

## CREDIT OPINION

15 July 2021

Update

✓ Rate this Research

### RATINGS

#### Sterling Bank Plc

Domicile	Lagos, Nigeria
Long Term CRR	B2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	B2
Type	LT Bank Deposits - Fgn Curr
Outlook	Negative

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## Sterling Bank Plc

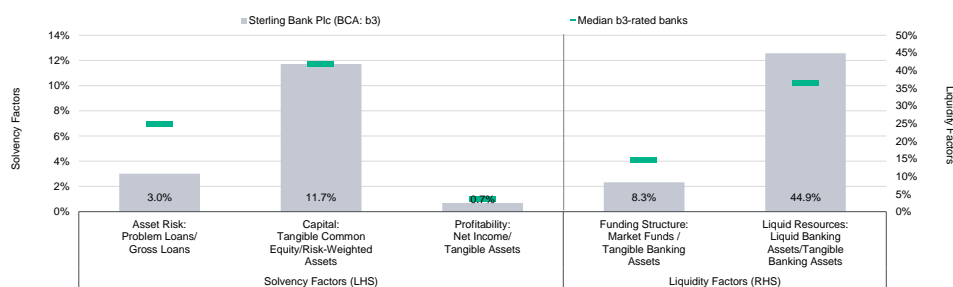
Update post Q1 2020 results

### Summary

[Sterling Bank Plc's](#) (Sterling) B2 deposit rating incorporates a one-notch uplift from the bank's b3 Baseline Credit Assessment (BCA). This uplift is based on our assessment of high probability of support from the [Government of Nigeria](#) (B2 negative) in case of need.

Sterling's b3 BCA reflects its stable deposit-based funding, modest capitalisation (relative to local peers) and high local currency liquidity. However, these strengths are moderated by the challenging operating environment in Nigeria, combined with the bank's high credit concentrations and foreign currency loans, modest profitability and relatively low foreign currency liquidity.

Exhibit 1  
Rating Scorecard - Key Financial Ratios as of end March 2021



These are our [Banks Methodology](#) scorecard ratios. Asset risk and profitability reflect the weaker of the three-year average and the latest annual figure. Capital is the latest reported figure. Funding structure and liquid resources reflect the latest fiscal year-end figures.

Source: Moody's Financial Metrics™

## Credit strengths

- » Solid deposit-based funding and high local-currency liquidity
- » Modest profitability
- » High probability of government support in case need

## Credit challenges

- » Challenging operating environment in Nigeria, combined with the bank's high credit concentrations and foreign-currency loans, pose risk to asset quality
- » Modest profitability
- » Relatively low foreign-currency liquidity

## Outlook

The negative outlook reflects the negative outlook the sovereign rating (which signals potential weakening in the Nigerian government's credit strength, to which Nigerian banks are exposed) and the potential weakening in the credit profile of local banks amid a challenging environment.

## Factors that could lead to an upgrade

Upwards pressure on the long-term deposit rating of Sterling is limited given the negative outlook.

## Factors that could lead to a downgrade

Downwards pressure on the long-term ratings of Sterling could result from a deterioration in the creditworthiness of Nigeria (as would be indicated by a downgrade of the sovereign rating) or a material deterioration in operating environment.

## Key indicators

Exhibit 3

### Sterling Bank Plc (Consolidated Financials) [1]

	03-21 <sup>2</sup>	12-20 <sup>2</sup>	12-19 <sup>2</sup>	12-18 <sup>2</sup>	12-17 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (NGN Million)	1,393,461.0	1,299,075.0	1,182,685.0	1,102,921.0	1,072,201.0	8.4 <sup>4</sup>
Total Assets (USD Million)	3,402.8	3,290.9	3,258.8	3,034.2	2,978.3	4.2 <sup>4</sup>
Tangible Common Equity (NGN Million)	124,285.0	121,796.0	111,067.0	100,548.0	102,098.0	6.2 <sup>4</sup>
Tangible Common Equity (USD Million)	303.5	308.5	306.0	276.6	283.6	2.1 <sup>4</sup>
Problem Loans / Gross Loans (%)	1.9	1.9	2.2	6.1	6.1	3.6 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	--	11.7	11.2	10.4	10.9	11.1 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	8.6	8.3	11.2	32.7	30.9	18.4 <sup>5</sup>
Net Interest Margin (%)	4.5	5.2	5.9	5.3	5.4	5.3 <sup>5</sup>
PPI / Average RWA (%)	--	1.9	1.6	1.4	1.8	1.7 <sup>6</sup>
Net Income / Tangible Assets (%)	0.7	0.9	0.9	0.8	0.7	0.8 <sup>5</sup>
Cost / Income Ratio (%)	80.8	77.4	82.2	82.0	76.7	79.8 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	10.1	8.3	7.0	14.8	20.9	12.2 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	45.1	44.9	40.8	37.2	26.5	38.9 <sup>5</sup>
Gross Loans / Due to Customers (%)	61.6	62.8	69.6	82.9	90.2	73.4 <sup>5</sup>

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel II; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel II periods.

Sources: Moody's Investors Service and company filings

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Profile

Sterling Bank Plc (Sterling) is a full-service Nigerian commercial bank based in Lagos. It provides commercial, retail and corporate banking services to the government, individuals, businesses, institutions and non-profit organisations. As of September 2020, it held a market share of around 3% in terms of total assets.

As of March 2021, Sterling distributed its products and services through a network of 157 business offices and reported total consolidated assets of NGN1,393 billion (about \$3.4 billion).

Sterling was established in 1960 as a private liability company, NAL Bank Plc. As part of consolidation reforms introduced by the Central Bank of Nigeria in 2004, NAL Bank Plc merged with Indo-Nigeria Merchant Bank, Magnum Trust Bank, NBM Bank Limited and Trust Bank of Africa Limited in 2006 to form Sterling Bank Plc. In 2011, Sterling Bank has acquired Equitorial Trust Bank, which helped enhance franchise and market share. Sterling's shares are listed on the Nigerian Stock Exchange. As of March 2021, the bank's largest shareholder was Silverlake Investment Limited, which owned 25% of its total capital.

For further information on the bank's profile, see [Sterling Bank Plc Key Facts and Statistics - FYE 2019](#).

## Detailed credit considerations

### Challenging operating environment in Nigeria, combined with the bank's high credit concentrations and foreign currency loans

We expect Sterling's asset quality, which has historically been relatively volatile, to face pressure from Nigeria's difficult environment. We expect Nigeria's economy to rebound this year, but output will remain anemic in the next 12-18 months, creating a challenging operating environment for banks. In addition, the lagged impact of the pandemic on borrowers and likely withdrawal of support measures put in place in 2020 to sustain financial stability will create further pressures for borrowers.

The bank's reported NPL ratio was stable at 1.9% (the lowest NPL ratio among the Nigerian banks we rate) as of March 2021 and as of December 2020, and declined from 2.2% of December 2019 and 8.7% as of December 2018. The bank's NPL ratio is significantly lower than the 6.0% average reported by the Nigerian banks as of December 2020.

Sterling's problem loans coverage (loan loss reserves to problem loans) steadily increased to 145% as of December 2020 (146% as of March 2021) from 93% as of December 2019 and 50% as of December 2018.

Along with its local peers, Sterling has restructured a substantial volume of its loans, and thus mitigated the impact of the coronavirus on its reported asset quality metrics. However, we still expect borrowers in the oil and gas, trade and commerce, and transportation sectors to be vulnerable. Sterling's oil and gas exposure remained elevated, but decreased to 33% as of December 2020 from 34% in 2019 and 43% in 2018. Sterling's oil and gas portfolio remains skewed toward the upstream and service segments, which are more sensitive to oil price volatilities.

Sterling exposure to foreign currency denominated loans also poses some risk to asset quality. This is because the portion of borrowers that earn their revenue in local currency would find it more difficult to meet their financial obligation in the event of a local currency depreciation. The bank's foreign-currency loans increased to 24% of total loans as of December 2020 from 22% as of December 2019. However, this compares favorably against the systemwide average of 35% as of September 2020.

### Organic capital generation capacity is impaired by low profitability

Sterling's reported total capital adequacy ratio was 18.0% as of December 2020, which is stronger than the 15.4% average for the Nigerian banking system<sup>1</sup>. The Moody's-adjusted TCE ratio for Sterling was 11.7% as of December 2020, up 50 basis points from the 2019 level, constant of its global peers with b3 BCAs. The bank's shareholders' equity-to-total assets ratio was 10.4% as of March 2021.

Sterling's capital, as is the case with other Nigerian banks, remains vulnerable to exchange-rate volatility because of the bank's exposure to foreign-currency loans. As of December 2020, 24% of the bank's loan book was denominated in foreign currency, and a naira depreciation or devaluation would inflate the bank's RWA and suppress its capital ratios. The bank held a negative net position in foreign currency as of end of December 2020, which exacerbates pressure on the bank's capital metrics in the event of a further naira devaluation.

Sterling's profitability is weaker compared to its global peers. The reported bank's pre-provision income-to-average total assets ratio was 1.5% in the first three months of 2021 remained on a similar level of 1.04% year-on-year, but lower than its global peers' average of 2.0%. Sterling's cost of deposits tends to be higher (although it has been improving), which suppresses its net interest margin, while its elevated credit costs further strain its net profitability. However, the bank is growing its non-interest income which contributed about 26% of its total revenue in the first three months of 2021.

Sterling's efficiency is weak, with a reported cost-to-income ratio of 78.7% in the first three months of 2021. The relatively high cost base is partly explained by the bank's continued investment in its branch network, digital platforms and various retail products. We expect the bank's cost-to-income ratio to remain high this year because the continued challenging operating environment and lower interest income from government securities will harm revenue growth. Sterling's net income-to-tangible assets ratio was 0.7% in the first three months of 2021, and this is relatively low return on assets constrains the bank's ability to grow its capital organically.

### **Solid deposit-based funding profile and good local-currency liquidity buffers, moderated by relatively low foreign-currency liquidity**

Sterling is predominantly deposit funded with a moderate reliance on confidence-sensitive market funds. As of March 2021, customer deposits constituted 84% of the bank's non-equity funding. However, similar to most Nigerian banks, a large amount of Sterling's deposits are sourced from corporates and institutions instead of individuals. We view corporate deposits as more volatile and confidence-sensitive. That said, Sterling holds a large amount of liquid assets, especially in local currency, with a liquid banking assets-to-tangible banking assets ratio of 45% as of March 2021.

Similar to other medium-sized Nigerian banks, Sterling's foreign currency funding was negatively pressured by the 2015-16 oil price slump. However, Sterling's foreign-currency funding improved significantly in 2019. As of December 2020, Sterling's ratio of dollar loans to dollar deposits was 76%, declined from 74% as of December 2019, although it has material improvement from 97% as of December 2018. Sterling's liquid foreign-currency assets-to-total foreign-currency assets ratio was 20% as of December 2020 compared to 25% as of December 2019. Nevertheless, given the current challenging operating environment in Nigeria, we expect foreign currency liquidity in Nigeria to remain tight, harming banks' businesses generation capacity, including Sterling.

### **Environmental, social and governance considerations**

In line with our general view on the banking sector, Sterling has a low exposure to **environmental risks**. However, Sterling's high exposure to the oil and gas industry is an environmental risk that requires monitoring, particularly as Nigeria's transition to a low-carbon economy accelerates. See our [environmental risk heat map](#) for further information.

We believe banks face moderate **social risks**. See our [Social risk heat map](#) for further information. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which are mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct are further social risks. Social trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services, increasing information technology costs or socially driven policy agendas that may translate into regulations that affect banks' revenue base. We also regard the coronavirus pandemic as a social risk under our ESG framework, given the substantial implications for public health and safety.

**Governance** is highly relevant for Sterling. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven, and for Sterling, we do not highlight any particular governance issue. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

### **Support and structural considerations**

#### **Government support**

The bank's local-currency deposit rating of B2 with a negative outlook incorporates one notch of rating uplift from its b3 BCA, based on our assessment of a high probability of the bank receiving government support in times of financial stress. The Nigerian government demonstrated a strong willingness to support banks in the last crisis through recapitalisations and balance-sheet cleanups via outright purchases of NPLs by the Asset Management Corporation of Nigeria. Furthermore, Nigerian regulatory authorities do not currently have bail-in powers that allow them to impose losses on creditors outside of a liquidation process.

### Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than the likelihood of default and the expected financial loss suffered in the event of default, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

#### **Sterling's CR Assessment is positioned at B2(cr)/NP(cr)**

Sterling's CR Assessment is one notch higher than its b3 BCA because senior obligations, represented by the CR Assessment, will likely be preserved to limit contagion, minimise losses and avoid a disruption of critical functions.

### Counterparty Risk Ratings (CRRs)

CRRs are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions

#### **Sterling's CRRs are positioned at B2/NP**

We consider Nigeria a jurisdiction with a non-operational resolution regime (non-ORR). For non-ORR countries, the starting point for the CRR is one notch above the bank's Adjusted BCA, which is b3 for Sterling. The CRR does not benefit from any government support uplift as it is already at the same level as the government rating.

### National scale rating (NSR)

Sterling's national scale ratings (NSRs) of A2.ng/NG-1 for local-currency deposits and A2.ng/NG-1 for foreign-currency deposits are generated from the bank's global scale ratings through maps specific to each country. NSRs are not intended to rank credits across multiple countries; instead, they provide a measure of relative creditworthiness within a single country (Nigeria in the case of Sterling). Our NSRs are given a two-letter suffix to distinguish them from the global scale ratings. For example, NSRs in Nigeria have the country abbreviation "ng."

Sterling's NSRs capture the bank's predominantly deposit-funded base and improvements in the bank's IT infrastructure and risk management processes. These strengths are balanced by vulnerabilities in asset quality because of high single-name and sector concentration risks and relatively modest capital levels.

## Sources of facts and figures in this report

Unless noted otherwise, we have sourced data relating to systemwide trends and market shares from the central bank. Bank-specific figures originate from banks' reports and Moody's Banking Financial Metrics. All figures are based on our own chart of account and may be adjusted for analytical purposes. Please refer to the document [Financial Statement Adjustments in the Analysis of Financial Institutions](#), published on 9 August 2018.

## Methodology and scorecard

### About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (although it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in Rating Committees and may be adjusted up or down to reflect conditions specific to each rated entity.

## Rating methodology and scorecard factors

Exhibit 4

### Sterling Bank Plc

Macro Factors							
Weighted Macro Profile	Very Weak +	100%					
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	3.0%	b3	↔	caa1	Sector concentration	Single name concentration	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel II)	11.7%	b3	↔	b3			
Profitability							
Net Income / Tangible Assets	0.7%	caa1	↔	caa1	Expected trend		
Combined Solvency Score		b3		caa1			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	8.3%	b2	↔	b2	Extent of market funding reliance		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	44.9%	b1	↔	b1	Stock of liquid assets		
Combined Liquidity Score		b2		b2			
Financial Profile				b3			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				B2			
BCA Scorecard-indicated Outcome - Range				b2 - caa1			
Assigned BCA				b3			
Affiliate Support notching				0			
Adjusted BCA				b3			
Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating	
Counterparty Risk Rating	1	0	b2	0	B2	B2	

Counterparty Risk Assessment	1	0	b2 (cr)	0	B2(cr)	
Deposits	0	0	b3	1	B2	B2
Senior unsecured bank debt	0	0	b3	1	B2	B2

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

## Ratings

Exhibit 5

Category	Moody's Rating
<b>STERLING BANK PLC</b>	
Outlook	Negative
Counterparty Risk Rating	B2/NP
Bank Deposits	B2/NP
Baseline Credit Assessment	b3
Adjusted Baseline Credit Assessment	b3
Counterparty Risk Assessment	B2(cr)/NP(cr)
Issuer Rating	B2
ST Issuer Rating	NP

Source: Moody's Investors Service

## Endnotes

<sup>1</sup> As of September 2020, International Monetary Fund.



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