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Sterling Bank Plc

Nigeria Bank Analysis **July 2019**

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Long-term	National	BBB$_{(NG)}$	Stable	June 2020
Short-term	National	A3$_{(NG)}$		

Financial data:

(USDm comparative)*

	31/12/17	31/12/18
NGN/USD (avg.)	305.3	305.6
NGN/USD (close)	305.5	306.5
Total assets	3,459.9	3,558.8
Primary capital	332.7	319.1
Secondary capital	42.8	140.2
Net advances	1,957.7	2,026.2
Liquid assets	541.3	1,285.2
Operating income	240.3	269.2
Profit after tax	26.3	30.2
Market cap.#	N67.7bn/USD221.5m	
Market share**	2.9%	

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

#As at 26 June 2019.

** Based on industry assets as at 31 December 2018.

Rating history:

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

Last rating (June 2018)
Long-term: BBB$_{(NG)}$
Short-term: A3$_{(NG)}$
Rating outlook: Stable

Related methodologies/research:

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017
Sterling rating reports (2009-18)
Glossary of Terms/Ratios, February 2016

GCR contacts:

Primary Analyst
Adeyinka Olowofela
Credit Analyst
yinka@globalratings.net

Committee Chairperson
Dave King
king@globalratings.net

Analysts location: Lagos, Nigeria
Tel: +234 1 904-9462
Website: www.globalratings.com.ng

Summary rating rationale

- Sterling Bank Plc ("Sterling" or "the bank") ranks among the mid-sized commercial banks in Nigeria, in terms of balance sheet size and geographical spread across the country. The bank's market share is estimated at 2.9% by total industry assets at FY18.
- Sterling's shareholders' funds declined 3.8% to N97.8bn at FY18, underpinned by increase in regulatory risk reserves and the impact of IFRS 9 adoption. This notwithstanding, an additional N34.5bn raised in Tier 2 capital during the year accelerated total capital by 22.7% to N140.8bn at FY18 and translated to an increase in risk weighted capital adequacy ratio ("CAR") of 13.4% (FY17: 12.0%) above the regulatory minimum of 10% prescribed for the bank's licence category. To further strengthen capitalisation and enhance operation, the bank intends to issue a new tranche of the existing bond programme in 3Q FY19.
- Sterling's asset quality indicators weakened further in FY18, with the gross non-performing loan ("NPL") ratio ending at 8.7% (FY17: 6.2%), above the peer group average (6.4%) and the stipulated regulatory minimum of 5%. NPLs increased by 44.9% to N55.7bn in FY18, despite write-offs totaling almost N12.9bn during the year and the impact of the full implementation of IFRS 9, which saw some newly classified loans, (mostly in the oil and gas services and real estate sectors). Consequently, the bank's provision coverage declined at FY18, covering the impaired loans by just 35.4% (FY17: 50.7%). NPL ratio remained at similar range (8.9%) at 1Q FY19.
- Pressure on liquidity was evident in FY18, with the bank's statutory liquidity being at the minimum level at some points during the year, although rebounding to a comfortable level at year end. Furthermore, a matching of assets/liabilities maturities at FY18 showed cumulative liquidity gaps across the 'less than 12 months' maturity buckets. The liquidity gap stood at N294.2bn in the 'less than 3 months' maturity bucket and equated to 2.1x capital at FY18.
- Sterling reported a pre-tax profit of N9.5bn in FY18 (FY17: N8.1bn), on the back of a robust revenue growth. Although there was an increase in operating expenses during the year, with a corresponding rise in cost ratio to 81.4%, the bank's key profitability metrics remained strong, with ROaE improving to 9.2% from 8.6% while ROaA remained flat at 0.9%.

Factors that could trigger a rating action may include;

Positive change: Upward movement in the rating(s) or outlook could result from sustained improvement in the bank's profitability, asset quality, capital and liquidity metrics, as well as an enhanced competitive position.

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

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 ownership base is considered well diversified, made up of over 86,000 investors at 31 December 2018. Table 1 outlines the major shareholders with holdings exceeding 5%.

Table 1: Shareholding structure	% holding	
	FY17	FY18
Silverlake Investment Limited	25.0	25.0
State Bank of India	8.9	8.9
Sterling Bank Staff Investment Trust Fund	-	6.0
SNNL/AMCON	5.9	-
Dr. Mike Adenuga	5.6	5.6
Ess-ay Investment Ltd	5.0	4.0
Others	49.6	49.5
Total	**100.0**	**100.0**

Source: Sterling AFS.

Strategy and operations

The bank's strategy remained focus on profitability growth, particularly with respect to the retail banking segment. As part of its strategies to deepen market penetration, the bank is leveraging on innovation through digitalisation, exploring alternate channels, amongst others. Per management, there has been massive investment towards the realisation of the digital banking platforms, in particular "Specta" the lending platform was launched in January 2018 to provide loan to customers within the shortest possible time frame. In addition, "i-invest" was launched in April 2018, a digital platform that enables customers invest in the money market from the convenience of their phones.

Furthermore, having introduced HEART (Health, Education, Agriculture, Renewable Energy, and Transportation) in 2017 as the bank's priority sectors for lending, the bank in 2018 formed a few partnerships and collaboration with stakeholders within the various sectors mentioned above to ensure realisation of the objective.

At end-December 2018, Sterling operated through a network of 179 branches, 7,853 POS terminals, 847 ATM, and a staff complement of 2,401.

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 Securities and Exchange Commission ("SEC") for listed companies. The bank's board composition and adherence to selected aspects of appropriate corporate governance are as highlighted below.

Description	Findings
Board size	12 members
Number of executive directors	4 (Including Managing Director)
Number of non-executive directors	8 (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, Nomination and Governance, and Statutory Audit)
Internal audit and compliance	Yes, independent unit
External auditors and rotation policy	Ernst & Young/10 year tenure (renewable annually)

There were few retirements within the board during the year whose positions have been duly filled in line with best practice.

Financial reporting

Sterling's FY18 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 2018 financial statements.

Operating environment[2]

Economic overview

The Nigerian economy witnessed sustained economic growth in 2018, albeit characterised by mixed growth trajectory. Growth in the first half of the year was somewhat sluggish due to contractions in the oil sector (on the back of declined domestic oil production and volatility in global crude oil prices), delayed passage and implementation of the budget amongst other factors. However, performance was firmer in the second half, propelled by a combination of increased government investment on capital projects and the improved performance of the non-oil sector, ultimately accelerating the full year economic growth rate. Specifically, the non-oil sector grew by 2.7% in 2018 compared to 1.5% in 2017, while the oil sector grew moderately by 1.1% (2017: 4.7%). Overall, real GDP expanded by 1.9% year-on-year up from 0.8% registered in 2017.

Real GDP growth for 2019 is projected at 2.0% and 2.2% by the International Monetary Fund and World

[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.

Bank respectively. This is expected to be underpinned by recovery in global crude oil price amidst agreed global production cut by Organisation of Petroleum Exporting Countries (OPEC) and its allies, as well as sustained implementation of the Economic Recovery and Growth Plan (2017–2020) by the government. Anticipated drawbacks to these projections include; perceived political risks associated with the 2019 general elections and persistent security challenges arising from insurgency in the North East and herdsmen attack in some parts of the country. Also, the upward review of the national minimum wage and other social intervention programs by the government could exacerbate inflationary pressures in 2019. To curtail this effect, CBN is expected to engage in a frequent Open Market Operations ("OMO") auctions and maintain tight monetary policies.

Foreign exchange ("FX") remained relatively stable in 2018 at an average rate of N305.6/USD and N364/USD at the official and parallel market respectively on account of various CBN's FX interventions aimed at easing pressure on Naira. Furthermore, CBN maintained a non-expansionary monetary policy stance by leaving the benchmark monetary policy rate, the liquidity ratio and cash reserve ratio unchanged at 14%, 30% and 22.5% respectively throughout 2018 to curtail inflationary pressures. To this end, the headline inflation declined progressively from 15.1% in January to close at 11.4% in December 2018, and stood at 11.3% in March 2019, albeit measured above the targeted single digit rate for the period.

After being adjudged the global third best performing stock market in 2017 with a strong growth of 42.3%, The Nigerian Stock Exchange ("NSE") recorded 17.8% contractions in the All Share Index (ASI) to close at 31,430.50 points in 2018. Similarly, market capitalization dipped by 13.9% to N11.7tn. This deterioration can be attributed to pre-election jitters and heightened capital outflows on the back of attractive yields in the developed economy as well as the tensed trade war between the US and China.

Industry overview

In line with global practice, the Nigerian banking industry commenced full implementation of IFRS 9 with effect from 1 January 2018, shifting from incurred credit loss model to expected credit loss ("ECL") model, which is a more forward looking approach. To cushion the effect of ECL provisions on capitalisation, CBN introduced a four-year transitional arrangement which requires banks to hold static the adjusted day one impact of IFRS 9 impairment charges and spread it over a four-year period. This, combined with capital raising initiatives employed by a number of banks and strict dividend payment regulations resulted in the rise in the industry's average CAR to 15.3% in December 2018, from 10.2% in December 2017. According to CBN, a new capital rule is expected to be introduced in the first half of 2019, aimed at (inter alia) aligning CAR computation with international regulatory accord (Basel III) as well as ensure banks maintain adequate capital buffer to withstand any acute financial stress scenario.

The industry's profitability for 2018 reflects an improvement, underpinned by declined impairment charge and growth in digital transaction volume. Total banking sector assets stood at N37.2tn at end-December 2018 (December 2017: N34.6tn), while the credit portfolio decreased by 3.2% to N19.8tn due to the conservative lending approach adopted by most banks. Per CBN's statistics, the industry's average gross NPL ratio declined to 12.5% at 1H 2018 (December 2017: 14.8%), albeit remaining above the regulatory threshold of 5%. The decrease can be attributed to the favourable macroeconomic conditions and stricter prudential regulations.

The evolution of financial technology companies ("fintech") and other non-bank companies leveraging technology (in provision of financial services) has intensified competitive pressure in the Nigerian banking sector, particularly in the retail banking space. The competitive dynamics was further intensified by the decision of CBN in October 2018 to licence the Payment Service Banks ("PSBs"). The decision was premised on the apex bank's objective to enhance financial inclusion and stimulate economic activities in the rural and unbanked areas by leveraging on existing facilities of the telecommunication companies and other companies' predominantly in areas with limited banking presence and ultimately achieve 80% financial inclusion target by year-end 2020.

Statistics as at 31 December 2018 reveals Nigeria's financial sector comprised 21 commercial banks, five merchant banks, one non-interest bank, and over 4,000 other financial institutions. Commercial banks include eight international banks, eleven national banks, and two regional banks. Polaris Bank Limited, the only bridged bank under the control of Asset Management Corporation of Nigeria ("AMCON") was established in September 2018 following the assumption of the asset and liabilities of the defunct Skye Bank Plc by CBN. More recently (March 2019) the industry witnessed a merger between two commercial banks; Access Bank Plc and Diamond Bank Plc. This is expected to alter the competitive position of the players in the commercial banking space.

Competitive position

As with most peers, Sterling has been intensifying its efforts towards increased penetration within the retail banking segment. The bank ranks amongst the mid-sized thank within the country, with a balance sheet size of N1.1bn at FY18.

However, the bank's cost ratio remained elevated during the year, compared to peers' and industry average. Table 3 shows the bank's key performance indicators against selected peers.

Financial profile

Likelihood of support

Given the relatively small size of the bank within the Nigeria banking industry, support is likely limited to its shareholders.

Funding composition

The bank's major source of funding remains customer deposits, which constituted 71.5% of the total funding at FY18. Other funding sources include equity (13.2%) and other borrowings (15.3%). Details of each source of funding are discussed below.

Customer deposits

The bank achieved 11.1% deposits growth in FY18 through increased penetration of the retail banking segment leveraging digital banking platforms and agent banking services. Consequently, savings and current deposits grew by 41.9% and 47.6% and constituted an increased 47.5% and 11.8% respectively of the deposits book at FY18. Given the banks strategic focus on low cost deposits, term deposits reported a 14.8% decline at year end albeit constituted a sizeable (30.8%) portion of the book.

Table 2: Deposit book characteristics			
By Source:	**%**	**By type:**	**%**
Corporate	51.7	Demand	47.5
Individual	35.4	Savings	11.8
Public sector	8.8	Term	30.8
Financial Institution	4.1	Others	9.9
Concentration:			
Single largest	4.9	Ten largest	18.2
Five largest	10.0	Twenty largest	20.8
Maturity:			
<3 months	50.1	6-12 months	9.9
3-6 months	4.0	>1 year	35.9

Source: Sterling AFS.

In terms of maturity, a notable portion of the book is short dated, with 64% of deposits maturing within twelve months, out of which 50.1% matures in 3 months.

In addition, the book revealed a fairly diversified base, with the single largest depositor constituting 4.9% of the book, while the 20 largest depositors amounted to a combined 20.8%.

The bank has projected a 37.1% growth in deposits for FY19, on the back of envisaged increase in retail clientele base through the various digital banking channels for deposit mobilization.

Capital structure

Table 4: Capitalisation	FY17 N'bn	FY18 N'bn
Tier 1	79.2	71.3
Tier 2	5.9	23.8
Total regulatory capital	**85.1**	**95.1**
Total risk weighted assets	**708.1**	**712.4**
RWCAR (%)	**12.0**	**13.4**

Source: Sterling AFS.

Sterling's Shareholders' funds declined 3.8% to N97.8bn at FY18, underpinned by increase in regulatory risk reserves and the impact of IFRS 9 adoption. This notwithstanding, an additional N34.5bn raised in Tier 2 capital during the year accelerated total capital by 22.7% to N140.8bn at FY18 and translated to an increase in risk weighted CAR of 13.4% (FY17: 12.0%) surpasing the regulatory minimum of 10% prescribed for the bank's licence category. To further strengthened capitalisation and enhance operation, the bank intends to issue a new tranche of the existing bond programme in 3Q FY19.

Borrowings

Although additional credit facilities were secured during FY18, the bank's total borrowings declined 8.8% to N206.1bn at FY18 as major repayments were made during the year. The breakdown of liability funding at the balance sheet date is shown in Table 5. The borrowings book comprise various credit facilities secured from both foreign and local institutions, including intervention funds granted by Nigerian government-owned financial institutions (Bank of Industry and CBN).

Table 3: Competitive position* Sterling vs. selected banks	StanbicIBTC	UBN	FCMB	Sterling	Wema
Year end 31 December 2018					
Shareholders' funds (N'bn)	172.0	219.4	158.7	97.8	50.9
Total assets (N'bn)†	1,575.2	1,432.3	1,350.4	1,090.8	484.2
Net loans (N'bn)	432.7	473.5	616.0	621.0	252.2
Profit after tax (N'bn)	50.8	18.1	12.4	9.2	3.3
Capital/assets (%)	12.9	15.8	15.6	12.9	15.6
Liquid a trading assets/total short-term funding (%)	59.8	33.1	19.3	33.4	14.9
Gross bad debt ratio (%)	3.9	8.7	5.9	8.7	5.0
Net interest margin (%)	7.2	6.9	8.7	7.4	10.0
Cost ratio (%)	60.4	82.9	72.2	81.4	79.7
ROaE (%)	32.7	6.5	8.7	9.2	6.6
ROaA (%)	3.6	1.3	1.1	0.9	0.8

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

Table 5: Borrowings	FY17 N'bn	FY18 N'bn
Debt Securities	**13.1**	**86.6**
Other borrowings	**212.8**	**119.5**
Citibank	7.7	-
Bank of Industry	1.7	-
CBN Agricultural Fund	56.5	49.8
CBN State ECA	14.5	14.1
Standard Chartered Bank	11.8	-
Islamic Corporation	14.7	6.8
Nigeria Mortgage Refinance Company	1.6	2.5
CBN MSME	0.3	-
AFREXIM	20.0	15.3
CBN (Fixed Tenor repo)	84.2	-
CBN ABSA fund	-	18.0
CBN Anchor borrower's funds	-	0.4
CBN RSSF	-	7.6
CBN NESF	-	5.0
Total	**225.9**	**206.1**

Source: Sterling AFS.

Included in total borrowings at FY18 are debt securities issued by the bank, which includes commercial papers (issued in two tranches of between 177-268 day maturity, traded and quoted on the FMDQ OTC Exchange, with yields of around 13.9%) and subordinated debt which qualifies as Tier 2 capital (due in 2025, with interest payable semi-annually at 16.9%).

Liquidity positioning

Though the bank closed with 42.2% statutory liquidity at FY18, liquidity pressure was however evidenced as zero buffer was maintained above the 30% statutory requirement at some points during the year. Furthermore, a matching of assets/liabilities maturities at FY18 showed cumulative liquidity gaps across the 'less than 12 months' maturity buckets. The liquidity gap stood at N294.2bn in the 'less than 3 months' maturity bucket and equated to 2.1x capital at FY18. However, this is an industry wide pattern within the Nigerian banking system, and typically a significant portion of deposits are rolled over at maturity.

Table 6: Net liquidity gap profile	<3 months N'bn	3-6 months N'bn	6-12 months N'bn	>1 year
Assets	145.0	58.6	173.1	885.1
Liabilities	(439.2)	(73.5)	(100.2)	(452.6)
Net liquidity gap	(294.2)	(14.9)	72.9	432.5
Cumulative liquidity gap	(294.2)	(309.1)	(236.2)	196.3

Source: Sterling AFS.

Credit risk (strategic overview)

Risk management

Sterling continues to update its enterprise risk management framework in line with the economic and industry conditions. The board's risk management oversight is supported by various management committees, which helps to develop, implement and modify risk strategies. The bank has in place a full compliance risk unit, aimed at governing the credit approval process, as well as credit monitoring and supervision.

Asset composition

Sterling's balance sheet size remained relatively stable at N1.1tn at FY18. Cash and other liquid assets rose notably by 138.1% at FY18 on the back of increased appetite for short term securities, and constituted a higher 36.1% (FY17: 15.6%) of the overall asset portfolio. While customer loans reported a 3.8% increase at FY18, it constituted a stable 57% of the asset base for the period.

Table 7: Asset mix	FY17		FY18	
	N'bn	%	N'bn	%
Cash and liquid assets	**165.4**	**15.6**	**393.9**	**36.1**
Cash	*15.4*	*1.5*	*20.8*	*1.9*
Liquidity reserve deposits	*74.0*	*7.0*	*93.5*	*8.6*
Treasury bills and bonds	*6.9*	*0.7*	*244.8*	*22.4*
Balances with other banks	*69.1*	*6.5*	*34.9*	*3.2*
Net loans and advances	598.1	56.6	621.0	56.9
Investments	**104.1**	**9.8**	**4.0**	**0.4**
Available for sale inv.	*80.0*	*7.6*	-	-
Held to maturity inv.	*24.1*	*2.3*	-	-
Equity	-	-	*4.0*	*0.4*
Property, Plant and Equipment	16.5	1.6	16.9	1.6
Pledged assets	145.2	13.7	11.4	1.0
Other assets	27.8	2.6	43.5	4.0
Total*	**1,057.0**	**100.0**	**1,090.8**	**100.0**

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

The asset base is complimented by pledged assets, equity investment, non-current assets held for sale, intangible assets amongst others.

Loan portfolio

Table 8: Loan book characteristics (%)			
By sector:			
Agriculture	3.6	Transportation	5.0
Oil and gas	42.7	Non-interest banking	5.6
Real estate and Construction	8.8	IT and Communication	2.6
Financial Institutions	5.0	Power	2.6
Government	11.6	Others	12.4
Largest exposures		**By Maturity:**	
Single largest	5.5	< 1 month	12.3
Five largest	19.3	1-3 months	3.6
Ten largest	33.2	3-12 months	14.8
Twenty largest	52.9	> 12 months	69.3

Source: Sterling AFS.

Gross loans and advances increased by 3.7% to N640.7bn at FY18. Although the bank's credit portfolio cuts across major economy sectors, oil and gas sector constituted the bulk (42.7%) of the loan book. Cognisance is taken of various initiatives put in place to diversify the portfolio, with focus on health care, education, agriculture, renewable energy and transportation. The loan book is expected to grow by 3.3% at FY19, with emphasis on quality exposures.

Concentration risk by obligor is considered high, with the single obligor of 5.5% of gross loan, translating to 25.2% of FY18 capital (above the regulatory limit of 20%), while the twenty largest exposures accounted for

52.9% of the portfolio. The maturity profile of the book was relatively long, with about 69.3% maturing after one year. About 69.6% of the loan book was contracted in local currency while 30.4% was foreign currency denominated.

Contingencies

Off-balance sheet assets declined 0.6% to N130.3bn at FY18, constituted 92.6% of the total capital base and 33% were cash covered. These comprised; bonds, guarantee and indemnities (74.7%), letter of credit (25.3%).

Asset quality

Table 9: Asset quality	FY16 N'bn	FY17 N'bn
Gross advances	**617.6**	**640.7**
Performing	579.1	584.9
Impaired	38.5	55.7
Provision for impairment	**(19.5)**	**(19.7)**
Individually impaired	*(13.8)*	-
Collectively impaired	*(5.7)*	-
Impaired corporate loans	-	*(18.0)*
Impaired individual loans	-	*(1.7)*
Net NPLs	**19.0**	**36.1**
Select asset quality ratios (%):		
Gross NPLs ratio	6.2	8.7
Net NPLs ratio	4.1	6.1
Net NPLs/Capital	16.6	25.6

Source: Sterling AFS.

NPLs increased by 44.9% to N55.7bn in FY18, despite write-offs totaling almost N12.9bn during the year and the impact of the full implementation of IFRS 9 (which saw some newly classified loans, mostly in the oil and gas services and real estate sectors). Consequently, the gross NPL ratio rose to 8.7% (FY17: 6.2%), ranging above the peer group average (6.4%) and the tolerable regulatory limit of 5%. This ratio remained at similar range (8.9%) at 1Q FY19. Given the write offs, the bank's provision coverage declined at FY18, subsequently covering the impaired loans by a moderate 35.4% (FY17: 50.67%). Going forward, management is optimistic about maintaining a quality loan book over the medium term as the bank continues with its strict loan selection and approval process.

Financial performance and prospects

A five year financial synopsis, is reflected on page 7 of this report, supplemented by the commentary below.

While interest income grew 13.5% as a result of loan growth and increased yield on fixed income securities, interest expense recorded an outpacing growth of 16.2% (on the back of higher funding costs). The net effect was a contraction in the net interest margin to 7.4% in FY18 from 8.4% in FY17. Nevertheless, net interest income recorded an overall 10.2% growth, which is an improvement over the 10.4% decline in FY17. Non-interest income grew 16.5% to N27bn during the year, supported by increased fees and commission. Accordingly, total operating income increased 12.2% to N82.3bn during FY18, and was in line with the budget for the year. Impairment charge for FY18 amounted to N5.8bn (N12.3bn), following a write back of about N8bn. Operating expense growth of 26.4% was ahead of income growth, which led to a rise in cost ratio to 81.4% (FY17: 72.2%). Overall, Sterling reported pre-tax profit of N9.5bn in FY18, which represented a 17.1% growth over FY17 position, and led to an improved ROaE of 9.2% from 8.6% with ROaA remaining flat at 0.9%

Table 10: Budget FY18 vs. interim results	Actual FY18 (N'bn)	Budget FY19 (N'bn)	Actual 1Q-FY19 (N'bn)	% of budget*
Statement of comprehensive income				
Net interest income	55.3	92.2	14.9	64.8
Other income	27.0	35.6	5.7	64.1
Total operating income	**82.3**	**127.7**	**20.6**	**64.6**
Impairment charge	(5.8)	(12.5)	(0.8)	6.7
Operating expenses	(67.0)	(99.7)	(16.5	66.2
Profit before tax	**9.5**	**15.5**	**3.3**	**84.7**
Statement of financial position				
Deposits	760.6	1,042.7	783.3	75.1
Advances	621.0	641.6	618.2	96.4
Total assets	1,090.8	1,420.4	1,122.4	79.0
Tier I capital	97.8	123.3	108.0	87.6

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

Management has forecast 63.2% growth at the pre-tax profit level for FY19, to be driven by both interest and non-interest income. Operating expense is expected to increase further as the bank continues to expand its business. However, for the three months period ending 31 March 2019, the bank delivered a pre-tax profit of N3.3bn, translating to 84.7% of the budget on annualised basis, and management remain optimistic about achieving the full year budget given the various initiatives put in place, coupled with gradual economic recoveries.

Sterling Bank Plc

(Naira in millions except as noted)

Year end: 31 December

Statement of Comprehensive Income Analysis	**2014**	**2015**	**2016**	**2017**	**2018**
Interest income	77,932	80,909	99,104	110,312	125,163
Interest expense	(34,915)	(41,367)	(43,115)	(60,138)	(69,882)
Net interest income	**43,017**	**39,542**	**55,989**	**50,174**	**55,281**
Other income	25,747	29,285	12,336	23,178	27,001
Total operating income	**68,764**	**68,827**	**68,325**	**73,352**	**82,282**
Impairment charge	(7,389)	(8,151)	(11,714)	(12,267)	(5,843)
Operating expenditure	(50,627)	(49,659)	(50,611)	(52,980)	(66,950)
Net profit before tax	**10,748**	**11,016**	**6,000**	**8,105**	**9,489**
Tax	(1,743)	(724)	(838)	(85)	(271)
Net profit after tax	**9,005**	**10,293**	**5,162**	**8,020**	**9,218**
Other comprehensive income/(loss)	(836)	2,285	(12,477)	8,755	(3,253)
Total comprehensive income	**8,169**	**12,578**	**(7,315)**	**16,775**	**5,965**
Statement of Financial Position Analysis					
Subscribed capital	57,154	57,154	57,154	57,154	57,154
Reserves (incl. net income for the year)	27,561	38,411	28,506	44,489	40,646
Hybrid capital (incl. eligible portion of subordinated term debt)	4,564	4,564	13,128	13,068	42,971
Total capital and reserves	**89,279**	**100,129**	**98,788**	**114,711**	**140,771**
Bank borrowings (incl. deposits, placements & REPOs)	-	-	23,769	11,048	-
Deposits	278,183	586,010	580,330	448,413	487,639
Other borrowings	10,251	10,251	24,458	24,458	43,638
Short-term funding (< 1 year)	**288,434**	**596,261**	**628,557**	**483,919**	**531,277**
Deposits	377,761	4,879	4,404	236,421	272,969
Other borrowings	35,120	50,035	60,246	188,389	119,526
Long-term funding (> 1 year)	**412,881**	**54,914**	**64,650**	**424,810**	**392,495**
Payables/Deferred liabilities	27,127	45,082	32,636	33,558	26,231
Other liabilities	**27,127**	**45,082**	**32,636**	**33,558**	**26,231**
Total capital and liabilities	**817,721**	**796,386**	**824,631**	**1,056,998**	**1,090,774**
Balances with central bank	133,321	84,410	94,482	73,984	93,453
Property, plant and equipments	13,952	15,258	14,604	16,451	16,942
Derivative financial assets	-	-	8	-	-
Receivables/Deferred assets (incl. zero rate loans)	100,680	91,212	117,548	172,992	54,908
Non-earnings assets	**247,953**	**190,881**	**226,642**	**263,427**	**165,303**
Short-term deposits & cash	10,778	16,232	11,780	15,404	20,772
Loans & advances (net of provisions)	371,246	338,726	468,250	598,073	621,017
Bank placements	91,173	81,015	23,327	69,105	34,855
Marketable/Trading securities	1,949	4,693	1,653	6,883	121,730
Equity investments	94,621	164,839	92,979	104,106	127,097
Total earning assets	**569,767**	**605,505**	**597,989**	**793,571**	**925,471**
Total assets†	**817,721**	**796,386**	**824,631**	**1,056,998**	**1,090,774**
Contingencies	**203,843**	**166,245**	**111,260**	**131,106**	**130,347**
Ratio Analysis (%)					
Capitalisation					
Internal capital generation	9.6	13.2	n.a.	16.5	6.1
Total capital / Net advances + net equity invest. + guarantees	13.3	14.9	14.7	13.8	16.0
Total capital / Total assets	10.9	12.6	12.0	10.9	12.9
Liquidity ‡					
Net advances / Deposits + other short-term funding	55.7	56.3	74.0	83.0	77.2
Net advances / Total funding (excl. equity portion)	52.9	52.0	67.5	65.8	67.2
Liquid & trading assets / Total assets	12.7	12.8	4.5	8.6	16.3
Liquid & trading assets / Total short-term funding	36.0	17.1	5.8	18.9	33.4
Liquid & trading assets / Total funding (excl. equity portion)	14.8	15.7	5.3	10.1	19.2
Asset quality					
Impaired loans / Gross advances	3.1	4.8	9.9	6.2	8.7
Total loan loss reserves / Gross advances	2.5	4.4	1.8	4.3	2.9
Bad debt charge (income statement) / Gross advances (avg.)	2.1	2.2	2.9	2.3	0.9
Bad debt charge (income statement) / Total operating income	10.7	11.8	17.1	16.7	7.1
Profitability					
Net income / Total capital (avg.)	10.4	13.3	n.a.	15.7	4.7
Net income / Total assets (avg.)	1.1	1.6	n.a.	1.8	0.6
Net interest margin	9.7	8.7	11.9	8.4	7.4
Interest income + com. fees / Earning assets + guarantees (a/avg.)	5.7	5.2	8.0	6.2	5.7
Non-interest income / Total operating income	37.4	42.5	18.1	31.6	32.8
Non-interest income / Total operating expenses (or burden ratio)	50.9	59.0	24.4	43.7	40.3
Cost ratio	73.6	72.2	74.1	72.2	81.4
OEaA (or overhead ratio)	6.7	6.2	6.2	5.6	6.2
ROaE$^{\beta}$	12.2	11.4	5.7	8.6	9.2
ROaA	1.2	1.3	0.6	0.9	0.9
Nominal growth indicators					
Total assets	17.4	(2.6)	3.5	28.2	3.2
Net advances	15.4	(8.8)	38.2	27.7	3.8
Shareholders funds	33.5	12.8	(10.4)	18.7	(3.8)
Total capital and reserves	31.3	12.2	(1.3)	16.1	22.7
Deposits (wholesale)	15.0	(9.9)	(1.0)	15.9	11.1
Total funding (excl. equity portion)	15.1	(7.1)	6.5	31.1	1.7
Net income	4.3	54.0	(158.2)	n.a	(64.4)

† Excludes balances held in respect of letter of credit.

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

β Note that the timing of the injected capital in 2014 was not adjusted for in the ROaE calculation.

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 2018 (plus four years of comparative numbers), latest internal and/or external report to management, full year budgeted financial statements for 2019, most recent year-to-date management accounts to 31 March 2019, reserving methodologies and capital management policies. In addition, information specific to the rated entity and/or industry was also received.