



STERLING BANK PLC



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July, 2021

STERLING BANK PLC

This report is provided by **DataPro** subject to the terms & condition stipulated in our **Terms of Engagement**

CORPORATE RATING REPORT

References

Abiodun Adeseyoju, *FCA*.
Abimbola Adeseyoju
Oladele Adeoye

EVALUATION

VALID TILL: July, 2022

SUMMARY

• Rating:
BBB⁺

• Report Type:
Corporate
Rating

• Client:
Sterling Bank
Plc

• Date
Compiled
13-Jul-2021

DataPro Rating:	BBB ⁺
Short term Rating	A2
Previous Rating:	BBB ⁺
Rating Outlook:	Stable
Trend:	UP
Currency:	Naira

EXECUTIVE SUMMARY

	2020 N'M	2019 N'M	2018 N'M	2017 N'M	2016 N'M
Gross Earnings	136,475	147,439	147,791	133,022	111,238
Profit Before Tax	12,240	10,233	9,739	8,039	6,019
Shareholders' Funds	135,390	119,328	98,009	101,599	85,681
Deposit Liabs	950,835	892,660	760,608	684,834	584,734
Loans & Advances	596,827	618,732	621,017	598,073	468,250
Total Assets	1,281,830	1,165,509	1,085,876	1,068,798	830,805

RATING EXPLANATION

The Short Term Rating of **A2** indicates **Fair Credit Quality** and adequate capacity for timely payment of financial commitments.

The Long Term Rating of **BBB⁺** indicates **Slight Risk**. It shows fair financial strength, operating performance and business profile when compared to the standard established by **DataPro**. This Bank, in our opinion, has a very strong ability to meet its ongoing obligations, but its financial strength is vulnerable to adverse changes in economic conditions.

This report does not represent an offer to trade in securities. It is a reference source and not a substitute for your own judgment. As far as we are aware, this report is based on reliable data and information, but we have not verified this or obtained an independent verification to this effect. We provide no guarantee with respect to accuracy or completeness of the data relied upon, and therefore the conclusions derived from the data. This report has been prepared at the request of, and for the purpose of, our client only and neither we nor any of our employees accept any responsibility on any ground whatsoever, including liability in negligence, to any other person. Finally, DataPro and its employees accept no liability whatsoever for any direct or consequential loss of any kind arising from the use of this document in any way whatsoever.

RATING SYNOPSIS

The Rating took into consideration all relevant qualitative and quantitative factors to arrive at the assigned risk indicator.

The qualitative information used was based on industry and market intelligence including public information.

The quantitative information was obtained from the Bank's Audited and Management Accounts.

The Risk factors were assessed using the Bank's Capitalization, Earnings Profile, Liquidity, Corporate Governance, Regulatory Compliance and Sustainability of subject's current healthy profile in the medium to long term period.

Overall, the following were observed:

Strengths:

- Diversified Revenue Base
- Strong Brand
- Good Liquidity Profile

Weaknesses:

- Concentration Risk
- High Cost to Income Ratio

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BACKGROUND

Sterling Bank ("The Bank") currently operates under the National Commercial Banking license obtained during the 2011 Financial Year. The Bank began operation in Nigeria in the year 1960 and converted to a Public Company in April, 1992.

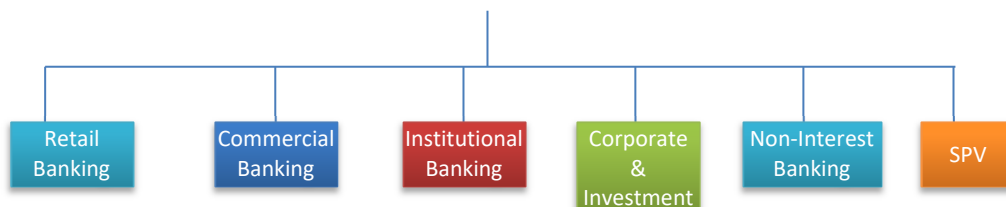
Over the years, the Bank has grown its operation by playing actively in the retail end of the banking industry. This began with the acquisition of **Equitorial Trust Bank** in the year 2011 in addition to the launching of Agent Banking. The Bank also obtained a Non-Interest Banking license in the year 2013.

A major thrust of the Bank's retail banking strategy is technology. Therefore, the Bank has several digital platforms to reach its target market. These digital platforms include: **SpectaBasic & Xtreme, AltMall, I-Invest, Imperium, GoMoney, Chat Pay, FarePay, SABEX, Switch** and **SocialPay**

The Bank is strategically focusing on Health, Education, Agriculture, Renewable Energy and Transport sectors of Nigerian economy as its primary target market. This is codified as the **"HEART"**. The secondary target market of the Bank include: Manufacturing, Real Estate, Wholesale & Trading, Power, Public Sector, Mining, Telecommunications & Oil & Gas.

Structurally, the Bank's business is divided into six (6) segments. These are Corporate and Investment Banking, Commercial Banking, Institutional Banking, Retail and Consumer Banking, Non-Interest Banking, Sterling Investment Management.

OPERATING SEGMENTS



Source: Sterling Bank Audited Accounts

The Bank renders services to its over 3 million customers through 157 branches, 10,667 POS, 689 ATM, 1.5m USSD users and 2,367 staff.

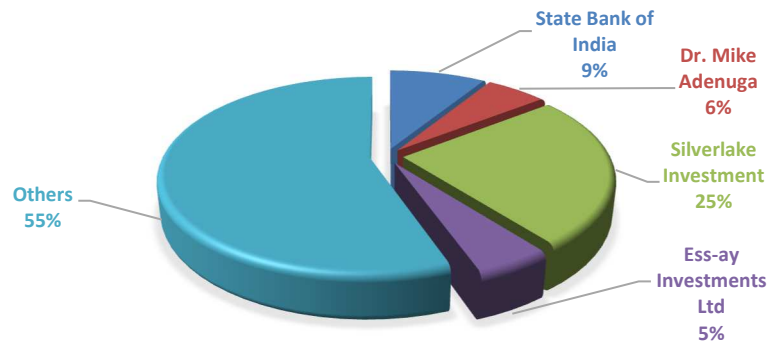
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As at 31st December 2020, the Bank was owned by a total number of 87,929 shareholders.

The shareholding structure is as presented.

ANALYSIS OF SHAREHOLDERS' FUNDS



Source: Sterling Bank Audited Accounts

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KEY FINANCIAL INDICATORS

Item Year	Gross Earning ₦'M	PBT ₦'M	Equity ₦'M	Deposit Liabs ₦'M	Loan & Advances ₦'M	Total Assets ₦'M
2020	136,475	12,240	135,390	950,835	596,827	1,281,830
2019	147,439	10,233	119,328	892,660	618,732	1,165,509
2018	147,791	9,739	98,009	760,608	621,017	1,085,876
2017	133,022	8,039	101,599	684,834	598,073	1,068,798
2016	111,238	6,019	85,681	584,734	468,250	830,805

Source: Sterling Bank Audited Accounts

Sterling Bank Plc benefited from its investments in digitization during the year 2020. Despite the challenges posed to economic activities by the COVID-19 Pandemic in the year 2020, the Bank was able to grow deposit liabilities and control its operating expenses considerably.

Consequently, its key financial indicators such as: Total Assets, Equity and Pre-Tax Profit went up by 10%, 13% and 20% respectively. However, Loans and Advances declined by 4% (Yr. 20) while Gross Earning equally reduced by 7% (Yr. 20).

DIRECTORS PROFILE

The Bank benefited from its stable management team. There were minor changes to the Board during the year under review. The Board comprises of individuals with considerable experience in banking and other related business.

The following served on the Board during the year 2020; *Mr. Asue Ighodalo- Chairman, Mr. Abubakar Suleiman - Managing Director, Dr. (Mrs) Omolara Akanji, Mr. Olaitan Kajero, Mrs. Tairat Tijani, Mr. Michael Jituboh, Mrs. Folasade Kilaso, Mr. Michael Ajukwu, Mr. Ankala Prasad, Mr. Paritosh Tripathi, Mr. Yemi Odubiyi, Mr. Raheem Owodeyi, Mr. Emmanuel Emefienim, Mr. Tunde Adeola*

The profile of the bank directors are as stated below:

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1. **Name:** Mr. Asue Ighodalo
Position: Chairman
Education:
 - B.Sc - University of Ibadan, 1981
 - LL.B - London School of Economics, 1984
 - B.L - Nigerian Law School, 1985**Experience:** Partner, Banwo & Ighodalo
Experience (Years): 30 years
Appointment Year: July 2014

2. **Name:** Dr. (Mrs) Omolara Akanji
Position: Non- Executive Director
Education:
 - University of Ibadan
 - University of Reading
 - University of Kent
 - European-American University
 - Harvard Kennedy School (HKS) of Monetary Policy and Management**Experience:**
 - Central Bank of Nigeria (CBN)
 - Petroleum Revenue Special Task Force**Experience (Years):** 43 years
Appointment Year: February 2014

3. **Name:** Mr. Olaitan Kajero
Position: Non-Executive Director
Education:
 - University of Lagos

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Experience:

- Olabisi Onabanjo University
- Chartered Institute of Bankers of Nigeria
- Communication Associates of Nigeria Ltd
- Aircom Nigeria Limited
- STB Building Society Limited

Experience (Years): 24 years

Appointment Year: August 2014

4. Name: Mrs. Tairat Tijani

Position: Non-Executive Director

Education:

- Lancaster University
- University of Birmingham
- Association of Chartered Certified Accountants (ACCA)
- Institute of Chartered Secretaries & Administrators of Nigeria
- Financial Times Diploma for Non-Executive Directors, 2016
- Wharton School

Experience: • FBN Capital

Appointment Year: November 2014

5. Name: Mr. Michael Jituboh

Position: Non-Executive Director

Education:

- Federal City College (University of Washington DC)
- Stanford University
- Harvard Business School

Experience:

- African Development Bank
- Devcom Bank
- Equitorial Trust Bank
- Globalcom Limited.

Appointment Year: December 2015

6. Name: Mrs. Folasade Kilaso

Position: Non-Executive Director

Education:

- University of Kent
- LLM, University of Cambridge

Experience:

- Clifford Chance, UK
- Member, Board of FITC, NIBBS, CIBN & CBN
- Berkeley Legal
- Standard Chartered Bank Nigeria

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• Sterling Bank
Appointment Year: June 2018

- 7. Name:** Mr. Michael Ajukwu
Position: Non-Executive Director
Education:
 - University of Lagos
 - New York University**Experience:**
 - United Bank for Africa Plc
 - Intafact Beverages Ltd.
 - MTN Nigeria Communications Plc
 - Mobax Nigeria Ltd.
 - Tiger Brands SA
 - Sterling Bank**Appointment Year:** June 2018

- 8. Name:** Mr. Ankala Prasad
Position: Non-Executive Director
Education:
 - B. Sc -Nagarjuna University, India
 - M. Sc -Nagarjuna University, India
 - MBA - University of Mumbai, India**Experience:**
 - State Bank of India
 - Sterling Bank**Appointment Year:** November, 2020

- 9. Name:** Mr. Paritosh Tripathi
Position: Non-Executive Director
Education:
 - BA -University of Lucknow
 - MBA-University of Lucknow**Experience:**
 - State Bank of India
 - Sterling Bank**Experience (Years):** 30 years
Appointment Year: November, 2020

- 10. Name:** Mr. Abubakar Suleiman
Position: Managing Director/Chief Executive Officer
Education:
 - University of Abuja
 - University of Oxford
 - Wharton School
 - INSEAD Business School
 - Harvard Business School

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Experience:

- Said Business School
- Arthur Anderson (now KPMG Nigeria)
- MBC International Bank (now First Bank)
- Citibank Nigeria
- Sterling Bank

Appointment Year: April 2014

11. Name: Mr. Yemi Odubiyi
Position: Executive Director
Education:

- University of Lagos, 1994
- University of Lagos, 1998
- London Business School
- Harvard Business School

Experience:

- Nigeria International Bank (now CitiBank)
- Trust Bank of Africa
- Sterling Bank

Experience (Years): 26 years
Appointment Year: February 2015

12. Name: Mr. Raheem Owodeyi
Position: Executive Director
Education:

- B. Sc- Obafemi Awolowo University
- Wharton School, Pennsylvania

Experience:

- Aso Savings and Loans Plc
- Access Bank Plc
- Citigroup Nigeria
- BDO Stoy Hayward LLP, UK
- Triumph Bank Plc

Experience (Years): 29 years
Appointment Year: April 2019

13. Name: Mr. Emmanuel Emefienim
Position: Executive Director
Education:

- B. Sc - University of Benin, 1989
- M Sc - University of Benin, 1995
- MBA - University of Benin, 1998
- Wharton Business School
- Harvard Business School

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- Experience:**
- Oceanic Bank Plc (now EcoBank Nigeria)
 - United Bank for Africa Plc
 - Savannah Bank Plc and FSB Int'l Bank Plc (now Fidelity Bank Plc)
 - Equitorial Trust Bank (ETB)
 - Sterling Bank

Experience (Years): 26 years

Appointment Year: February 2018

- 14. Name:** Mr. Tunde Adeola
- Position:** Executive Director
- Education:**
- B. A. Lagos State University, 1988
 - LL. B - University of Lagos, 1999
 - Wharton School Pennsylvania
- Experience:**
- Kakawa Discount House
 - Liberty Merchant Bank
 - Sterling Bank Plc
 - Trust Bank of Africa
- Experience (Years):** 30 years
- Appointment Year:** April 2019

CAPITAL ADEQUACY

Item	2020 N'M	2019 N'M	2018 N'M
Shareholders' Funds	135,390	119,328	98,009
Total Assets	1,281,830	1,165,509	1,085,876
Property, Plant & Equipment	15,956	18,476	16,942
Loans & Advances	596,827	618,732	621,017
Equity/Total Assets (%)	10.56	10.24	9.03
Equity/Loan & Adv. (%)	22.68	19.29	15.78
Fixed Assets/Equity (%)	11.79	15.48	17.29

Source: Sterling Bank Audited Accounts

The Bank transferred a total sum of ₦11.1b from profit earned during the year 2020 to its Retained Earnings.

This enhanced the growth of Shareholders' Funds by 13% in the year 2020. Equity balance as at the end of the year 2020 was ₦135.4b as against ₦119.3b (Yr. 19).

The Company also grew its Total Assets during the year under review by 10%. It moved from ₦1.2t (Yr. 19) to ₦1.3t (Yr. 20). This growth was largely influenced by the increase in Cash Balances from ₦156b (Yr. 19) to ₦303b. Other Assets such as Pledged Assets, Debt Instruments at Amortized Cost also contributed to the rise in the value of Total Assets. The following is a breakdown of the Company's Total Assets.

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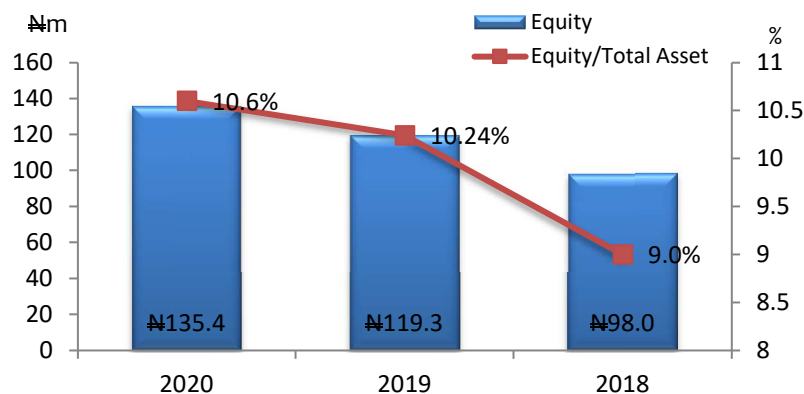
COMPONENT OF TOTAL ASSETS

Item	2020 N'M	%	2019 N'M	%
Liquid Assets	326,070	25	337,650	29
Net Loans & Advances	596,827	47	618,732	53
Property, Plant and Equipment	15,956	1	18,476	2
Other Assets	342,977	27	190,651	16
TOTAL ASSETS	1,281,830	100	1,165,509	100

Source: Sterling Bank Audited Accounts

The Bank's Total Asset exposure to risk was minimized during the year 2020. Net Loan and Advances as a proportion of Total Assets dropped from 53% (Yr. 19) to 46% (Yr. 20). Property, Plant & Equipment of the Bank declined by 14% from ₦18.5b (Yr. 19) to ₦16.0b (Yr. 20). However, it represented a little above 1% of the Total Assets during the year 2020.

COMPARISON OF SHAREHOLDERS' FUNDS (2018 – 2020)



Source: Sterling Bank Audited Accounts

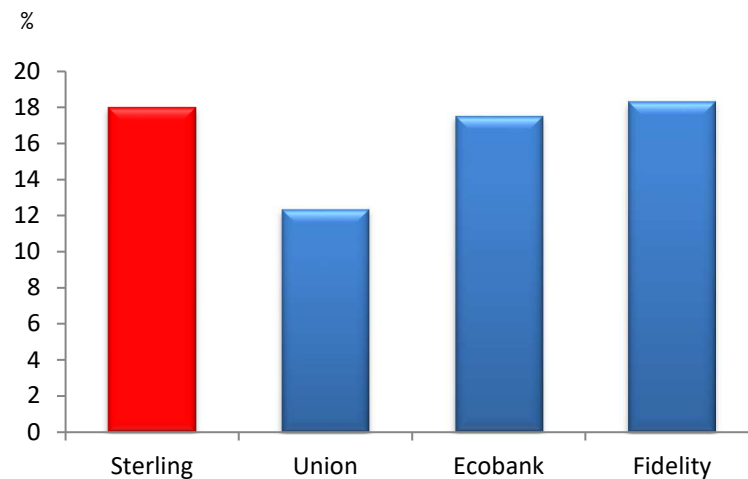
The proportion of Equity tied to Permanent Assets dropped from 15% (Yr. 19) to 12% (Yr. 20). However, Equity coverage for the riskiest assets improved during the year under review. It went up from 19% (Yr. 19) to 23% (Yr. 20).

The growth recorded in Equity outpaced the increase in Total Assets during the year under review. Consequently, Equity as a proportion of Total Asset grew marginally from 10% (Yr. 19) to 11% (Yr. 20). However, Regulatory Capital Adequacy Ratio grew significantly from 15% (Yr. 19) to 18% (Yr. 20). The Bank performance in this regard compared well with its peers during the year under consideration.

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STERLING BANK CAR PEER COMPARATIVES (2020)



Source: DataPro Limited

ASSET QUALITY

Item	2020 N'M	2019 N'M	2018 N'M
Gross Loan & Advances	613,359	631,698	640,678
Classified Loan	11,417	13,902	39,340
Provisions	16,532	12,966	19,661
Classified Loans Prov./Classified Loans (%)	144.80	93.27	49.98
Classified Loans/Equity (%)	8.43	11.65	40.14
Classified Loans/Gross Loans (%)	1.86	2.20	6.14

Source: Sterling Bank Audited Accounts

The Bank deliberately reduced its concentration risk in Oil & Gas sector by reallocating its Loan Portfolio to the Health, Education, Agriculture,

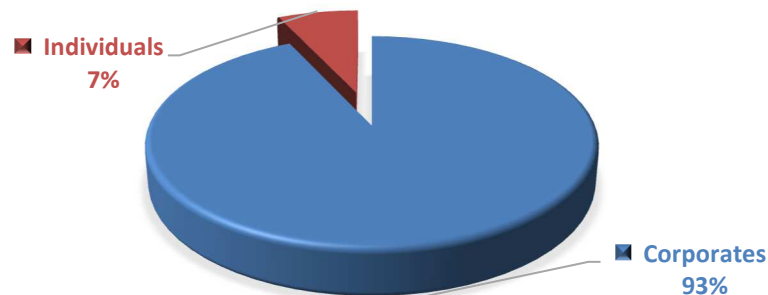
Renewable Energy and Transport (**HEART**) sectors. This led to 7% decrease in exposure to Oil & Gas sector in the year 2020. As a result of the COVID-19 Pandemic, Loans and Advances to individual also declined significantly in the same year.

On the whole, the Bank exposure to Corporate Entities and Individual went down by 2% and 13% respectively. These led to the decline of 3% in Gross Loan and Advances from ₦632b (Yr. 19) to ₦613b (Yr. 20)

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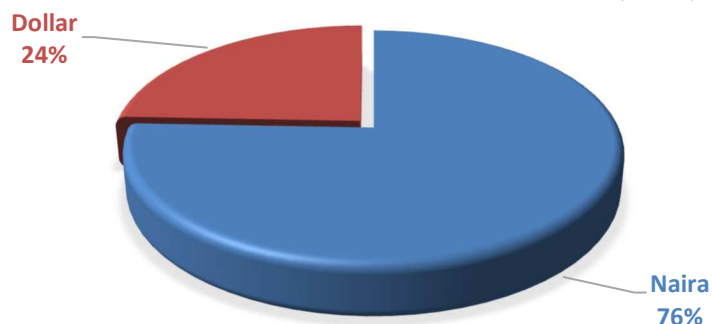
DISTRIBUTION OF LOAN PORTFOLIO (2020)



Source: Sterling Bank Audited Accounts

The major component of the Bank's exposure was Loans to Corporate Entities and Other Organisation. It represented 93% of the Loan book. The Bank's Loans & Advances were represented in **Naira** and **US Dollars**. The local currency element represented 76% of the Loan portfolio. The foreign component of the Loans & Advances amounted to ₦145b (Yr. 20) as against ₦135b (Yr. 19).

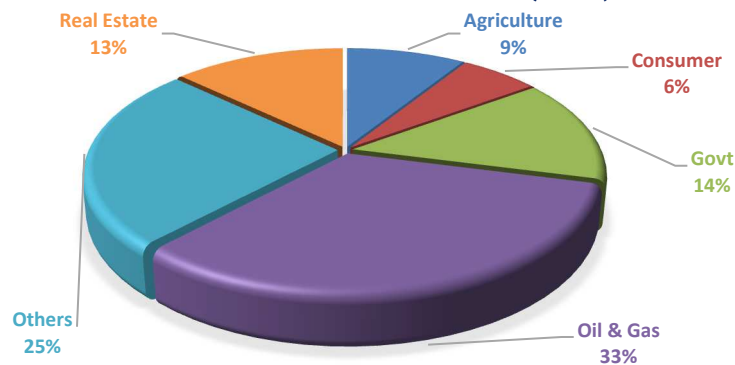
LOANS & ADVANCES BASED ON CURRENCY TYPE (2020)



Source: Sterling Bank Audited Accounts

The Bank's Loans & Advances was distributed among 14 sectors as presented.

COMPOSITION OF LOAN PORTFOLIO (2020)

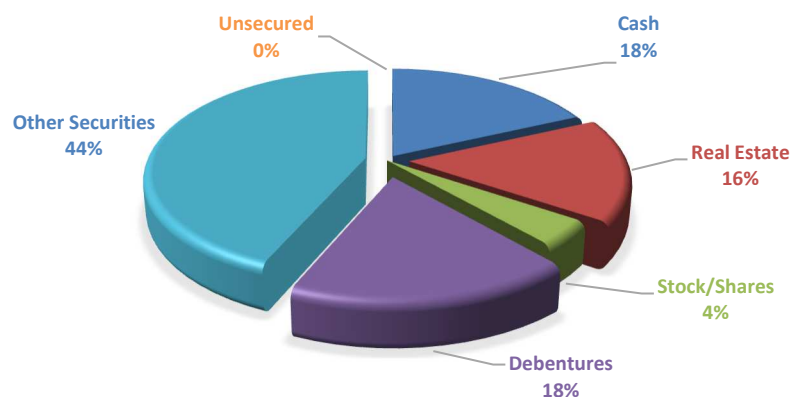


Source: Sterling Bank Audited Accounts

Oil & Gas accounted for 33% of the Loan book in the year 2020. Other significant sectors in terms of Loans concentration were Government (14%) and Real Estate (13%). Aside these, no other sector got more than 5% of the entire portfolio.

The Bank secured its Loans & Advances against Cash, Real estate, Stocks, Debentures and Other securities. The most significant mode of securities in the year 2020 were Other Securities (43%), Real Estate (16%) and Debenture (18%). The component of Loans secured by Cash and Stock were 18% and 4% respectively. The Unsecured portion of the Loans & Advances declined significantly from ₦10b (Yr. 19) to ₦1b (Yr. 20). This accounted for less than 1% of the entire loan book in the year 2020.

CLASSIFICATION OF LOANS & ADVANCES BY SECURITY (2020)



Source: Sterling Bank Audited Accounts

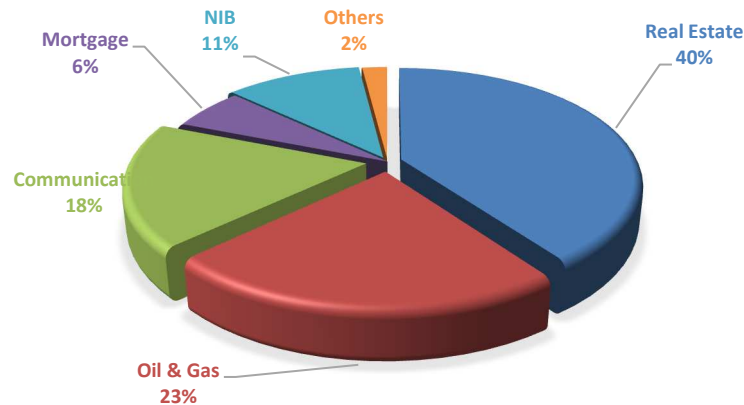
Non-Performing Loan of the Bank reduced from ₦14b (Yr. 19) to ₦11b (Yr. 20). The sectors contributing majorly to the Non-Performing Loans

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are the Real Estate and downstream oil sector. The contribution to Non-Performing loans by sector is as presented.

NON-PERFORMING LOAN CONTRIBUTION BY SECTOR (2020)



Source: Sterling Bank Audited Accounts

The quality of the Bank's portfolio improved during the year under review. Non-performing Loan Ratio declined from 2.2% (Yr. 19) to 1.9% (Yr. 20). The provision set aside for Non-Performing Loans grew by 28% from ₦13b (Yr. 19) to ₦17b (Yr. 20). This provision level provided a cover of 144% in the year 2020 for delinquent Loans as against 93% (Yr. 19).

LIQUIDITY

Item	2020	2019	2018
Loan & Advances/Total Assets (%)	46.56	53.09	57.19
Liquid Assets/Total Assets (%)	25.44	28.97	25.11
Liquid Assets/Total Deposits (%)	34.32	37.89	35.85
Loans & Advances/Total Deposits (%)	62.77	69.31	81.65

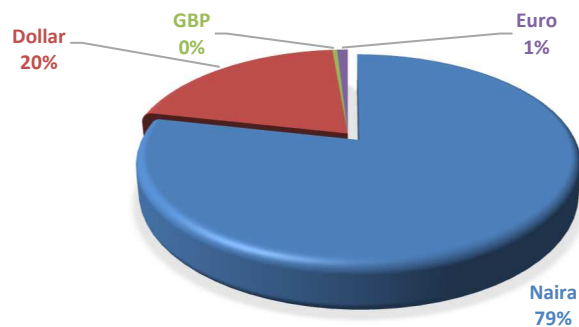
Source: Sterling Bank Audited Accounts

The Bank's Deposit grew by 7% during the year under review. In absolute terms it increased from ₦892b (Yr. 19) to ₦950b (Yr. 20).

The Banks' Deposits were largely in the Local Currency. This represented 79% of the Bank's Total Deposit. The foreign element of the Bank's Deposit in naira value grew from ₦187b (Yr. 19) to ₦205b (Yr. 20). The foreign currencies were in **USDollar**, **GBP**, and **Euro**.

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CLASSIFICATION OF DEPOSIT BY CURRENCY (2020)


Source: Sterling Bank Audited Accounts

SUMMARY

The Bank's Total Deposit primarily comprised of Current, Savings, Term and Pledged Deposits. Current Accounts Deposit grew by 33% from ₦417.1b (Yr. 19) to ₦556.1b (Yr. 20). However, Term Deposits and Pledged Deposits reduced by 45% and 36% respectively. The breakdown of Deposits is as presented.

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ANALYSIS OF DEPOSITS BASED ON TYPE

Item	2020 N'M	%	2019 N'M	%
Current Account	556,092	59%	417,121	47%
Savings Account	194,504	20%	120,968	13%
Term Deposits	155,249	16%	284,141	32%
Pledged Deposits	44,990	5%	70,430	8%
TOTAL	950,835	100%	892,660	100%

Source: Sterling Bank Audited Accounts

The Bank mobilized deposit from cost efficient sources during the year 2020. Current and Savings Accounts contributed an aggregate funding of 79% to Depositors' Funds as against 60% (Yr. 19). Term and Pledged Deposit contributed 16% and 5% respectively to the Bank's Deposit Liabilities.

ANALYSIS OF DEPOSITS BASED ON MATURITY

Months	2020 N'M	%
Less than 3 months	336,478	35%
3 - 6 Months	58,891	6%
6 - 12 months	181,393	19%
1 - 5 Years	193,153	20%
More than 5 years	187,693	20%

Source: Sterling Bank Audited Accounts

The maturity profile of the deposit are relatively in short term. Deposit liabilities maturing within 3 months was 35%. This will increase to 60% in 12 months. However, the Bank was also able to secure Deposits that were Long Term in nature. These accounted for 40% of the company's loan book.

ANALYSIS OF LOANS AND ADVANCES BASED ON MATURITY

Months	2020 N'M	%
Less than 3 months	120,309	15.12
3 - 6 Months	127,490	16.02
6 – 12 Months	138,595	17.41
1 - 5 Years	259,599	32.61
More than 5 years	149,993	18.84

Source: Sterling Bank Audited Accounts

The Bank's Loans & Advances are largely in long-term. Only 31% of the loan portfolio will mature for payment within a 6-month period. This will increase to 48.5% in 12 months. The majority of the loans are expected to mature within a 5-year period. This amounted to 81% of Gross Nominal Value of the Loan Portfolio. Loan Maturing after 5 years was ₦150b (Yr. 20) translating to 19% of total Bank's exposure.

LIQUIDITY GAP ANALYSIS

Year	2020 Loans & Advances N'M	2020 Deposit Liabilities N'M	Net Liquidity Gap N'M
Liquid Assets	326,070		326,070
Less than 3 months	120,309	336,478	109,901
3 - 6 Months	127,490	58,891	178,500
6 - 12 Months	138,595	181,393	135,702
1 - 5 Years	259,599	193,153	202,148
More than 5 years	149,993	187,693	164,448

Source: Sterling Bank Audited Accounts

The Bank has a strong liquidity coverage for its deposit liabilities. Despite the mismatch in the maturity profiles of its deposit and Loans, the Liquid Assets of the Bank provide adequate cushion resulting in Net Liquidity Surplus of ₦116.8b in the short-term and ₦145.6b in the long-term.

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The Bank's Deposit converted to Loans and Advances was 63% (Yr. 20) as against 69% (Yr. 20). This is below the regulatory requirements of 65%. **Sterling Bank Plc** also maintained a statutory Liquidity Ratio of 34% (Yr. 20) as against 39% (Yr. 19). This is above the regulatory requirement of 30%.

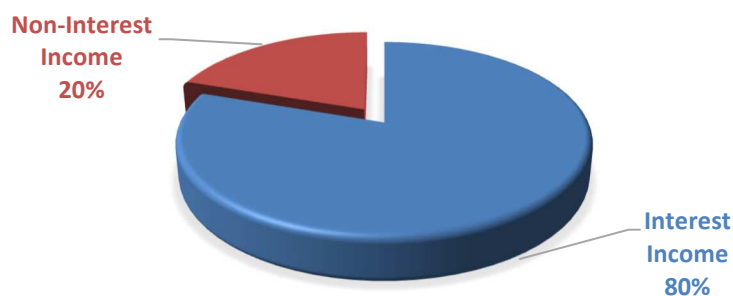
PROFITABILITY

The Bank's Gross Earnings declined by 7% from ₦147b (Yr. 19) to ₦136b (Yr. 20). The decline was significantly influenced by a 12% decrease recorded Interest Earning. Interest Earning went down from ₦125b (Yr. 19) to ₦109b (Yr. 20). Interest Earning made up 80% of Gross Earnings during the year under review.

SUMMARY

- **Rating:**
BBB⁺
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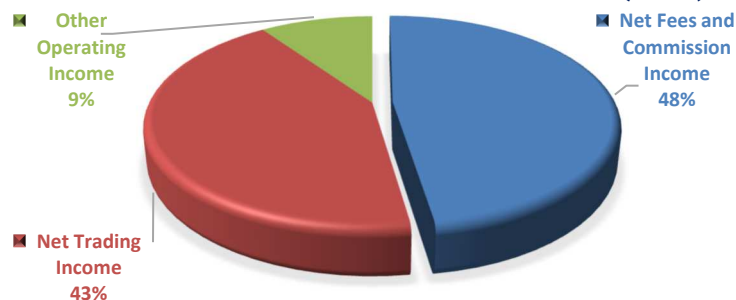
COMPOSITION OF GROSS EARNING



Source: Sterling Bank Audited Accounts

Non-Interest Income however grew by 20% during the year amounting to ₦27b (Yr. 20) as against ₦23b (Yr. 19). The growth was totally due to Net Trading Income which grew from ₦5b (Yr. 19) to ₦11.7b (Yr. 20). Other components of Non-Interest Income include Net Fees and Commission Income and Other Operating Income. However, these components recorded a decline in the year under review.

DISTRIBUTION OF NON-INTEREST INCOME (2020)



Source: Sterling Bank Audited Accounts

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The major component of Interest Expenses was Customers Deposit. The Bank incurred an amount of ₦35b (Yr. 20) as against ₦45b (Yr. 19) to service Customers Deposits. Other components of interest expenses are Debt Securities, Borrowed Funds and Deposit from banks. Interest expenses incurred on these liabilities also declined during the year under review.

This resulted in overall decline of 22% in Total Interest Expense from ₦60b (Yr. 19) to ₦47b (Yr. 20). The decline in Interest Income was less than the decline in Interest Expenses and as a result, Net Interest Margin grew from 52% (Yr. 19) to 56% (Yr. 20).

The Total Operating Expenses of the Company reduced by 3% from ₦71b (Yr. 19) to ₦69b (Yr. 20). This decline was largely due to a reduction in General and Administrative Expenses. This went down from ₦23b (Yr. 19) to ₦20b (Yr. 20).

In view of the growth in Operating Income as against a decline in Operating Expenses, Cost to Income ratio declined from 82% (Yr. 19) to 77% (Yr. 20). Consequently, Pre-Tax Profit equally grew significantly by 20% from N10.2b (Yr. 19) to N12.2b (Yr. 20). This led to increase in all profitability indices of the Bank during the year under review.

RISK FACTORS

In the course of our review of the bank's documents, we observed the following risk factors:

- **REGULATORY RISK**

Regulatory Risk is the risk that a Bank may cease to operate due to its inability to meet regulatory requirements of its primary regulator *Central Bank of Nigeria (CBN)*.

The major requirement for the Bank is to maintain a *Capital Adequacy Ratio (CAR)* of 10%.

Based on our review, *Sterling Bank Plc* maintained *CAR* of 18%

- **CONCENTRATION RISK**

Concentration Risk is the risk of loss to income as a result of significant exposure to an individual, connected entity or a particular sector.

Based on our review, **Sterling Bank Plc** is exposed significantly to Oil & Gas (33%), Government (14%) and Real Estate (13%).

We therefore consider that adverse changes in the highlighted sectors may have negative impact on the Bank's earnings.

- **LIQUIDITY RISK**

Liquidity risk is the risk arising from inability to meet obligations as they fall due.

In line with **CBN** requirement a bank is required to maintain a Statutory Liquidity ratio of 30% and Minimum Loan to Deposits Ratio of 65%.

Based on our review, **Sterling Bank** achieved a Statutory Liquidity ratio of 34% but its loan to deposit ratio was 63% for the year ended 2020.

- **FOREIGN CURRENCY RISK**

Foreign Currency Risk is the risk arising from adverse movements in Exchange Rates.

Based on our review, we observed that the Foreign currency element of the Bank's Total Deposit was 21% (Yr. 20) translating to N203b (Yr. 20).

Consequently, the Bank may be affected in the event of adverse movement in Exchange rates.

GOVERNANCE, RISK AND COMPLIANCE

Sterling Bank continues to conduct its affairs through the use of relevant committees. These committees include: Board Credit Committee, Board Finance and General Purpose Committee, Board Risk Management Committee, Board Audit Management Committee and Board Governance and Remuneration Committee.

The activities of the Committees are detailed in the annual reports. The bank also subjected its Board to appraisal during the year under review.

SUMMARY

- **Rating:**
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CONCLUSION

The Rating of *Sterling Bank Plc* is supported by its Diversified Revenue Base, Experienced Management, Milestones achieved in the Retail Business Segment, Very Strong Asset Quality and Improved Profitability.

However, the Rating is constrained by Concentration Risk.

Consequently, we assigned a Rating of **BBB⁺**.

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FINANCES

Financial Position as at

	Dec, 2020		Dec, 2019		Dec, 2018
	₦'M	Δ%	₦'000	Δ%	₦'000
Cash and balances with CBN	303,314	94.36	156,059	32.61	117,685
Due from other banks	21,079	(69.61)	69,361	59.69	43,435
Pledge assets	34,860	194.65	11,831	3.57	11,423
Derivative financial assets	-		-		-
Loans and advances to customers	596,827	3.54	618,732	(0.37)	621,017
Investment Securities:					
-Financial assets at fair value through profit or loss	1,454	(82.52)	8,317	102.36	4,110
-Debt instruments at fair value through other comprehensive income	135,780	(3.89)	141,272	20.11	117,620
-Equity instruments at fair value through other comprehensive income	10,745	96.45	5,470	36.37	4,011
-Debt instruments at amortised cost	93,234	9.99	84,767	(20.14)	106,147
-Available for sale					
-Held to maturity					
Investment in subsidiary	1	-	1	-	1
other assets	43,704	52.91	28,581	(2.94)	29,446
Property, plant and Equipmen	15,956	(13.64)	18,476	9.05	16,942
Right-of-use asset	8,319	(6.49)	8,896	100.00	
Investment property	8,004	93.29	4,141	100.00	
Intangible assets	1,582	(18.16)	1,933	4.49	1,850
Deferred tax asset	6,971	-	6,971	-	6,971
TOTAL ASSETS	1,281,830	10.05	1,164,808	7.79	1,080,658
Non-current assets held for sale	-		701	(86.57)	5,218
TOTAL ASSETS	1,281,830	9.98	1,165,509	7.33	1,085,876
LIABILITES					
Deposits from bank	21,289		-		-
Deposits from customers	950,835	6.52	892,660	17.36	760,608
Derivative financial liabs	-		-		-
Current income tax liabilities	551	174.13	201	(50.37)	405
Other borrowed funds	86,367	4.43	82,702	(30.81)	119,526
Debt securities issued	25,323	(1.50)	25,709	(62.93)	69,355
Other liabilities	61,621	37.73	44,742	18.75	37,678
Provision	454	171.83	167	(43.39)	295
TOTAL LIABILITIES	1,146,440	9.58	1,046,181	5.90	987,867
NET ASSET	135,390	13.46	119,328	21.75	98,009
EQUITY					

SUMMARY

- Rating: **BBB⁺**

- Report Type: Corporate Rating

- Client: Sterling Bank Plc

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	Dec, 2020 ₦'M	Δ %	Dec, 2019 ₦'000	Δ%	Dec, 2018 ₦'000
EQUITY					
Share capital	14,395	-	14,395	-	14,395
Share premium	42,759	-	42,759	-	42,759
Retained earnings	24,913	318.42	5,954	(292.00)	(3,101)
Other components of equity	53,323	(5.15)	56,220	27.90	43,956
Attributable to equity holders of the bank	<u>135,390</u>	13.46	<u>119,328</u>	21.75	<u>98,009</u>
Other Commitments and contingencies	<u>175,287</u>	10.20	<u>159,021</u>	22.00	<u>130,347</u>
PROFIT OR LOSS ACCOUNT FOR YEAR ENDED					
Gross earnings	<u>136,475</u>	(7.44)	<u>147,439</u>	(0.24)	<u>147,791</u>
Profit before income tax expenses	12,240	19.61	10,233	5.07	9,739
Income tax expenses	(1,130)	1,514.29	(70)	(74.17)	(271)
Profit after income tax	11,110	9.32	10,163	7.34	9,468

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Signed:
Name: Oladele Adeoye
Designation: Chief Rating Officer
Date: 13th July, 2021

For and on behalf of:
DataPro Limited
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By Marina Water Front
163/165 Broad Street, Lagos Island, Lagos.
Tel: 234-1-4605395, 4605396
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SUMMARY

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USER GUIDE

DataPro's credit rating is an opinion of an issuer's/issues overall creditworthiness and its capacity to meet its financial commitment.

Our **short-term** ratings have a time horizon of less than 12 months in line with industry standards reflecting risk characteristics. The ratings place greater emphasis on the liquidity to meet financial commitment in a timely manner.

The long-term risk indicator is divided into 8 bands ranging from AAA(f) through DD(f). Each band could be modified by + or -. With + representing slightly less risk than -. Such suffixes are not added to the 'AAA' long-term rating category and to categories below 'CCC'. Or to short-term rating older than A1+.

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LONG-TERM RATING

Investment Grade

Indicator	Meaning	Explanation
AAA	Lowest Risk	<i>(Superior)</i> Assigned to banks which have superior financial strength, operating performances and profile when compared to the standards established by <i>DataPro Limited</i> . These Banks, in our opinion, have a Excellent ability to meet their ongoing obligations.
AA	Lower Risk	<i>(Excellent)</i> Assigned to banks which have excellent financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These Banks, in our opinion, have a very strong ability to meet their ongoing obligations.
A	Low Risk	<i>(Very Good)</i> Assigned to banks which have very good financial strength, operating performance And profile when compared to the standards established by <i>DataPro Limited</i> . These Banks, in our opinion, have a strong ability to meet their ongoing obligation.
BBB	Slight Risk	<i>(Fair)</i> Assigned to banks which have fair financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These Banks, in our opinion, have an ability to meet their current obligations, but their financial strength is vulnerable to adverse changes in economic conditions.

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Non-Investment Grade

Indicator	Meaning	Explanation
BB	Moderate Risk	(Marginal) Assigned to banks which have, marginal financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These Banks, in our opinion have an ability to meet their current obligation, but their financial strength is vulnerable to adverse changes in economic conditions.
B	High Risk	(Weak) Assigned to banks which have, weak financial strength, operating performance and profile when compared to the standard established by <i>DataPro Limited</i> . These Banks, in our opinion have an ability to meet their current obligation, but their financial strength is vulnerable to adverse changes in economic conditions.
CCC	Higher Risk	(Poor) Assigned to banks, which have poor financial strength, operating performance and profile when compared to the standards established <i>DataPro Limited</i> . These Banks, in our opinion may not have an ability to meet their current obligation and their financial strength is extremely vulnerable to adverse changes in economic conditions.
DD	Highest Risk	(Very Poor) Assigned to banks, which have very poor financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These Banks, in our opinion may not have an ability to meet their current obligation and their financial strength is extremely vulnerable to adverse changes in economic conditions.

SHORT-TERM RATING

Indicator	Meaning	Explanation
A1+	Highest credit quality	Indicates the strongest capacity for timely payment of financial commitments. May have an added "+" to denote any exceptionally strong credit feature.
A1	Good credit quality	A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
A2	Fair credit quality	The capacity for timely payment of financial

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		commitments is adequate. However, near term adverse changes could result in reduction to non investment grade.
B	Speculative	Minimal capacity for timely payment of financial commitments, plus vulnerability to near term adverse changes in financial and economic conditions.
C	High default risk	Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favorable business and economic environment.
D		Indicates an entity that has defaulted on all its financial obligations.