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Sterling Bank Plc

Nigeria Bank Analysis **June 2018**

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Long-term	National	BBB(NG)	Stable	June 2019
Short-term	National	A3(NG)		

Financial data:

(USDm comparative)*

	31/12/16	31/12/17
NGN/USD (avg.)	252.7	305.3
NGN/USD (close)	304.5	305.5
Total assets	2,708.1	3,459.9
Primary capital	281.3	336.9
Secondary capital	43.1	42.8
Net advances	1,537.8	1,957.7
Liquid assets	431.0	541.3
Operating income	270.4	240.3
Profit after tax	20.4	27.9
Market cap.#	N40.3bn/USD132m	
Market share**	3.1%	

*Central Bank of Nigeria ("CBN") exchange rates

#As at 23 May 2018.

** Based on industry assets as at 31 December 2017.

Rating history:

Initial rating (April 2009)
Long-term: BBB(NG)
Short-term: A2(NG)
Rating outlook: Stable

Last rating (June 2017)
Long-term: BBB(NG)
Short-term: A3(NG)
Rating outlook: Negative

Related methodologies/research:

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017
Sterling rating reports (2009-17)

Glossary of Terms/Ratios, February 2016

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Summary rating rationale

- Sterling Bank Plc ("Sterling" or "the bank") is a mid-sized commercial bank in Nigeria, with a market share of 3.1% (FY16: 2.6%) by total assets at FY17.
- Sterling's capitalisation improved considerably in FY17, with shareholders' funds increasing by 20.2% to N102.9bn, underpinned by internal capital generation. As a result, risk weighted capital adequacy ratio ("CAR") increased to 12.2% at FY17 (FY16: 11.2%), exceeding the regulatory minimum by some margin. To further strengthen capitalisation and enhance operation, the bank intends to issue a new tranche of the existing bond programme in 3Q FY18.
- The Gross non-performing loans ("NPL") reduced by 18.8% to N38.5bn at FY17, supported by enhancement of the bank's enterprise risk management framework, improved risk profile of oil and gas sector loan exposure (which constitute a significant portion of loan book) as well as active loan recovery effort, which resulted in recovery of N4.7bn during the year. Consequently, NPL ratio improved to 6.2% at FY17 (FY16: 9.9%) and strengthened further to 6.0% at 1Q FY18, albeit above regulatory threshold of 5%. Specific provision coverage of NPLs improved to 35.8% at FY17 (FY16: 8.9%).
- Sterling evidenced liquidity pressure during FY17, with the bank's statutory liquidity ratio falling short of the minimum requirement at some points (recording lowest ratio of 22.3% in August 2017), albeit normalising at year end at 33.0% (April 2018: 43.6%).
- Sterling's dependence on expensive funds exerted pressure on margins, with net interest margin shrinking 350 basis points to 8.4% in FY17, resulting in a 10.4% decline in net interest income to N50.2bn. However, a firmer 87.8% rise in non-funded revenue underpinned a 7.4% growth in total operating income to N73.4bn. The bank's cost tightening measures (with operating expenses increasing by a marginal 3.7%) yielded improved efficiency indicators, with the cost ratio declining to 71.5% (FY16: 74.1%). Overall, the bank achieved a 43.5% growth in pre-tax profit to N8.5bn, translating to return on average equity ("ROaE") and return on average assets ("ROaA") of 9.0% and 0.9% (FY16: 5.7% and 0.6%) respectively.

Factors that could trigger a rating action may include;

Positive change: An improvement in the quality of assets, higher profitability, enhanced capitalisation and liquidity metrics would be favourably considered.

Negative change: A rating downgrade could arise from a weakening in the competitive positioning and sustained pressure on liquidity metrics.

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Organisational profile

Corporate summary[1]

Sterling is a commercial bank in Nigeria, offering retail and corporate banking services to individual and corporate clients. In 2011, the bank divested all its non-core banking subsidiaries in line with CBN's directives and acquired Equitorial Trust Bank Limited to further expand its geographical presence and strengthen its competitive positioning within the Nigerian banking space.

Ownership structure

Sterling's shareholding structure remained unchanged in FY17, comprising foreign and local investors (both private and institutional). Table 1 outlines the major shareholders with holdings exceeding 5%.

Table 1: Shareholding structure	% holding FY17
Silverlake Investment Limited	25.0
State Bank of India	8.9
SNNL/AMCON	5.9
Dr. Mike Adenuga	5.6
Ess-ay Investment Ltd	5.0
Others	49.6
Total	**100.0**

Source: Sterling AFS.

Strategy and operations

The bank continued to strengthen its strategic plans of growing organically, deepening focus within the retail banking segment and improve customers' banking experience. To this end, sterling embarked on massive investment in digital banking platforms and other alternate channels aimed at delivering efficient services to customers as well as improve the bank's market share. As such, the bank launched an online lending platform called "Specta" which provides personal loans to customers within the shortest time frame of 5 minutes upon meeting the stipulated requirement.

Sterling's Alternative Finance, the non-interest banking platform, continues to evolve through the development of tailor-made products to capture more segments of the financial market and further diversify the income stream of the bank. The bank also realigned its commercial banking businesses with a view to drive business expertise within focused sector. In this regard, the bank during FY17 introduced HEART initiative to build sustainable development in the bank's five priority sector which includes; Health, Education, Agriculture, Renewable Energy, and Transportation.

At end-December 2017, Sterling operated through a network of 179 branches, 5,680 active POS terminals, 835 ATM, and a staff complement of 2,260.

Governance structure

The composition of the bank's board of directors ("board") and its governance structure are in line with CBN's code of corporate governance for banks in Nigeria, and that of the Securities and Exchange Commission ("SEC") for listed companies. The board composition and adherence to selected aspects of appropriate corporate governance are as highlighted below.

Description	Findings
Board size	11 members
Number of executive directors	4 (Including Managing Director)
Number of non-executive directors	7 (Including Chairman)
Independent directors	Yes, 2
Tenure of non-executive directors	4 years each/max. 2 cycles
Number of board committees	5-(Risk Management, Audit, Credit, Finance and General Purpose, and Governance and Remuneration.)
Internal audit and compliance	Yes, independent unit
External auditors and rotation policy	Ernst and Young /10 year tenure (renewable annually)

Changes to the composition of the board during the review period include the retirement of one director in 2017 and retirement of additional four directors in early 2018 (including the immediate past Managing Director, Mr Yemi Adeola). As such, Mr Abubakar Suleiman (formerly an Executive Director of the bank) assumed the role of the Managing Director effective from 1st April 2018, while Mr Emmanuel Emefienim was appointed as an Executive Director.

Financial reporting

Sterling's FY17 financial statements were compiled in accordance with International Financial Reporting Standard, the Companies and Allied Matters Act, Financial Reporting Council of Nigeria requirements and the Banks and Other Financial Institutions Act. The auditor, Ernst & Young, issued an unqualified opinion on the FY17 financial statements.

Operating environment[2]

Economic overview

The Nigerian economy returned to growth (albeit slowly) in 2Q FY17, after five consecutive quarters of contraction since 1Q FY16. Available data from the National Bureau of Statistics reflects real annual growth rate for 2017 at 0.8% compared to -1.6% in 2016. This was largely driven by improved global oil prices and production volumes (due to reduced vandalism on oil and gas pipelines in the Niger Delta region). As such, while global oil prices rose above the $44.5 a barrel benchmark of the government, crude oil production also averaged 1.91million

[1] Refer to previous rating reports for a detailed background.

[2] Refer to GCR's 2017 Nigerian Financial Institutions Overview for an overview of selected economic and industry developments.

barrels per day ("mbpd") against 1.76mbpd the previous year, impacting positively on government revenues and overall economic activities. The non-oil sector grew 0.5% in 2017, compared to -0.22% in 2016. Other initiatives resulting in the quick economy rebound were CBN policies implemented during the period. This includes the effort towards boosting liquidity in the FX market, as well as narrow the gap between the parallel market and official exchange rates through the establishment of a special window for investors, exporter and end-users known as Investors'& Exporters' FX Window (I&E window). Furthermore, CBN maintained its tight monetary stance by leaving the benchmark monetary policy rates and cash reserve ratio for commercial banks unchanged at 14% and 22.5% throughout 2017. As a result, the Nigerian Naira exchanged at N306.3/USD and N362.8/USD at the official and parallel market rates respectively by December 2017 (December 2016: N305.2/USD and N493.3/USD at official and parallel exchange rates respectively). Also, headline inflation slowed to 15.4% in December 2017, from a peak of 18.7% in January 2017 (December 2016: 18.6%) and this has further improved to 11.6% at May 2018.

On the back of improved macroeconomic conditions, the Nigerian Stock Exchange all-share index for equities closed at 38,243 points at FY17 (FY16: 26, 874points), with banking stocks among the most improved. Similarly, market capitalization stood at N22.9tn compared to N16.2tn at end-FY16.

Based on the foregoing GDP growth for the year 2018 has been forecast at 3.5% by the World Bank and later revised to 2.5%. This is based on expectation that government's effort to stimulate domestic demand through investment in infrastructure and the economy recovery and growth plan ("ERGP"), launched by the Presidency in April 2017) will be implemented successfully. The ERGP is a medium term plan for 2017-2020, with focus on key sectors such as agriculture and food security, energy, transportation and manufacturing.

Industry overview

Despite the challenging operating environment in 2016 and 2017, performance (in terms of profitability) improved for most of the players in FY17, albeit with increasing NPLs. Total assets for the industry grew 9.2% to N34.6tn at FY17, largely emanating from reduction of Federal Government borrowings from the domestic market and ability of banks to mobilize more deposits. As such, total loans to the private sector stood at N20.4tn, albeit NPLs for the industry rose significantly from 5.3% at FY15 to 12.8% and 15% at FY16 and 1H FY17 respectively.

A major factor impacting on banks asset quality is the high exposure to the oil and gas sector (accounted for up to 29% of the industry loans as at 1H FY17), and this is more likely to affect the large and mid-sized banks.

The average CAR for the industry moderated to 11.5% at 1H FY17 from 14.8% at December FY16. The decline in CAR was attributed to the slow economic recovery and the rise in NPLs, which resulted in capital deterioration. To ascertain the viability of the players, CBN conducted a stress test for banks during 2017 and the outcome reflects that only the large banks could withstand a further deterioration of up to 50% of their NPLs. To combat the deterioration in capitalization of banks, CBN issued a circular in January 2018, which amends the existing internal capital generation and dividend payout ratios. The new circular takes into cognisance the composite risk rating of the banks, NPLs, and CAR ratios in arriving at the dividend payout ratio (which takes effect immediately).

Going forward, banks' capitalization is likely to be further impacted by the implementation of the International Financial Reporting Standards ("IFRS") 9, which commences in January 2018. IFRS 9 prescribes new guidelines for the classification and measurement of financial assets and liabilities, making fundamental changes to the methodology for measuring impairment losses, by replacing the 'incurred loss' model with a more forward looking

Table 2: Competitive position* Sterling vs. selected banks	UBN	Fidelity	StanbicIBTC	FCMB	Sterling
Year end 31 December 2017					
Shareholders' funds (N'bn)	345.7	203.3	138.7	172.5	102.9
Total assets (N'bn)†	1,446.3	1,371.4	1,285.6	1,146.2	1,057.0
Net loans (N'bn)	517.1	768.7	372.1	649.4	598.1
Profit after tax (N'bn)	14.6	18.9	28.8	7.6	8.5
Capital/assets (%)	23.9	27.8	13.0	19.5	11.0
Liquid a trading assets/total short-term funding (%)	34.8	29.7	68.9	15.4	12.8
Gross bad debt ratio (%)	19.8	6.4	7.9	4.9	6.2
Net interest margin (%)	8.7	7.5	9.3	9.2	8.4
Cost ratio (%)	61.5	67.5	56.2	67.2	71.5
ROaE (%)	4.8	9.7	24.7	5.9	9.0
ROaA (%)	1.1	1.4	2.7	0.9	0.9

*Ranked by total assets. †Excludes banks' balances held in respect of letters of credit. Source: Audited Financial Statements.

'expected loss' model. Thus, impacting NPLs and capital adequacy.

As at December 2017, the commercial banking space comprise 22 players, with 10 authorised as international banks, 9 licensed as national, 2 regional and 1 non-interest bank with national license.

Competitive position

Competition remained intense among the commercial banks throughout 2017, as most banks shift focus towards the retail banking. With a balance sheet size of N1.1tn at FY17, Sterling ranks fairly with peers. However, the bank's liquidity metrics ranks the lowest *vis a vis* peers, while cost-to-income ratio stood relatively above peers' average as shown in Table 2.

Financial profile

Likelihood of support

Given the relative size of the bank, available support is currently limited to its' shareholders, as previously demonstrated during the capital raising exercise in FY13 and private placement in FY14.

Funding composition

The bank's major source of funding remains customer deposits, which constituted 66.8% of the total funding at FY17. Other funding sources include equity (11.3%), other borrowings (20.8%) and interbank borrowings (1.1%). Details of each source of funding are discussed below.

Customer deposits and interbank funding

Sterling's total deposits increased by 17.1% to N684.8bn at FY17, largely driven by growth in savings deposits and term deposits which grew 15.9% and 36.3% to N60.7bn and N275.1bn respectively. Growth in savings deposits was enhanced by deepened penetration in retail banking as the bank leveraged digital banking platforms and agent banking services. However, the bank's deposit book tilted towards a relatively expensive term deposits which accounted for a higher 46.6% of deposits at FY17 (FY16: 35.5%). Hence, cost of funds increased to 7.4% at FY17 (FY16: 6.3%). The bank displayed a reduced reliance on interbank funding during the year, with the liability pool ending down at N11bn, representing 53.5% decline over FY16. Management forecast 15% growth in deposit for FY18, with focus on strong mobilisation of low-cost deposit. Accordingly, performance as at 1Q FY18 shows deposit growth of 4.9% to N718.5bn.

The deposits were fairly diversified, with the single and twenty largest depositors accounting for 3.0% and 21.3% of the book at FY17 respectively. Also, maturity profile displayed a relatively short-dated tenor, with 61.3% of the pool maturing in less than three months.

Table 3: Deposit book characteristics

By Source:	%	By type:	%
Corporate	43.0	Demand	43.1
Individual	21.3	Savings	10.3
Public sector	8.9	Term	46.6
Financial Institution	26.8		
Concentration:			
Single largest	3.0	Ten largest	14.6
Five largest	9.6	Twenty largest	21.3
Maturity:			
<3 months	61.3	3-6 months	0.2
3-6 months	4.0	>1 year	34.5

Source: Sterling AFS.

Capital Structure

Table 4: Capitalisation	FY16 N'bn	FY17 N'bn
Tier 1	77.3	80.5
Tier 2	(1.9)	5.9
Total regulatory capital	**75.4**	**86.5**
Total risk weighted assets	**675.9**	**708.1**
RWCAR (%)	**11.2**	**12.2**

Source: Sterling AFS.

Sterling's Shareholders' funds grew by 20.2% to N102.9bn, representing a compounded annual growth rate of 12.9% over the review period (2013-2017), underpinned by strong internal capital generation. As a result, CAR increased to 12.2% at FY17 (FY16: 11.2%), exceeding the regulatory minimum by some margin. To further strengthened capitalisation and enhance operation, the bank intends to issue a new tranche of the existing bond programme in 3Q FY18.

Borrowings

The bank's total borrowings grew significantly by 130.9% to N225.9bn at FY17. This liability pool comprises various credit facilities secured from financial institutions, including intervention funds granted by Nigerian government-owned financial institutions (Bank of Industry and CBN) under its agriculture, power, aviation, micro, small and medium enterprise and manufacturing sectors credit schemes, for on-lending to qualified customers (Table 5).

Table 5: Borrowings	FY16 N'bn	FY17 N'bn
Citibank	15.3	7.7
Bank of Industry	2.2	1.7
CBN Agricultural Fund	18.4	56.5
CBN State ECA	9.8	14.5
Standard Chartered Bank	24.5	11.8
Islamic Corporation	9.3	14.7
Nigeria Mortgage Refinance Company	1.7	1.6
CBN MSME	1.0	0.3
AFREXIM	-	20.0
CBN (Fixed Tenor repo)	-	84.2
Debt Securities	15.4	13.1
Total	**97.8**	**225.9**

Source: Sterling AFS.

Included in the outstanding borrowings at FY17 are two 7-year debt securities issued by the bank in 2011 and 2016, with interest payable semi-annually at 13% and 16.5% respectively.

Liquidity positioning

Sterling evidenced liquidity pressure during FY17, with its statutory liquidity ratio falling short of the minimum requirement at some points (recording lowest ratio of 22.3% in August 2017), albeit normalising at year end at 33.0% (April 2018: 43.6%). The matching of the bank's asset and liability maturities also reflected a negative liquidity gap of N266.0bn (2.6x total shareholders' funds) in the less than 3 month maturity band, with cumulative positive liquidity gaps displayed across the up to one year maturity bands. However, (behaviorally) substantial portion of deposits are usually rolled over at maturity, coupled with the available credit lines from other financial institutions offers some comfort regarding liquidity risk severity.

Table 6: Net liquidity gap profile	<3 months N'bn	3-6 months N'bn	6-12 months N'bn	>1 year
Assets	617.9	51.8	146.5	906.0
Liabilities	(883.9)	(23.4)	(8.3)	(115.1)
Net liquidity gap	(266.0)	28.4	138.2	790.9
Cumulative liquidity gap	(266.0)	(237.6)	(99.4)	691.5

Source: Sterling AFS.

Credit risk (strategic overview)

Risk management

The board's risk management oversight is supported by various management committees, which helps to develop, implement and modify risk strategies. In a bid to further strengthen its risk management framework, the bank implemented a multi-faceted risk management solution called "the Corporate Axe Credit Portal". This platform provides seamless risk assessment, monitoring and control of credit exposures to customers (especially commercial and corporate customers).

Asset composition

Table 7: Asset mix	FY16		FY17	
	N'bn	%	N'bn	%
Cash and liquid assets	**131.2**	**15.9**	**165.4**	**15.6**
Cash	*11.8*	*1.4*	*15.4*	*1.5*
Liquidity reserve deposits	*94.5*	*11.5*	*74.0*	*7.0*
Treasury bills and bonds	*1.7*	*0.2*	*6.9*	*0.7*
Balances with other banks	*23.3*	*2.8*	*69.1*	*6.5*
Net loans and advances	468.2	56.8	598.1	56.6
Investments	**93.0**	**11.3**	**104.1**	**9.8**
Available for sale inv.	*34.9*	*4.2*	*80.0*	*7.6*
Held to maturity inv.	*58.1*	*7.0*	*24.1*	*2.3*
Property, Plant and Equipment	14.6	1.8	16.5	1.6
Pledged assets	86.9	10.5	145.2	13.7
Other assets	30.7	3.7	27.8	2.6
Total*	**824.6**	**100.0**	**1,057.0**	**100.0**

*Excludes balances held on behalf of customers in respect of letters of credit.
Source: Sterling AFS.

Sterling's total asset grew by 28.2% to N1.1tn at FY17, underpinned largely by a rise in pledged assets and expansion in net loans and advances which increased by 27.7% to N598.1bn and accounted for a relatively stable 56.6% (FY16: 56.8%) of total asset mix at FY17. Similarly, cash and liquid asset grew by 26.1% to N165.4bn on the back of an increase in interbank placements.

Overall, investment securities (largely comprising risk-free federal government bonds and treasury bills) increased by 11.9% to N104.1bn at FY17, as the bank took advantage of the attractive yields on government securities.

Loan portfolio

Gross loans and advances increased by 29.5% to N617.6bn at FY17. While cognisance is taken of the bank's effort at diversifying loan portfolio across the various economic sectors, a significant level of concentration is maintained in the oil and gas albeit accounting for a lower 40.7% of the loan book at FY17 (FY16: 48.9%). Going forward, management intends to shift lending focus to five priority sectors which are; health, education; agriculture; renewable energy; and transportation where some level of business expertise has over time been built. The bank however expects a conservative growth in loan book (about 10%) in FY18, with emphasis mainly on quality exposures.

A further analysis of the loan book reveals the bank maintained a high level of concentration by obligor, with the single largest obligor accounting for 4.4% of gross loans (equating to 26.7% shareholders' funds, above regulatory limit of 20%), while the twenty largest obligors represents 48.7% of the loan book at FY17. The maturity profile of the loan book is relatively long-dated, with 64.9% maturing after one year.

Table 8: Loan book characteristics (%)			
By sector:			
Agriculture	3.1	Transportation	3.3
Oil and gas	40.7	Manufacturing	1.1
Real estate and Construction	11.4	IT and Communication	2.8
Financial Institutions	9.5	Power	3.7
Government	11.3	Others	13.1
Largest exposures		**By Maturity:**	
Single largest	4.4	< 3 month	23.6
Five largest	17.8	3-6 months	4.6
Ten largest	30.1	6-12 months	7.0
Twenty largest	48.7	> 12 months	64.9

Source: Sterling AFS.

Contingencies

Off-balance sheet assets grew 17.8% to N131.1bn at FY17, accounting for 11.0% of the total on and off-balance sheet assets. These comprised; bonds, guarantee and indemnities (72.5%), letter of credit (19.9%), and Others (7.6%).

Asset quality

Sterling's gross NPLs reduced by 18.8% to N38.5bn at FY17, supported by enhancement of the bank's enterprise risk management framework, improved risk profile of the oil and gas sector loan exposure (which constitute a significant portion of loan book) as well as active loan recovery effort, which resulted in recovery of N4.7bn during the year. Consequently, NPL ratio improved to 6.2% at FY17 (FY16: 9.9%) and strengthened further to 6.0% at 1Q FY18, albeit above regulatory threshold of 5%. Specific provision coverage of NPLs improved to 35.8% at FY17 (FY16: 8.9%). It is noteworthy that a sizeable portion of NPLs were skewed toward the oil and gas and transportation sectors, constituting a combined 60.6% of gross NPLs at FY17. Going forward, Management expects to maintain a sound asset quality through implementation of a strict loan selection and approval process.

Table 9: Asset quality	FY16 N'bn	FY17 N'bn
Gross advances	**476.7**	**617.6**
Performing	429.3	579.1
Impaired	47.4	38.5
Provision for impairment	**(8.5)**	**(19.5)**
Individually impaired	*(4.2)*	*(13.8)*
Collectively impaired	*(4.3)*	*(5.7)*
Net NPLs	**38.9**	**19.0**
Select asset quality ratios (%):		
Gross NPLs ratio	9.9	6.2
Net NPLs ratio	9.2	4.1
Net NPLs/Capital	43.7	21.3

Source: Sterling AFS.

Financial performance and prospects

A five year financial synopsis, together with management accounts to 31st March 2018 is reflected on page 7 of this report, supplemented by the commentary below.

Sterling's dependence on expensive funds exerted pressure on margins, with net interest margin shrinking 350 basis points to 8.4% in FY17, resulting in a 10.4% decline in net interest income to N50.2bn in FY17. Notwithstanding this, the bank's total operating income grew by 7.4% to N73.4bn in FY17, on the back of a significant growth in non-interest income which grew by 87.8% (largely supported by increase in fee and commission income and trading income). Sterling's cost tightening measures (with operating expenses increasing by a marginal 3.7%) supported improved efficiency indicators, with the cost ratio declining to 71.5% (FY16: 74.1%). Overall, the bank achieved a 43.5% growth in pre-tax profit to N8.5bn, translating to ROaA and ROaE of 9.0% and 0.9% (FY16: 5.7% and 0.6%) respectively.

The bank projects a pre-tax profit of N15.1bn in FY18, representing 75.6% above FY17's position. According to management, total income is expected to be driven by expansion in fees related income via digital banking platform and other alternate channels. The result at 1Q FY18 shows non-interest income was in line with forecast, while pre-tax profit lags full-year budget by 15.8% on an annualised basis. The bank is however optimistic about achieving the budgeted level given the relative stability in the general operating environment.

Table 10: Budget FY18 vs. interim results	Actual FY17 (N'bn)	Budget FY18 (N'bn)	Actual 1Q-FY18 (N'bn)	% of budget*
		Statement of comprehensive income		
Net interest income	50.2	60.4	12.4	82.0
Other income	23.3	22.1	8.0	143.8
Total income	**73.4**	**82.6**	**20.4**	**98.6**
Impairment charge	(12.3)	(13.2)	(1.3)	9.5
Operating expenses	(52.5)	(54.3)	(15.9)	117.2
Profit before tax	**8.6**	**15.1**	**3.2**	**84.2**
			Statement of financial position	
Deposits	684.8	787.6	718.5	91.2
Advances	598.1	637.0	609.8	95.7
Total assets	1,057.0	1,263.6	1,039.2	82.2
Tier I capital	102.9	116.6	94.0	80.6

*All annualised, except impairment charge. Source: Sterling.

Sterling Bank Plc

(Naira in millions except as noted)

Year end: 31 December Statement of Comprehensive Income Analysis	2013	2014	2015	2016	2017	1Q 2018
Interest income	69,973	77,932	80,909	99,104	110,318	31,804
Interest expense	(34,160)	(34,915)	(41,367)	(43,115)	(60,137)	(19,415)
Net interest income	**35,813**	**43,017**	**39,542**	**55,989**	**50,181**	**12,389**
Other income	21,656	25,747	29,285	12,336	23,172	7,962
Total operating income	**57,469**	**68,764**	**68,827**	**68,325**	**73,353**	**20,351**
Impairment charge	(8,259)	(7,389)	(8,151)	(11,714)	(12,267)	(1,254)
Operating expenditure	(39,899)	(50,627)	(49,659)	(50,611)	(52,479)	(15,922)
Net profit before tax	**9,310**	**10,748**	**11,016**	**6,000**	**8,607**	**3,175**
Tax	(1,035)	(1,743)	(724)	(838)	(85)	(75)
Net profit after tax	**8,275**	**9,005**	**10,293**	**5,162**	**8,522**	**3,100**
Other comprehensive income/(loss)	(445)	(836)	2,285	(12,477)	8,755	920
Total comprehensive income	**7,830**	**8,169**	**12,578**	**(7,315)**	**17,277**	**4,020**
Statement of Financial Position Analysis						
Subscribed capital	38,668	57,154	57,154	57,154	57,154	57,154
Reserves (incl. net income for the year)	24,790	27,561	38,411	28,506	45,783	36,819
Hybrid capital (incl. eligible portion of subordinated term debt)	4,564	4,564	4,564	13,128	13,068	12,876
Total capital and reserves	**68,021**	**89,279**	**100,129**	**98,788**	**116,005**	**106,849**
Bank borrowings (incl. deposits, placements & REPOs)	-	-	-	23,769	11,048	12,826
Deposits	432,263	655,751	590,696	580,330	680,430	718,496
Other borrowings	4,695	10,251	10,251	24,458	24,458	165,322
Short-term funding (< 1 year)	**436,958**	**666,002**	**600,947**	**628,557**	**715,937**	**896,644**
Deposits	138,248	193	193	4,404	4,404	-
Other borrowings	34,100	35,120	50,035	60,246	188,389	-
Long-term funding (> 1 year)	**172,348**	**35,313**	**50,228**	**64,650**	**192,792**	**-**
Payables/Deferred liabilities	19,249	27,127	45,082	32,636	32,264	35,715
Other liabilities	**19,249**	**27,127**	**45,082**	**32,636**	**32,264**	**35,715**
Total capital and liabilities	**696,576**	**817,721**	**796,386**	**824,631**	**1,056,998**	**1,039,208**
Balances with central bank	82,196	133,321	84,410	94,482	73,984	84,057
Property, plant and equipments	9,069	13,952	15,258	14,604	16,451	16,570
Derivative financial assets	-	-	-	8	-	-
Receivables/Deferred assets (incl. zero rate loans)	96,661	100,680	91,212	117,548	172,992	100,412
Non-earnings assets	**187,927**	**247,953**	**190,881**	**226,642**	**263,427**	**201,039**
Short-term deposits & cash	8,190	10,778	16,232	11,780	15,404	13,586
Loans & advances (net of provisions)	321,744	371,246	338,726	468,250	598,073	609,791
Bank placements	80,894	91,173	81,015	23,327	69,105	65,295
Marketable/Trading securities	2,201	1,949	4,693	1,653	6,883	22,039
Equity investments	95,620	94,621	164,839	92,979	104,106	127,458
Total earning assets	**508,649**	**569,767**	**605,505**	**597,989**	**793,571**	**838,169**
Total assets†	**696,576**	**817,721**	**796,386**	**824,631**	**1,056,998**	**1,039,208**
Contingencies	**201,629**	**203,843**	**166,245**	**111,260**	**131,106**	**173,828**
Ratio Analysis (%)						
Capitalisation						
Internal capital generation	12.3	9.6	13.2	n.a.	16.8	4.3
Total capital / Net advances + net equity invest. + guarantees	11.0	13.3	14.9	14.7	13.9	11.7
Total capital / Total assets	9.8	10.9	12.6	12.0	11.0	10.3
Liquidity ‡						
Net advances / Deposits + other short-term funding	55.9	55.7	56.3	74.0	83.0	68.0
Net advances / Total funding (excl. equity portion)	52.8	52.9	52.0	67.5	65.8	68.0
Liquid & trading assets / Total assets	13.1	12.7	12.8	4.5	8.6	9.7
Liquid & trading assets / Total short-term funding	20.9	15.6	17.0	5.8	12.8	11.3
Liquid & trading assets / Total funding (excl. equity portion)	15.0	14.8	15.7	5.3	10.1	11.3
Asset quality						
Impaired loans / Gross advances	2.1	3.1	4.8	9.9	6.2	6.0
Total loan loss reserves / Gross advances	2.1	2.5	4.4	1.8	4.3	4.2
Bad debt charge (income statement) / Gross advances (avg.)	3.0	2.1	2.2	2.9	2.3	0.2
Bad debt charge (income statement) / Total operating income	14.4	10.7	11.8	17.1	16.7	6.2
Profitability						
Net income / Total capital (avg.)	13.1	10.4	13.3	n.a.	16.1	3.6
Net income / Total assets (avg.)	1.2	1.1	1.6	n.a.	1.8	0.4
Net interest margin	10.6	9.7	8.7	11.9	8.4	7.0
Interest income + com. fees / Earning assets + guarantees (a/avg.)	6.3	5.7	5.2	8.0	6.2	1.3
Non-interest income / Total operating income	37.7	37.4	42.5	18.1	31.6	39.1
Non-interest income / Total operating expenses (or burden ratio)	54.3	50.9	59.0	24.4	44.2	50.0
Cost ratio	69.4	73.6	72.2	74.1	71.5	78.2
OEaA (or overhead ratio)	6.3	6.7	6.2	6.2	5.6	1.5
ROaE[β]	15.0	12.2	11.4	5.7	9.0	12.6
ROaA	1.3	1.2	1.3	0.6	0.9	1.2
Nominal growth indicators						
Total assets	22.8	17.4	(2.6)	3.5	28.2	(1.7)
Net advances	40.2	15.4	(8.8)	38.2	27.7	2.0
Shareholders funds	36.1	33.5	12.8	(10.4)	20.2	(8.7)
Total capital and reserves	32.8	31.3	12.2	(1.3)	17.4	(7.9)
Deposits (wholesale)	23.0	15.0	(9.9)	(1.0)	15.9	4.9
Total funding (excl. equity portion)	22.5	15.1	(7.1)	6.5	31.1	(1.3)
Net income	8.7	4.3	54.0	(158.2)	n.a	(6.9)

† Excludes balances held in respect of letter of credit.

‡ Please note that for these ratios, liquid assets exclude the statutory reserve balance.

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the ratings was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the ratings is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

The ratings were solicited by, or on behalf of, Sterling Bank Plc, and therefore, GCR has been compensated for the provision of the ratings.

Sterling Bank Plc participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of info received was considered adequate and has been independently verified where possible.

The credit ratings above were disclosed to Sterling Bank Plc with no contestation of/changes to the ratings.

The information received from Sterling Bank Plc and other reliable third parties to accord the credit rating included the latest audited annual financial statements as at 31 December 2017 (plus four years of comparative numbers), latest internal and/or external report to management, full year budgeted financial statements for 2018, most recent year-to-date management accounts to 31 March 2018, reserving methodologies and capital management policies. In addition, information specific to the rated entity and/or industry was also received.