio	6.2%	6.0%	6.1%	5.4%
Capital Adequacy Ratio	11.7%	11.5%	11.4%	11.4%
Liquidity Ratio	35.5%	39.2%	30.6%	34.4%
Loans to Deposit Ratio(Net)*	78.9%	75.8%	81.0%	82.2%

*\*Inclusive of borrowed funds for on-lending.*

# Income statement highlights

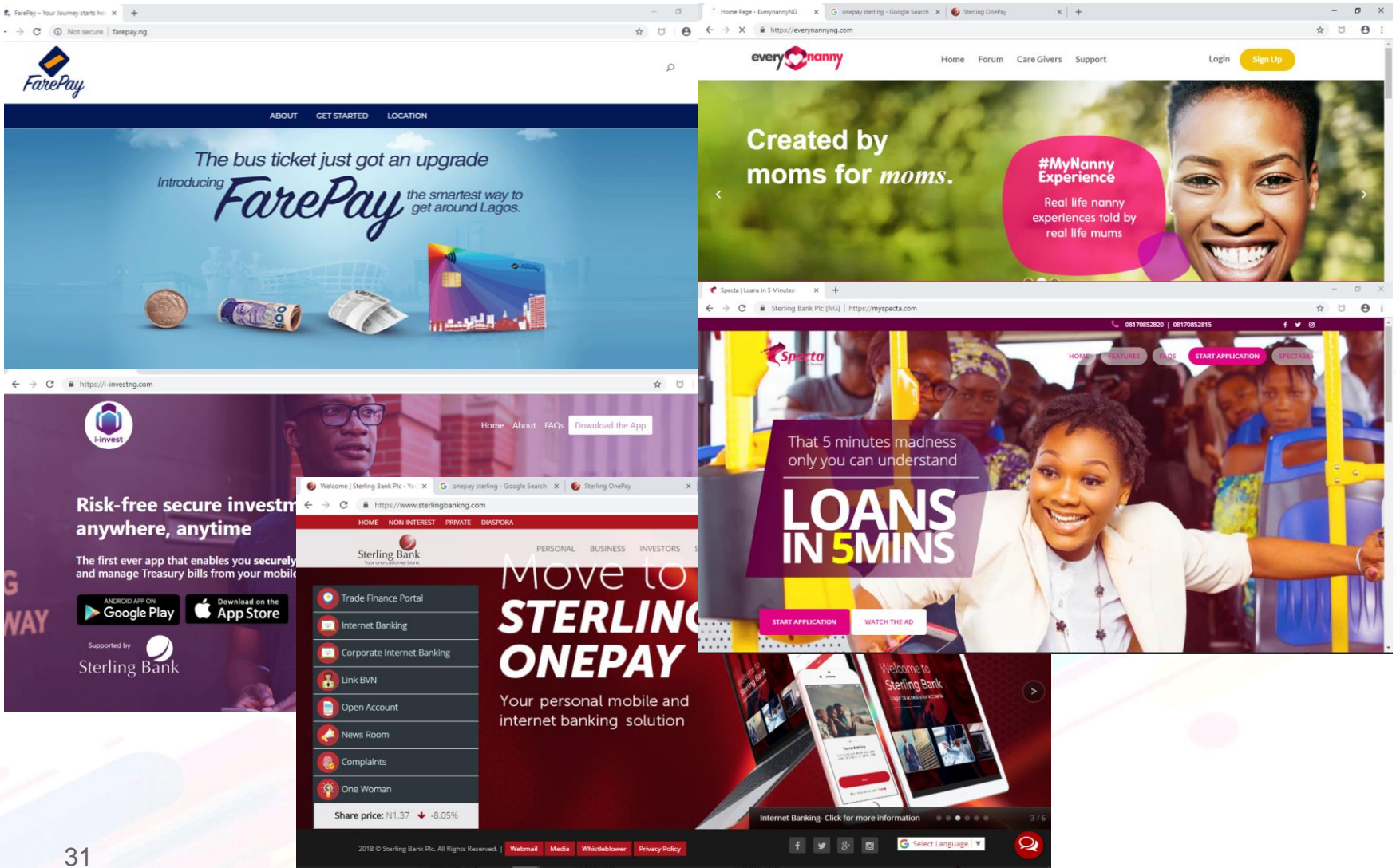
	September 2018		September 2017		Growth
<i>In millions of Naira</i>	N'M	% of Total	N'M	% of Total	%
<b>Gross earnings</b>	<b>114,599</b>	<b>100%</b>	<b>94,305</b>	<b>100%</b>	<b>22%</b>
Interest income	93,585	81%	78,288	83%	20%
Interest expense	(53,762)	46%	(41,383)	-44%	30%
<b>Net interest income</b>	<b>39,823</b>	<b>34%</b>	<b>36,905</b>	<b>39%</b>	<b>8%</b>
Fees and commission income	10,789	9%	9,036	10%	19%
Net gain/(loss) on financial instrument at FVPL	5,730	5%	2,420	3%	137%
Other operating income	4,495	4%	4,561	5%	-1%
<b>Non-interest income</b>	<b>21,014</b>	<b>18%</b>	<b>16,017</b>	<b>17%</b>	<b>31%</b>
Operating income	60,848	53%	52,922	56%	15%
Impairment charges	(3,615)	3%	(7,631)	8%	-53%
<b>Net operating income</b>	<b>57,233</b>	<b>50%</b>	<b>45,291</b>	<b>48%</b>	<b>26%</b>
Personnel expenses	(9,802)	9%	(8,660)	-9%	13%
Other operating expenses	(11,508)	10%	(11,343)	-12%	1%
General and administrative expenses	(17,847)	16%	(11,087)	-12%	61%
Other property, plant and equipment costs	(5,386)	5%	(4,044)	-4%	33%
Depreciation and amortisation	(4,188)	4%	(3,627)	-4%	15%
<b>Total expenses</b>	<b>(48,731)</b>	<b>43%</b>	<b>(38,761)</b>	<b>-41%</b>	<b>26%</b>
<b>Profit before income tax</b>	<b>8,502</b>	<b>7%</b>	<b>6,530</b>	<b>7%</b>	<b>30%</b>
Income tax expense	(297)	0%	(658)	-1%	-55%
<b>Profit after income tax</b>	<b>8,205</b>	<b>7%</b>	<b>5,872</b>	<b>6%</b>	<b>40%</b>

# Highlights of financial position

<i>In millions of Naira</i>	September 2018	% of Total	December 2017	% of Total	% Growth
<b>Assets</b>					
Cash and balances with CBN	108,496	10.0%	122,630	11.4%	-11.5%
Due from Banks	19,750	1.8%	51,066	4.8%	-61.3%
Pledged financial assets	67,840	6.3%	145,179	13.5%	-53.3%
Loans and advances to Customers	662,060	61.3%	598,073	55.8%	10.7%
Investment securities	161,595	15.0%	110,988	10.4%	45.6%
Non-Current asset held for sale	3,274	0.3%	-	-	-
Other assets	32,415	3.0%	18,728	1.7%	73.1%
Property, plant and equipment	15,847	1.5%	16,451	1.5%	-3.7%
Intangible assets	1,761	0.2%	2,115	0.2%	-16.7%
Deferred tax assets	6,971	0.6%	6,971	0.7%	0.0%
<b>Total Assets</b>	<b>1,080,009</b>	<b>100.0%</b>	<b>1,072,201</b>	<b>100.0%</b>	<b>0.7%</b>
<b>Liabilities</b>					
Deposits from Banks	10,640	1.0%	11,048	1.0%	-3.7%
Deposits from Customers	723,279	67.0%	684,834	63.9%	5.6%
Current income tax liabilities	301	0.0%	232	0.0%	29.7%
Other borrowed funds	135,156	12.5%	212,846	19.9%	-36.5%
Debt securities issue	79,988	7.4%	13,068	1.2%	512.1%
Other liabilities	24,183	2.2%	46,940	4.4%	-48.5%
<b>Total Liabilities</b>	<b>973,842</b>	<b>90.2%</b>	<b>969,263</b>	<b>90.4%</b>	<b>0.5%</b>
Total equity	106,167	9.8%	102,938	9.6%	3.1%
<b>Total liabilities and equity</b>	<b>1,080,009</b>	<b>100.0%</b>	<b>1,072,202</b>	<b>100.0%</b>	<b>0.7%</b>

# Our Digital Journey

**We are committed to building platforms that solve customer problems**



The collage consists of five overlapping screenshots of digital marketing content:

- Top-Left:** FarePay website. Headline: "The bus ticket just got an upgrade". Sub-headline: "Introducing FarePay the smartest way to get around Lagos." Visuals include a bus ticket, a coin, and a banknote.
- Top-Right:** EveryNanny website. Headline: "Created by moms for moms." Feature: "#MyNanny Experience". Text: "Real life nanny experiences told by real life mums." Visual: A smiling woman's face.
- Middle-Left:** i-investng website. Headline: "Risk-free secure investment anywhere, anytime". Text: "The first ever app that enables you securely and manage Treasury bills from your mobile." Visual: A man's face.
- Middle-Right:** Spectra website. Headline: "That 5 minutes madness only you can understand". Feature: "LOANS IN 5 MINS". Visual: A woman on a bus.
- Bottom:** Sterling Bank website. Headline: "Move to STERLING ONEPAY". Sub-headline: "Your personal mobile and internet banking solution". List of services: Trade Finance Portal, Internet Banking, Corporate Internet Banking, Link BVN, Open Account, News Room, Complaints, One Woman. Share price: N1.37 ↓ -8.05%.

# Contacts

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**Sterling Bank**  
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# Thank You

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