Sterling Bank Plc

Analyst/Investor Presentation

1H 2015

Innovation & Growth

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Agenda

1. Overview

2. Operating environment

3. Performance review
   - Earnings Analysis
   - Balance sheet analysis

4. Outlook

Sterling Bank
The one-customer bank.

Overview

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Sterling Bank at a glance

Company	Sterling Bank is a full service national commercial Bank
Accounting	International Financial Reporting Standards (IFRS)
Auditors	Ernst & Young
Listing	Nigerian Stock Exchange
Focus segments	Retail, Commercial and Corporate clients
Active Customers	> 1,400,000
Headcount	> 3,000 professional employees
Channels	185 business offices and 801 ATMs

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

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Operating Environment

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Operating Environment

Policy Changes	Effective Date	Rationale
• Suspension of the official (RDAS) foreign exchange market	February 2015	• To curb speculative activities around the Naira and conserve foreign exchange
• Commencement of Treasury Single Account	March 2015	• To enhance transparency of government revenues and liquidity management
• Unified the cash reserve requirement for private and public sector funds at 31%	May 2015	• To reduce liquidity in the banking sector and demand pressure on the Naira
• Inclusion of additional forty one items in the list of items not valid for foreign exchange	June 2015	• To achieve stability in the foreign exchange market and ensure efficient utilization of foreign exchange
• Revision of the guideline on BASEL II implementation covering elements of market risk, operational risk and Pillar 3 disclosure requirements	June 2015	• To further strengthen banks capital position
• Banning of acceptance of cash deposits into domiciliary accounts	July 2015	• To curb speculative activities around the Naira
• Publication of details of delinquent credit facilities on national dailies	August 2015	• To discourage accumulation of bad loans and encourage loan repayment

Performance Review
- Earnings analysis

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Income statement highlights

Items (N'mn)	1H 2015	% of Earnings	1H 2014	% of Earnings	YoY Growth
Gross earnings	**55,042.1**	**100.0%**	**49,386.8**	**100.0%**	**11.5%**
Interest income	39,834.2	72.4%	37,967.5	76.9%	4.9%
Interest expense	(20,407.3)	37.1%	(16,143.6)	32.7%	26.4%
Net interest income	**19,427.0**	**35.3%**	**21,823.8**	**44.2%**	**-11.0%**
Fees and commission income	9,010.8	16.4%	6,702.8	13.6%	34.4%
Net trading income	3,857.4	7.0%	3,543.7	7.2%	8.9%
Other operating income	2,339.7	4.3%	1,172.8	2.4%	99.5%
Non-interest income	**15,207.9**	**27.6%**	**11,419.3**	**23.1%**	**33.2%**
Operating income	**34,634.9**	**62.9%**	**33,243.1**	**67.3%**	**4.2%**
Impairment charges	(4,402.3)	8.0%	(3,199.3)	6.5%	37.6%
Net operating income	**30,232.5**	**54.9%**	**30,043.9**	**60.8%**	**0.6%**
Personnel expenses	(5,712.5)	10.4%	(5,586.1)	11.3%	2.3%
Other operating expenses	(5,837.2)	10.6%	(4,941.2)	10.0%	18.1%
General and administrative expenses	(8,060.1)	14.6%	(9,483.5)	19.2%	-15.0%
Other premises and equipment costs	(2,676.4)	4.9%	(2,602.0)	5.3%	2.9%
Depreciation and amortisation	(1,890.7)	3.4%	(1,460.6)	3.0%	29.4%
Total expenses	**(24,176.9)**	**43.9%**	**(24,073.4)**	**48.7%**	**0.4%**
Profit before income tax	**6,055.6**	**11.0%**	**5,970.5**	**12.1%**	**1.4%**
Income tax expense	(630.1)	1.1%	(896.8)	1.8%	-29.7%
Profit after income tax	**5,425.5**	**9.9%**	**5,073.7**	**10.3%**	**6.9%**
Total comprehensive income	**5,423.0**	**9.9%**	**5,311.6**	**10.8%**	**2.1%**

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The one-customer bank

Earnings profile

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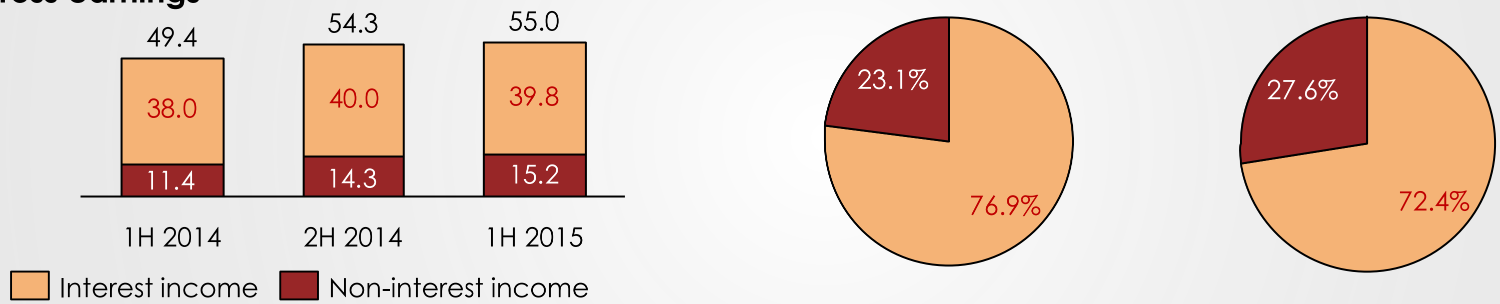
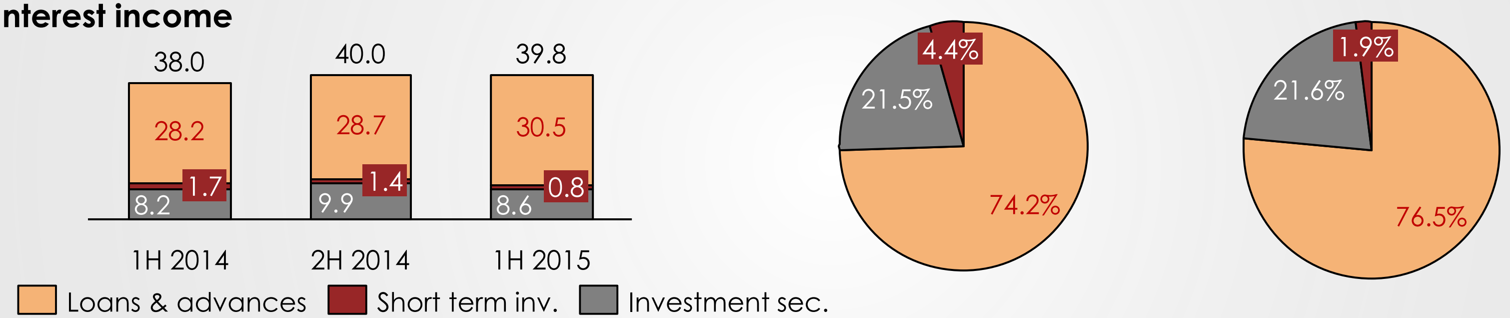
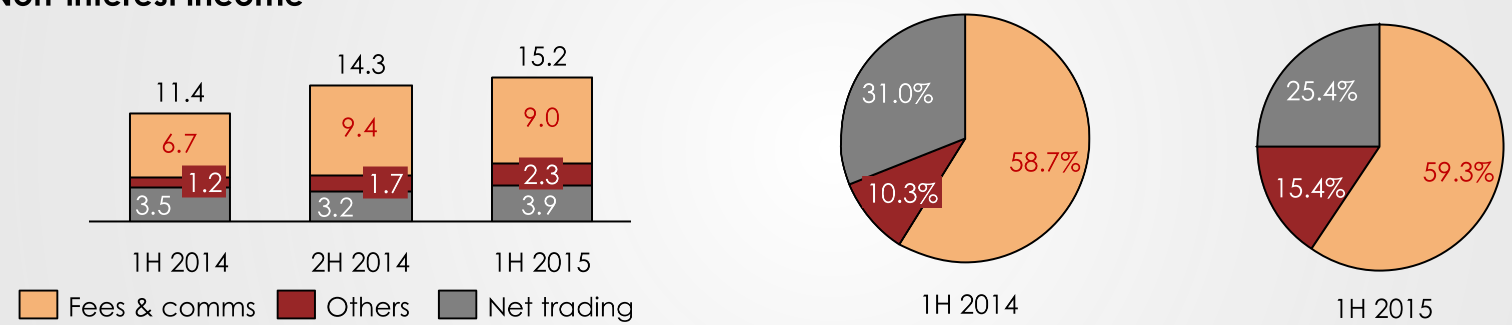
Gross earnings



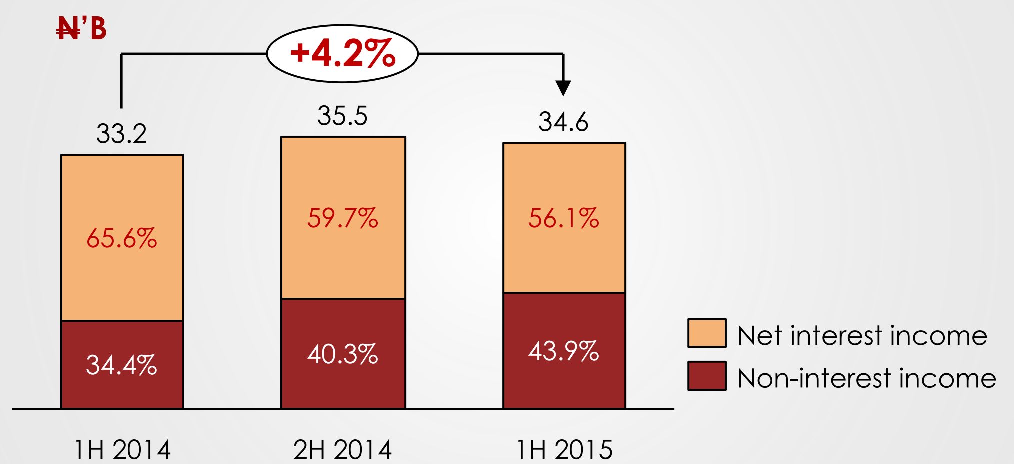
Interest income

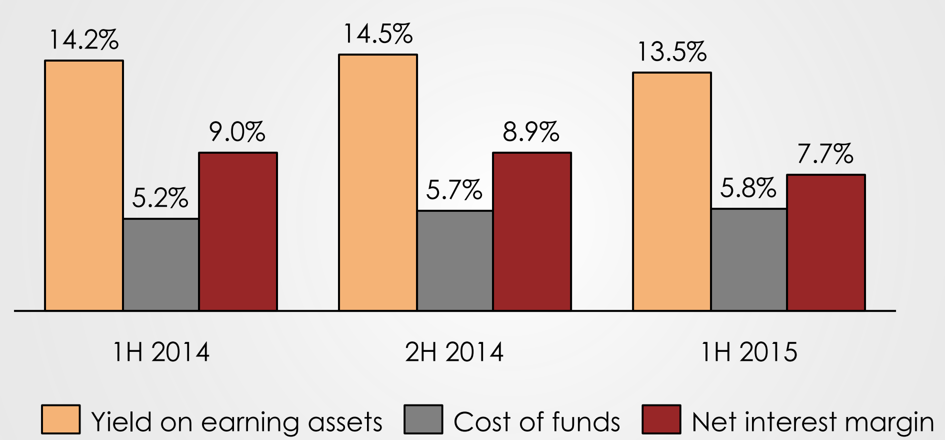


Non-interest income



Operating income

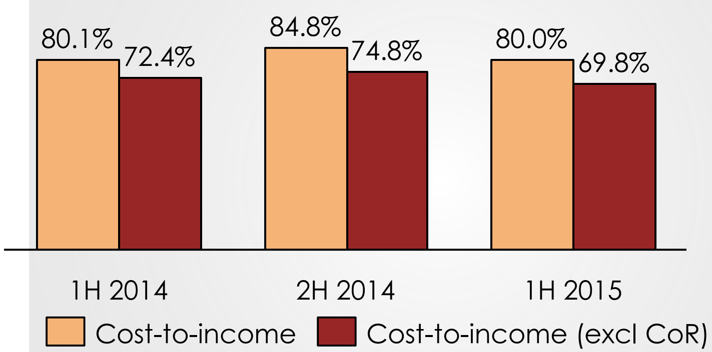




Comments

- Earnings were driven by non-interest income which rose 33% to N15.2 billion from N11.4 billion in 1H 2014
- Growth in operating income was weakened by net interest income which declined by 11% to N19.4 billion
- Yield on earning assets declined by 70 basis points, while cost of funds increased by 60 basis points due to tighter monetary policy measures
- Consequently, net interest margin declined by 130 basis points to 7.7%
- We do not expect further deterioration in margins given current drive to boost retail deposits and moderate funding costs

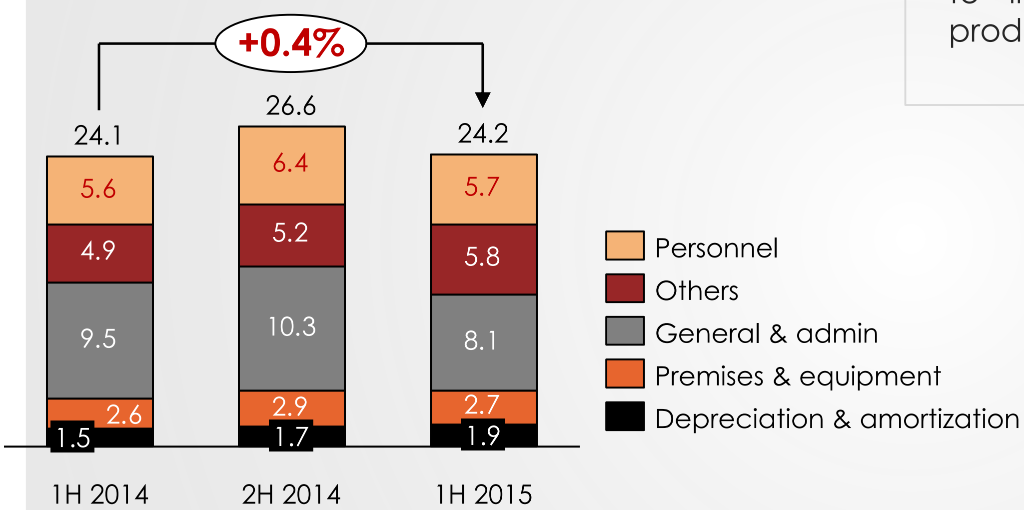
Operating Efficiency

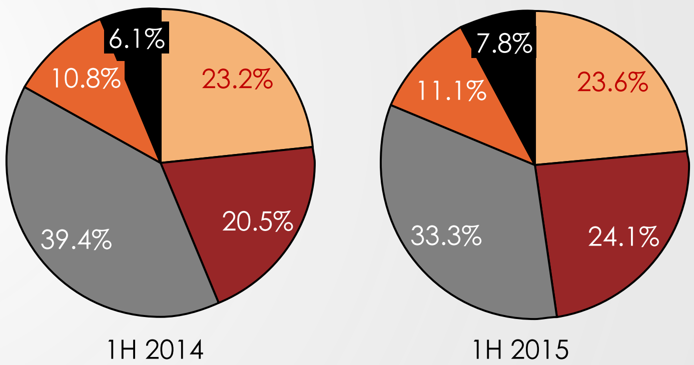


Comments

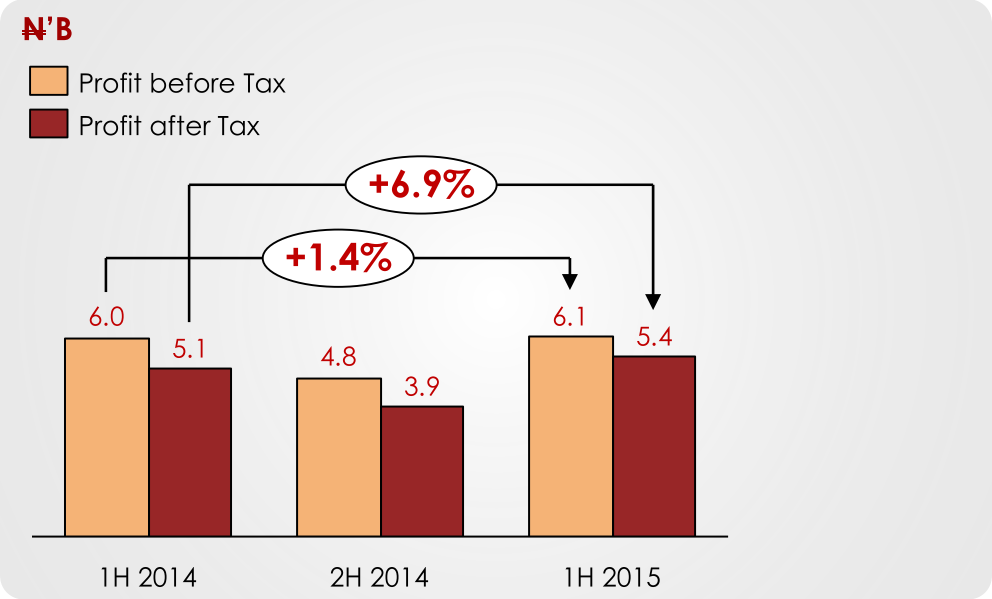
- Improvements in cost-to-income ratio was due to performance optimization and operational efficiency
- Operating expenses grew marginally by 0.4% to N24.2 billion, while cost-to-income ratio (excl. cost of risk) improved by 260 basis points to 69.8%
- Our goal is to complete the ongoing implementation of a number of technology-led service improvement initiatives across core and subsidiary systems in order to improve operating efficiency and employee productivity

₦'B **Operating expenses**



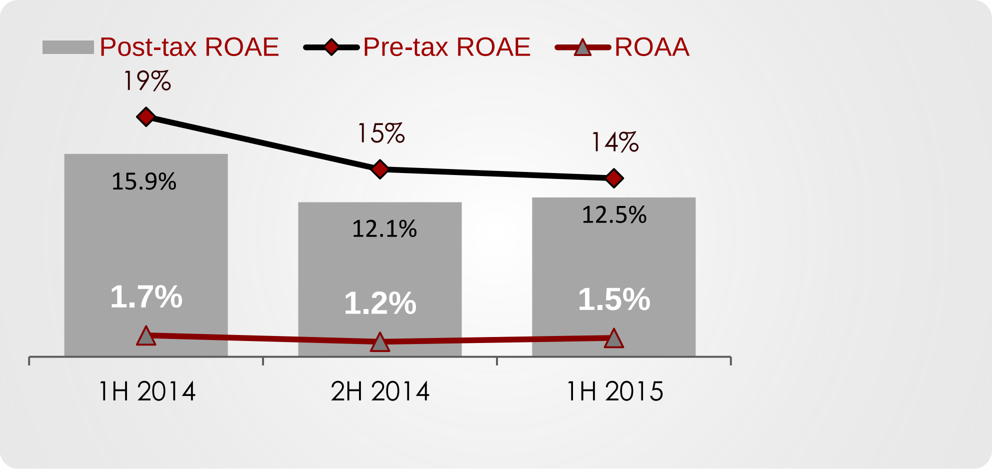


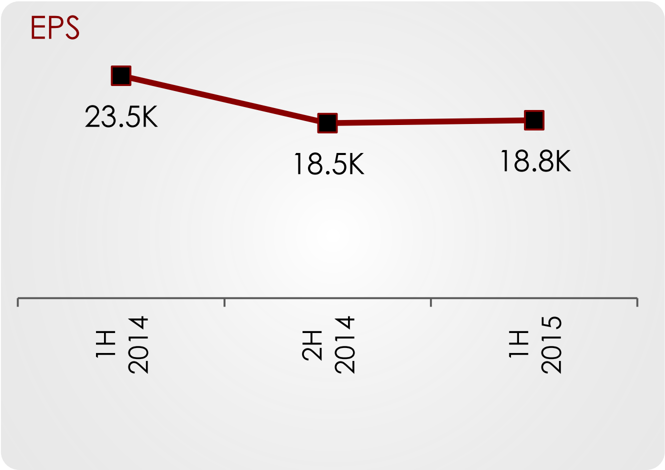
Profitability



Comments

- Sustained profit growth momentum despite pressure on earnings arising from regulatory policy changes
- PBT rose marginally by 1.4% to N6.1 billion, while PAT grew by 6.9% to N5.4 billion
- Pre-tax ROAE remained competitive at 14.0% (post-tax 12.5%)
- Decline in EPS arising from additional shares issued in December 2014





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Performance Review
- Balance sheet analysis

Innovation & Growth

Highlights of financial position

Items (N'mn)	Jun 30 2015	% of Total Assets	Dec 31 2014	% of Total Assets	Growth
ASSETS					
Cash and balances with CBN	161,051.5	19.3%	174,760.0	21.2%	-7.8%
Due from banks	50,120.6	6.0%	67,330.1	8.2%	-25.6%
Pledged assets	74,610.4	8.9%	78,750.9	9.6%	-5.3%
Loans and advances to customers	380,158.6	45.6%	371,246.3	45.0%	2.4%
Investment in securities:	128,050.6	15.4%	96,570.7	11.7%	32.6%
- Held for trading	6,717.8	0.8%	1,949.5	0.2%	244.6%
- Available for sale	80,807.0	9.7%	49,039.4	5.9%	64.8%
- Held to maturity	40,525.7	4.9%	45,581.8	5.5%	-11.1%
Other assets	17,892.5	2.1%	14,137.0	1.7%	26.6%
Property, plant and equipment	14,186.0	1.7%	13,952.0	1.7%	1.7%
Intangible assets	1,008.0	0.1%	821.5	0.1%	22.7%
Deferred tax assets	6,971.1	0.8%	6,971.1	0.8%	0.0%
TOTAL ASSETS	**834,049.2**	**100.0%**	**824,539.4**	**100.0%**	**1.2%**
LIABILITIES					
Deposits from customers	638,332.2	76.5%	655,944.1	79.6%	-2.7%
Current income tax liabilities	1,276.5	0.2%	1,802.2	0.2%	-29.2%
Other borrowed funds	50,342.5	6.0%	45,371.1	5.5%	11.0%
Debt securities issued	4,562.0	0.5%	4,563.6	0.6%	0.0%
Other liabilities	51,125.2	6.1%	32,143.1	3.9%	59.1%
TOTAL LIABILITIES	745,638.3	89.4%	739,824.1	89.7%	0.8%
		0.0%			
EQUITY	**88,410.9**	**10.6%**	**84,715.3**	**10.3%**	**4.4%**
TOTAL LIABILITIES AND EQUITY	**834,049.2**	**100.0%**	**824,539.4**	**100.0%**	**1.2%**

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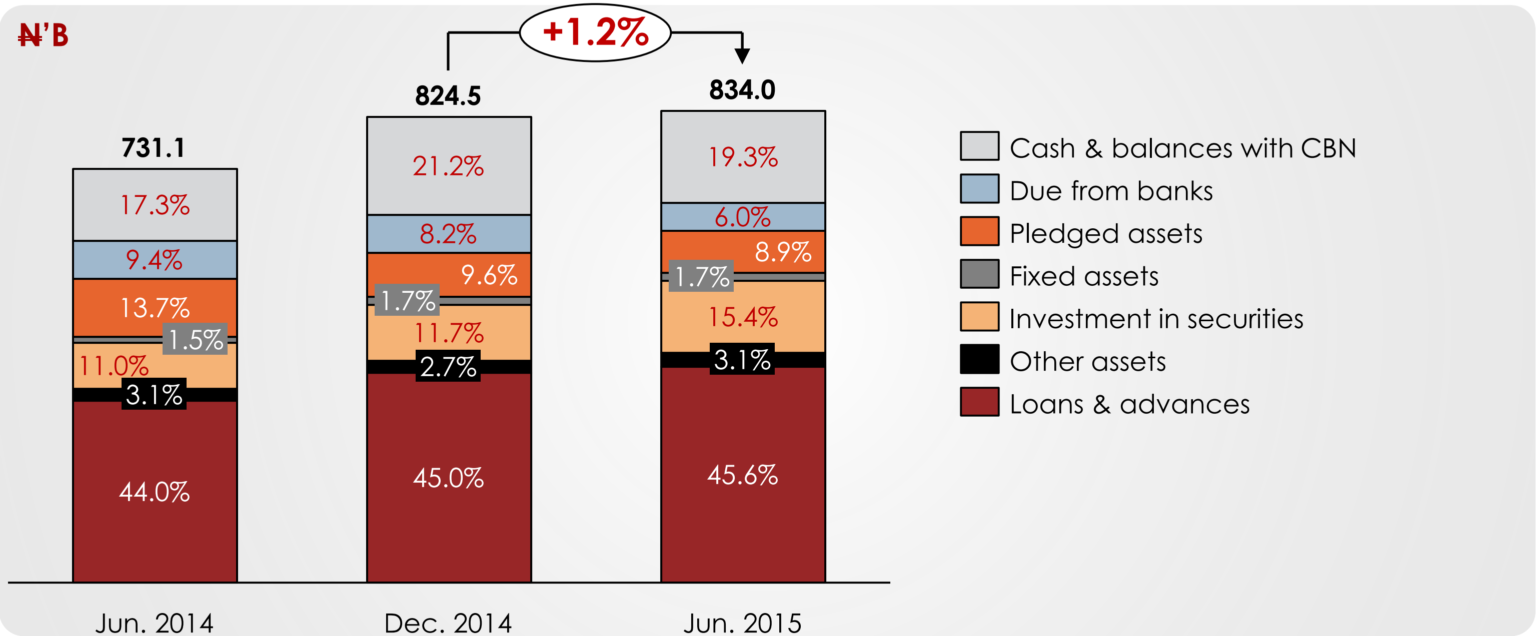
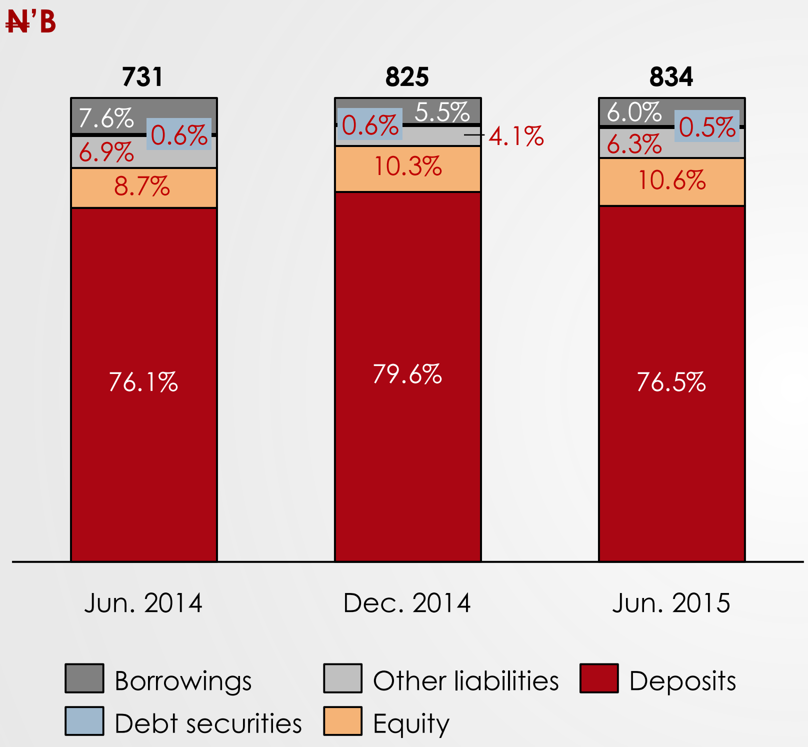
Assets growth trend

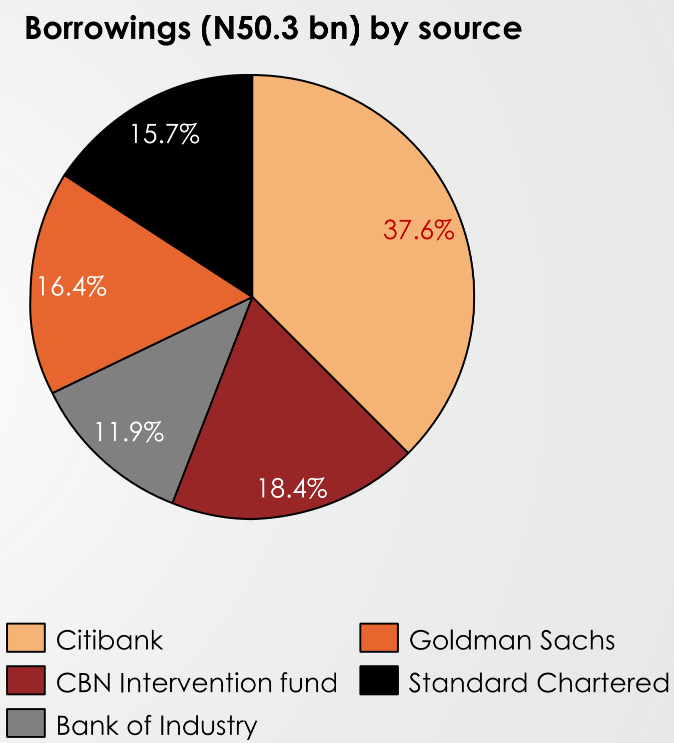


Comments

- Total assets grew by 1.2% to N834.0 billion
- Loans and advances recorded the highest contribution with 45.6% penetration level
- Cash and balances with CBN declined by 7% driven mainly by the decrease in deposits and accounted for 19.3% of total assets
- We remained focused on balance sheet optimization in order to maximize asset yield

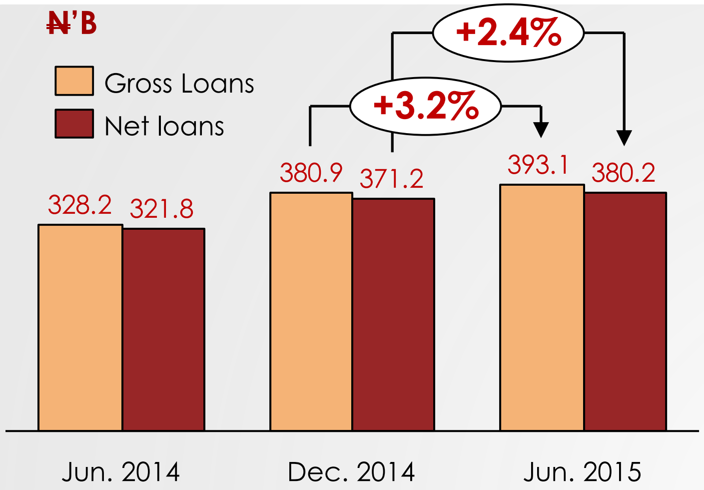
Funding mix





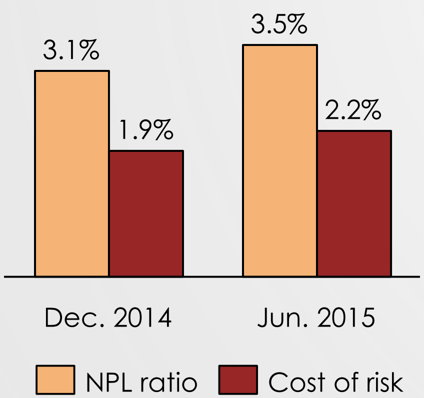
- Deposits remained the major source of funding at 77% of total assets

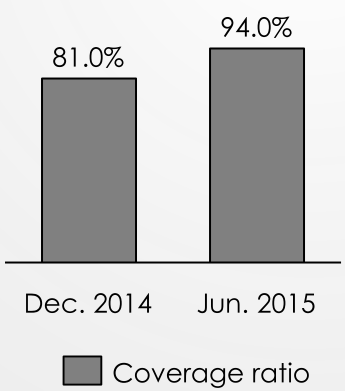
Asset quality

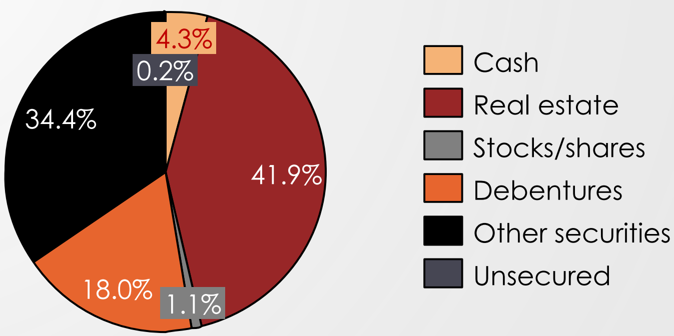


Comments

- Gross loans increased by 3.2% and net loans by 2.4% to N393.1 billion and N380.2 billion respectively
- Non-performing loans to gross loans (NPL ratio) increased by 40 basis points to 3.5% due to the current difficult macro-economic conditions
- Total provisions to gross loans (cost of risk) increased by 30 basis points to 2.2%
- NPLs were adequately covered at 94%
- Loans were well secured; only 0.2% of gross loans were unsecured

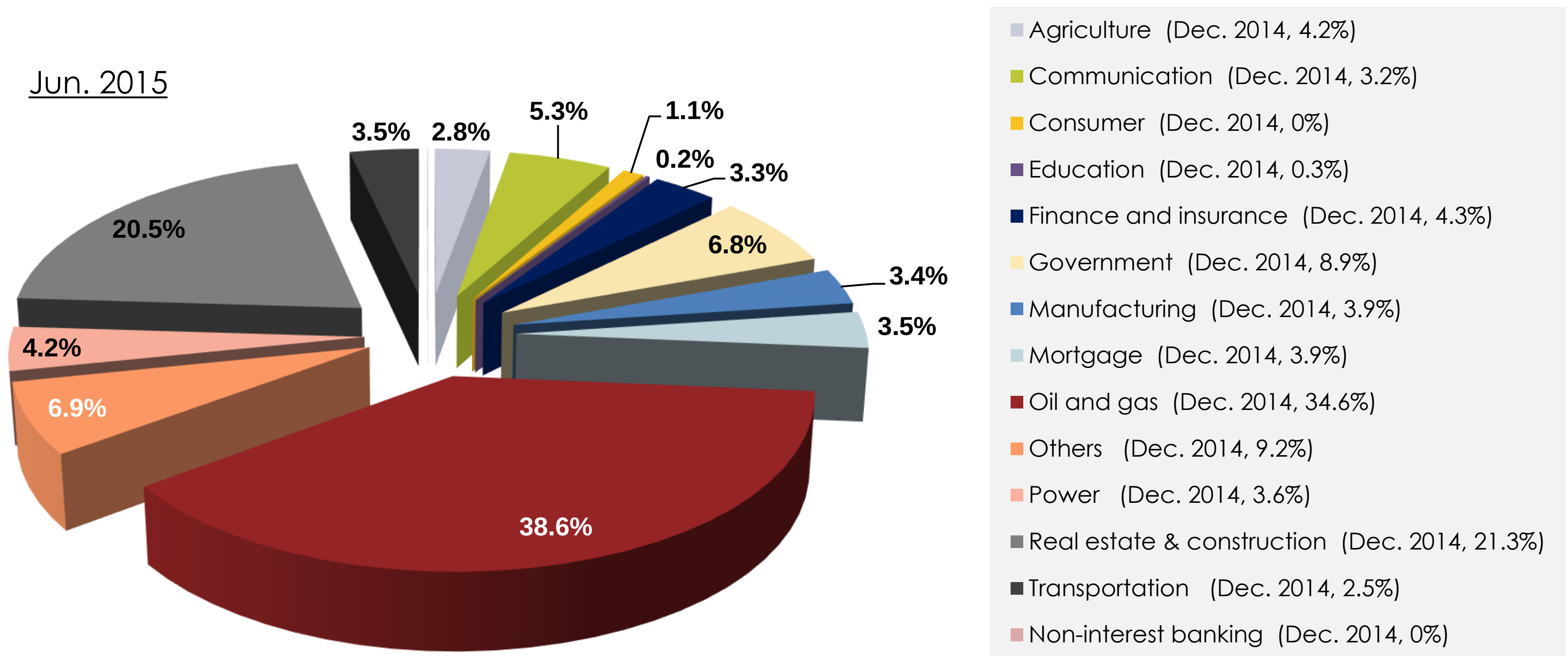






Loans by security

Gross loans by sector…/1



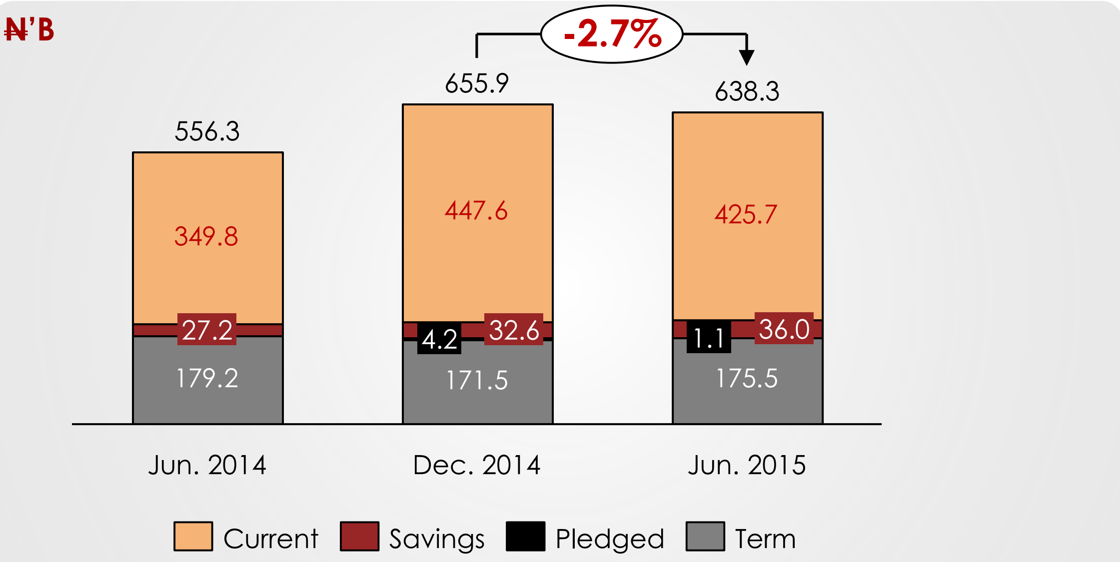
Comments

- Well continued to maintain a diversified loan book
- Oil and gas recorded the highest sectoral contribution followed by real estate and construction at 38.6% and 20.5% respectively
- Loans to the oil & gas sector were spread among the various subsectors – upstream, downstream and services

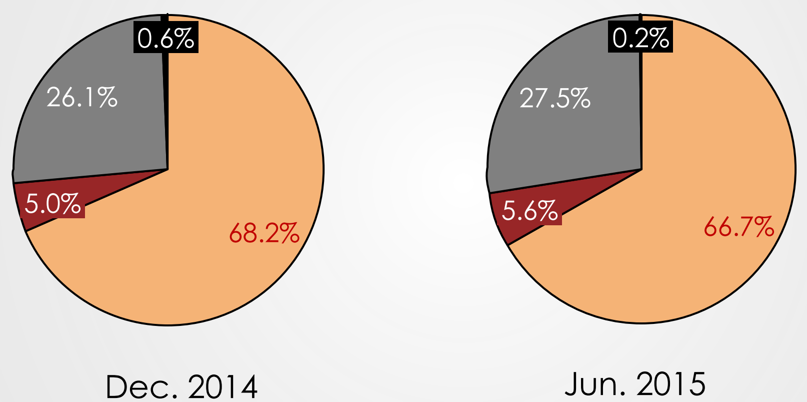
Gross loans by sector…/2

Sectors	Jun 30 2015	% of Gross Loans	Dec 31 2014	% of Gross Loans	Growth
Agriculture	11,030.2	2.8%	16,122.7	4.2%	-31.6%
Capital Market	54.4	0.0%	303.9	0.1%	-82.1%
Communication	20,672.9	5.3%	12,101.0	3.2%	70.8%
Consumer	4,286.4	1.1%	7.6	0.0%	56321.7%
Education	795.6	0.2%	1,298.4	0.3%	-38.7%
Finance and insurance	13,081.3	3.3%	16,450.3	4.3%	-20.5%
Government	26,573.8	6.8%	33,980.7	8.9%	-21.8%
Manufacturing	13,494.0	3.4%	14,739.6	3.9%	-8.5%
Mining & quarrying	398.1	0.1%	294.6	0.1%	35.1%
Mortgage	13,644.7	3.5%	14,789.2	3.9%	-7.7%
Oil and gas	151,201.1	38.5%	131,582.6	34.5%	14.9%
Others	26,993.6	6.9%	34,691.1	9.1%	-22.2%
Power	16,476.7	4.2%	13,742.9	3.6%	19.9%
Real estate & construction	80,481.8	20.5%	81,201.8	21.3%	-0.9%
Transportation	13,866.4	3.5%	9,578.4	2.5%	44.8%
Non-interest banking	79.1	0.0%	39.5	0.0%	100.3%
Gross Loans	**393,130.2**	**100.0%**	**380,924.4**	**100.0%**	**3.2%**

Deposits



Deposit Mix

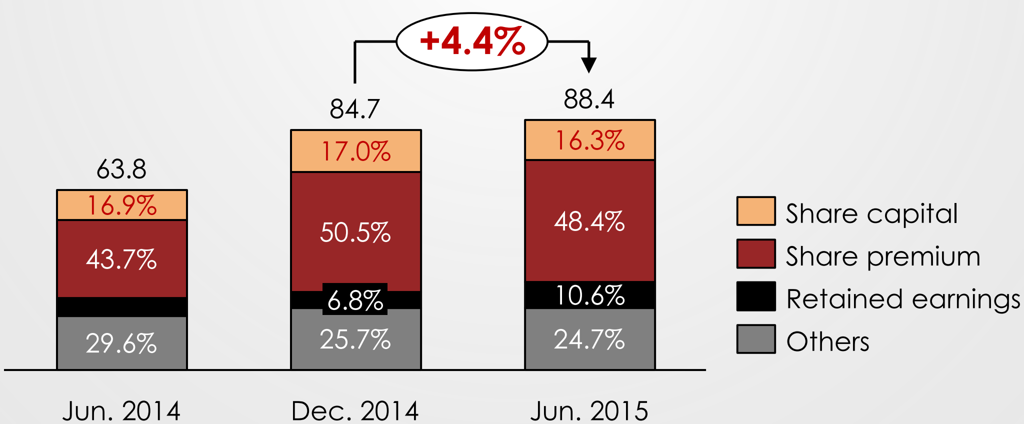


Comments

- Deposits declined by 2.7% N638.3 billion due to a 5% reduction in current account balances
- Low cost deposits accounted for 72% (Dec. 2014: 73%) of total deposits, while wholesale funds accounted for 28%
- Savings deposits rose by 10% and accounted by 5.6% of total deposits (Dec. 2014: 5.0%) re-affirming the benefits of our retail drive

Capital and liquidity

Items	Jun 30 2015	Dec 31 2014	Growth
Tier 1 capital	77,640	74,995	3.5%
Tier 2 capital	2,516.6	3,431.8	-26.7%
Total regulatory capital	**80,157**	**78,427**	**2.2%**
Risk-weighted assets	**540,854**	**566,687**	**-4.6%**
Tier 1 ratio	14.4%	13.2%	
Tier 2 ratio	0.5%	0.6%	
Capital adequacy ratio	**14.8%**	**13.8%**	
Liquidity Ratio	**35.5%**	**33.6%**	
Loan to Deposit Ratio (Net)	**59.6%**	**56.6%**	



Comments

- Capital adequacy and liquidity ratios were above the regulatory benchmarks of 10% and 30% respectively
- Net loan-to-deposit ratio increased by 300 basis points to 59.6% resulting from a decline in total deposits
- Total qualifying capital (net) increased by 2% to N80.2 billion driven by profit accretion
- We remain confident that we will complete the final tranche of our capital program in order to build additional resilience in the current difficult macro-economic conditions, while also strengthening earnings capacity

Financial ratios

Indicators	1H 2014	FY 2014	1H 2015
Pre Tax Return on Average Equity (annualized)	18.8%	16.6%	14.0%
Post Tax Return on Average Equity (annualized)	15.9%	13.9%	12.5%
Return on Average Assets (annualized)	1.7%	1.4%	1.5%
Earnings per Share	23k	42k	19k
Yield on Earning Assets	14.1%	14.2%	13.5%
Cost of Funds	5.2%	5.3%	5.8%
Net Interest Margin	8.9%	8.9%	7.7%
Cost to Income	72.4%	73.6%	69.8%
NPL Ratio	1.7%	3.1%	3.5%
Capital Adequacy Ratio	14.6%	13.8%	14.8%
Loan to Deposit Ratio	57.8%	56.6%	59.6%
Liquidity Ratio	48.6%	33.6%	35.5%

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Outlook

Innovation & Growth

Key initiatives

- Implementation of a number of technology-led service improvement initiatives across core and subsidiary systems in order to improve operating efficiency and employee productivity

- Finalize our capital program in order to build additional resilience under the current difficult macro-economic conditions, while also strengthening earnings capacity

- Continue the expansion of our retail footprint across various channels to further drive customer acquisition and enhance service delivery

- Continue the upgrade of the *look and feel* of our existing branch infrastructure

- As part of our increasing focus on cost optimization, we have set up a strategic cost management unit to sustain the improvements in cost-income relationship

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