Credit Rating Announcement

GCR Affirms Sterling Bank Plc's National Scale Long-term Issuer Rating of $BBB_{(NG)}$; Outlook Revised to Stable.

Rating action

Lagos, 09 July 2021 – GCR Ratings ("GCR") has affirmed Sterling Bank Plc's national scale long-term and short-term issuer ratings of $BBB_{(NG)}$ and $A3_{(NG)}$ respectively; with the Outlook revised to Stable from Negative.

Rated Entity	Rating class	Rating scale	Rating	Outlook/Watch
Sterling Bank Plc	Long Term issuer	National	$BBB_{(NG)}$	Stable Outlook
	Short Term issuer	National	$A3_{(NG)}$	

Rating rationale

The ratings assigned to Sterling Bank Plc ("Sterling" or "the bank") reflects its good business profile, sound risk position, stable funding and liquidity, albeit counterbalanced by the relatively moderate capitalisation and high loan book concentrations.

Sterling's competitive position is supported by its strong track record, having maintained positive earnings trajectory over the review period (FY16-FY20). The bank operates a national banking license and delivers banking services to a broad client base comprising retail, corporate, and institutional customers through a network of 157 branches and digital channels. Sterling is a mid-sized bank and categorised as a tier-2 bank in the Nigerian banking industry, with a modest market share of 3.4% and 2.6% measured by customer deposits and total assets respectively as at FY20. Management & Governance is a neutral ratings factor.

Capitalisation is negative to the ratings. Although the bank has a capital adequacy ratio (CAR) above the 10% regulatory threshold (18.0% in FY20 vs. 14.7% in FY19), GCR computed capital ratio registered within the low band at 14.9% in FY20 (FY19: 13.9%) and is forecast to remain within the 13%-14% range over the rating horizon, barring any injection of additional tier 1 capital or significant improvement in internal capital generation.

Sterling's risk position is positive to the ratings. This is underpinned by the bank's low non-performing loan ("NPL") ratio of 1.9% as at FY20 (FY19: 2.2%), significantly below the regulatory tolerable limit of 5%, and broadly compares favourably with the industry average of c.6% at FY20. Similarly, credit losses registered at 1.3% at FY20 (FY19: 0.9%), relative to the industry average of about 3% at FY20. Over the next 12-18 months, GCR expects the bank's NPL ratio and credit losses to remain within a similar range. FCY loans, at 23.7% of the loan portfolio in FY20 (FY19: 22.9%), also ranks favourably to the industry average of 35%. Conversely, the bank evidenced loan book concentration, with the twenty largest obligors accounting for 58.3% of the loan portfolio as at FY20. GCR also takes cognisance of the fact that the single largest obligor constituted 24% of shareholders' funds at FY20, breaching the regulatory threshold of 20%, but balanced against management's assurance of ongoing efforts at normalising the ratio. Positively, market sensitive income (trading gains) constituted a relatively moderate 13.4% of total operating revenues as at FY20 (FY19: 6.0%), underscoring the bank's minimal exposure to market risk.

Funding and liquidity is assessed at the intermediate level, reflecting satisfactory liquid asset coverage of the funding base. The funding structure is broadly comparable with peers, as customer deposits comprised 84.4% of the funding base as at FY20 (FY19: 87.7%). The deposit book is relatively diversified, with the single and top twenty largest depositors contributing 5.1% and 19.3% to total deposits respectively as at FY20. As of 31 December 2020, the GCR liquid asset coverage of total wholesale funding and customer deposits stood at 2.8x and 35% respectively, reflecting the bank's moderately positive liquidity level.

Outlook statement

The stable outlook reflects GCR's opinion that Sterling will maintain a good financial profile amidst the challenging operating environment. We expect the bank's asset quality metrics (NPL and credit losses) to be maintained at current levels. Also, the anticipated growth in risk-weighted assets is expected to be balanced by strong internal capital generation, mitigating downward pressure on the bank's capitalisation over the rating horizon.

Rating triggers

The ratings could be upgraded if GCR core capital improves and is maintained at the intermediate range of 15%-25% on a sustainable basis, alongside a material improvement in earnings. Also, we would expect an improvement in loan book concentration, as well as regularisation of the largest exposure to comply with the regulatory single obligor limit of 20%. A downward review of the ratings could be made following a deterioration in the Bank's capitalisation and risk position.

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Related criteria and research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Financial Institutions, May 2019
GCR Ratings Scales, Symbols & Definitions, May 2019
GCR Country Risk Scores, February 2021
GCR Financial Institutions Sector Risk Score, February 2021

Ratings history

Sterling Bank Plc

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term issuer	Initial	National	BBB(NG)	Stable Outlook	July 2019
Short Term issuer	Initial	National	A3(NG)		July 2019
Long Term issuer	Last	National	BBB(NG)	Negative Outlook	July 2020
Short Term issuer	Last	National	A3(NG)		July 2020

Risk score summary

Rating Components & Factors	Risk Scores
Operating environment	**7.25**
Country risk score	3.75
Sector risk score	3.50
Business profile	**0.25**
Competitive position	0.25
Management and governance	0.00
Financial profile	**(1.00)**
Capital and Leverage	(2.00)
Risk	1.00
Funding and Liquidity	0.00
Comparative profile	**0.00**
Group support	0.00
Government support	0.00

Peer analysis	0.00
Total Score	**6.50**

Glossary

Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Capital	The sum of money that is invested to generate proceeds.
Cash	Funds that can be readily spent or used to meet current obligations.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Income	Money received, especially on a regular basis, for work or through investments.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.
Short Term	Current; ordinarily less than one year.

SALIENT POINTS OF ACCORDED RATING

GCR affirms that a.) no part of the rating process 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; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit ratings have been disclosed to Sterling Bank Plc. The rating above was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

Sterling Bank Plc participated in the rating process via video conference management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The information received from Sterling Bank Plc and other reliable third parties to accord the credit ratings included:

- The audited financial results to 31 December 2020
- Four years of comparative audited numbers
- Other related documents.