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Sterling Bank Plc

Nigeria Bank Analysis **July 2016**

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Long-term	National	BBB(NG)	Stable	June 2017
Short-term	National	A3(NG)		

Financial data:

(USD'm Comparative)

	31/12/14	31/12/15
NGN/USD (avg.)	165.1	197.9
NGN/USD (close)	182.6	198.9
Total assets	4,477.7	4,004.0
Primary capital	463.9	480.5
Secondary capital	25.0	22.9
Net advances	2,032.9	1,703.0
Liquid assets	1,299.0	936.9
Operating income	416.5	347.8
Profit after tax	54.5	52.0
Market cap.*	N41.5bn/USD282.6m	
Market share**	2.8%	

*As at 29 June 2016.

** Based on industry assets as at 31 December 2015.

Rating history:

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

Last rating (June 2015)
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 2016
Sterling rating reports (2009-15)
Nigerian Banking Sector Bulletin, 2016
Glossary of Terms/Ratios, February 2016

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Summary rating rationale

- Sterling Bank Plc ("Sterling" or "the bank") ranks among the mid-sized commercial banks in Nigeria, having over 180 operating outlets across the country. Sterling's total assets amounted to N796.4bn (representing a market share of 2.8%) at FYE15.
- The bank's capital base grew 12.2% in F15, solely through internal capital generation, with the risk weighted capital adequacy ratio ("RWCAR") improving to 17.5% at FYE15 (FYE14: 14.0%). To further strengthen its capital base and support asset growth, the bank is in the process of raising Tier 2 capital (a subordinated bond Issue is expected to be concluded in the third quarter of F16).
- Although Sterling's gross non-performing loan ("NPL") ratio rose to 4.8% at FYE15 (from 3.1% at FYE14), it remains within the regulatory guidance limit and in line with peer benchmarks. Specific provision coverage improved to 68.2% at FYE15 (FYE14: 54.6%). Loan write-offs amounted to N2.2bn (F14: N4.0bn) in F15.
- A mismatch of asset and liability maturities was evident in F15, with the bank recording a liquidity gap of N305.6bn in the 'less than three months' maturity band, equating to 3x capital. Cumulative negative liquidity gaps were also recorded across the 'up to one year' maturity bands. Cognisance has been taken of the behavioural liability pattern, with a significant portion of deposits normally rolled over at maturity. It is furthermore noted that liquidity mismatches are a structural issue within the Nigerian banking sector.
- Notwithstanding the recorded 100 basis points contraction in net interest margin, Sterling reported a net profit after tax ("NPAT") of N10.3bn for F15, an improvement of 14.4% over F14. Performance was supported by non-interest income which grew 13.8% to N29.3bn (buoyed by growth in securities trading). Further, total operating expense line declined 1.9% to N49.7bn, resulting in a reduction in the cost ratio to 72.2%, from 73.6% in F14. Consequently, the ROaA improved to 1.3% in F15 (F14: 1.2%), while ROaE dipped to 11.4% (F14: 12.2%) on the back of modest earnings growth combined with growth in equity.

Factors that could trigger a rating action may include;

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

Negative change: Negative rating action may follow pressure on profitability, asset quality and/or liquidity metrics.

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Organisational profile

Corporate summary[1]

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

Ownership structure

The bank's shareholding structure remained relatively stable in F15, constituting both foreign and local investors (private and institutional). Table 1, sets out the major shareholders with holdings exceeding 5%.

Table 1: Shareholding structure	% holding	
	F14	F15
Silverlake Investment Limited	25.0	25.0
State Bank of India	8.9	8.9
SNNL/AMCON	5.9	5.9
Dr. Mike Adenuga	5.6	5.6
Others	54.6	54.6
Total	**100.0**	**100.0**

Source: Sterling AFS.

Strategy and operations

Sterling's corporate strategy in the short to medium term aims at positioning the bank amongst the systemically important banks ("SIBs") in the country, through increased operational efficiency and growth. Hence, the bank has put in place various initiatives towards achieving this objective, including growing its presence in the retail segment. To this end, the bank plans to intensify its focus on attracting lower cost deposits through agency banking, an expanded geographical footprint and an improved electronic platform (self-service banking). In addition, the bank has commenced a brand redesign in order to increase brand awareness in the domestic market.

Furthermore, the bank recently upgraded its IT infrastructure and core banking application to "Temenos T24", which management confirmed to be the latest available banking application within the domestic industry. This systems enhancement is expected to support operations going forward, and strengthen the risk management process within the bank. The bank has a local branch network of 187 offices and cash centres at FYE15.

Governance structure

The composition of the bank's board is in line with the provisions of the CBN's Code of Corporate Governance for Banks in Nigeria and the Securities and Exchange Commission's ("SEC") code for publicly quoted companies. The bank's governance structure as at FYE15 is summarised below.

Description	Findings
Board composition	6 Executives, 9 NEDs* (including the Chairman).
Separation of power	Yes, Chairman different from CEOǂ.
Independent directors	Yes, 3 independent NEDs.
Board committees	5, namely: Finance & General Purpose, Governance & Nomination, Risk Management, Audit, and Credit committees.
Board rotation policy	Maximum of 3 terms of 4 years, Independent Dir. – max. 8 years.
Independent appraisal of board	Yes, performed by J.K. Randle International
External auditor	Ernst & Young

*NEDs-Non-executive Directors; ǂ CEO-Chief Executive Officer.
Source: Sterling AFS.

Changes to the board of directors ("board") during F15 include: the appointment of two non-executive directors to occupy positions of retired members. Also, in F16, Yinka Adeola (a non-executive director) retired from the board, and regulatory approval for a replacement is being awaited.

Financial reporting

Sterling's F15 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 auditors, Ernst & Young, issued an unqualified opinion on the F15 financial statements.

Operating environment[2]

Economic overview

Nigeria's macroeconomic fundamentals remained volatile in 2015, as a result of indeterminate political and economic direction in the earlier part of the year, and local and global challenges throughout 2015. In particular, uncertainty regarding the outcome of Nigeria's elections, the steady fall in global oil prices (and negative impact of this on the country's foreign reserves), and a significant fall in the value of the Naira against the US dollar (partly due to the part oil plays in funding Nigeria's fiscal policy), have had the most significant impact.

Naira weakness is not solely a country-specific phenomenon. The pervasive 'risk-off' attitude in global investing since late 2014, which has resulted in severe currency depreciation in most emerging markets' currencies, lower oil prices and speculative trading, have also contributed to the depreciation of the Naira from N183/USD at 31 December 2014 to N198/USD at 31 December 2015 at CBN official rates. However, the exchange rate depreciated to N285/USD at FYE15 and N320/USD at the end of

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

[2] Refer to GCR's 2016 Nigeria Banking Industry Bulletin for a review of relevant economic, regulatory and/or industry developments.

April 2016 in the parallel market. In June 2016, CBN announced the adoption of a new flexible foreign exchange ("FX") policy, in which the Naira would be allowed to float freely based on market forces of demand and supply. The policy entails the adoption of a single market structure through the autonomous interbank foreign exchange market, as well as the introduction of FX primary dealers, who will be registered authorised dealers designated to deal with CBN on large trade sizes, and with other dealers in the interbank market. For effective operation of the new policy, CBN has issued a revised guideline for operation of the interbank FX market, while guidelines relating to operations of primary FX dealers is still being finalised.

Nigerian real gross domestic product grew 2.8% in 2015, against the 6.2% growth recorded in 2014. The major impetus to growth continued to come from the non-oil sectors which grew by 3.0%. Inflation rates grew steadily from 8.0% in December 2014 to 9.6% in December 2015. The NSE's all-share index level and market capitalisation at 31 December 2015 were 28,642 points and N9.9tn, representing year on year declines of 17.4% and 14.2% respectively. Low crude oil prices have persisted in 1H 2016 to date, as the efforts of the Organisation of the Petroleum Exporting Countries ("OPEC") to regulate oil output levels from its member countries have been to no avail. Furthermore, the likelihood of oil supply cuts from non-OPEC producers like the US remains doubtful. To counteract the cyclical downturn within the economy, the federal government of Nigeria ("FGN") is adopting an expansionary policy for the 2016 fiscal year, and has implemented a budget of N6.08tn against N4.49tn in 2015. The focus of FGN is to diversify the economic base (with increased investment in infrastructure, agriculture and other non-oil sectors), in order to stimulate the economy and reduce the unemployment.

Given the FGN reform agenda to unify government banking into a treasury single account ("TSA") held at CBN, recent CBN policies have shifted towards harmonising fiscal and monetary policies to ease liquidity constraints partly due to the TSA implementation in the latter part of 2015. CBN reduced the monetary policy rate ("MPR") to 11% in November 2015 from 13% (though back at 12% by March 2016) and cash reserve ratio ("CRR") for commercial banks was harmonised at 22.5%.

Despite the continuous impact of depressed oil prices and global trends on the value of the Naira (which has increased market volatility across the board), CBN introduced a restrictive foreign exchange policy that denied access to foreign exchange (from the official CBN window) for forty-one items, to ensure efficient currency utilisation, conserve foreign reserves and resuscitate domestic industries. Despite these interventions, the currency remains under pressure, with meaningful relief only likely when the global economy stabilises.

Banking sector overview

At end 2015, the industry comprised 20 commercial banks, one non-interest bank and four merchant banks. Commercial banks comprise 10 international banks, nine national banks, and a regional bank (SunTrust Bank Nigeria Limited, which was licensed in November 2015). Keystone Bank Limited remained the only bridge bank under AMCON, following the 2014 acquisitions of Enterprise Bank Limited (by Heritage Bank) and Mainstreet Bank Limited (by Skye Bank). The eight largest banks (excluding Sterling) in the country accounted for over 70% of the industry's total assets at December 2015.

Competitive position

Despite intensifying competition and a challenging operating environment, the bank has continued to improve on its service delivery to customers through various strategic initiatives. Sterling is a mid-sized commercial bank in Nigeria based on key balance sheet metrics, having an estimated market share of 2.8% based on total commercial banking assets at 31 December 2015. Table 2 compares the bank's key statistics to a selection of its peers at FYE15.

Table 2: Competitive position* Sterling vs. selected banks	Ecobank	Diamond	Fidelity	FCMB	Sterling
Year end 31 December 2015					
Shareholders' funds (N'bn)	227.8	214.3	183.5	148.4	95.6
Total assets (N'bn)†	1,783.2	1,737.3	1,226.1	1,131.3	796.4
Net loans (N'bn)	817.3	763.6	578.2	592.7	338.7
Profit after tax (N'bn)	11.3	5.7	13.9	3.5	10.3
Capital/assets (%)	17.2	14.6	19.9	16.9	12.6
Liquid & trading assets/total short-term funding (%)	13.4	16.2	14.6	21.5	17.0
Gross bad debt ratio (%)	10.2	6.9	4.6	4.2	4.8
Net interest margin (%)	11.9	10.4	11.5	8.6	8.7
Cost ratio (%)	60.7	61.0	77.1	75.8	72.2
ROaE (%)	5.3	3.7	10.4	4.0	11.4
ROaA (%)	0.6	0.4	1.5	0.5	1.3

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

Financial profile

Likelihood of support

Considering the bank's relatively small size, available support is limited to its ultimate shareholders, who demonstrated support previously during the capital raising exercise in F13 and private placement in F14.

Funding composition

Historically, and in line with market norms, Sterling is primarily funded by customer deposits (78.6%). Other funding sources include: capital (13.3%), and borrowings (8.0%) and other sources (5.7%).

Customer deposits and interbank funding

Reflective of the challenging operating environment as well as implementation of the TSA, total deposits declined to N590.9bn in F15 from N655.9bn in F14, a decrease of 9.9% (a pattern noted across most industry players in F15).

Table 3: Deposit book characteristics			
By source:	**%**	**By type:**	**%**
Corporate	58.4	Demand	61.2
Individual	16.8	Savings	7.1
Public sector	22.0	Term	31.7
Financial	2.7		
Concentration:			
Single largest	15.8	Ten largest	31.7
Five largest	26.3	Twenty largest	38.7
Maturity:			
<3 months	94.9	>1 year	0.8
3-12 months	4.2		

Source: Sterling AFS.

The bank maintained a diversified funding base, consisting mainly of customer deposits (both retail and corporate). Whilst other components of the deposit base declined during the year, term and savings deposits rose 8.8% and 27.8% respectively. Further analysis of the deposit book highlights the relatively short maturity profile of the book, reflecting the significant demand and savings component. The portfolio also displayed a notable level of concentration with the single largest deposit constituting about 15.8% of the deposit book, while the largest 20 constituted a combined 38.7%. For F16, the bank intends to grow its deposit book by 29.6% to N765.3bn.

Capital and borrowings

At N100.1bn, Sterling's total capital (considerably higher than the prescribed minimum capital of N25bn) grew by 12.2% at FYE15. Growth was supported by retained earnings during the year, resulting in an increase in the risk weighted capital adequacy ratio to 17.5% (up from 14.0% in F14). Further, in a bid to shore up its capital base and support asset growth, the bank is in the process of raising up to N35bn in Tier 2 capital (subordinated bonds) which is expected to be concluded in the third quarter of F16.

Table 4: Capitalisation	F14 N'bn	F15 N'bn
Tier 1	73.9	81.4
Tier 2	3.4	3.9
Total regulatory capital	**77.3**	**85.3**
Total risk weighted assets	**566.7**	**487.5**
RWCAR (%)	**14.0**	**17.5**

Source: Sterling AFS.

Total borrowings stood at N60.3bn at FYE15, representing a 32.9% increase over the prior year's position. Borrowings are sourced from various foreign financial institutions, together with intervention funds (granted by Bank of Industry and CBN for on-lending to specifically defined sectors). Analysis of the borrowing book indicates that 99.2% of the facilities are short-dated. Table 5 details Sterling's borrowing counterparties, which showed higher diversification at FYE15.

Table 5: Borrowings	F14 N'bn	F15 N'bn
Citibank	16.5	19.1
Goldman Sachs Int'l	7.8	8.3
Bank of Industry	7.2	4.2
CBN Agricultural Fund	13.4	14.8
NEXIM	0.4	-
Standard Chartered Bank	-	4.9
Islamic Corporation	-	5.9
AFREXIM	-	2.9
CBN MSME	-	0.1
Total	**45.4**	**60.3**

Source: Sterling AFS.

Liquidity positioning

A matching of assets/liabilities maturities at FYE15 showed cumulative liquidity gaps across the 'less than 12 months' maturity bands. The liquidity gap stood at N305.6bn in the 'less than 30 days' maturity gap and equated to 3x capital at FYE15. However, cognisance has been taken of the behavioural liability pattern, with a significant portion of deposits normally rolled over at maturity. It is furthermore noted that liquidity mismatches are a structural issue within the Nigerian banking industry. Liquidity pressure was however evidenced by the bank's statutory liquidity falling below the statutory minimum in January and March 2015. However, this has been corrected in subsequent months, with the ratio ending stronger at 43.5% at December 2015.

Table 6: Net liquidity gap profile	<3 months N'bn	3-6 months N'bn	6-12 months N'bn	>1 year N'bn
Assets	270.6	40.3	88.5	582.9
Liabilities	576.2	33.3	15.9	64.7
Net liquidity gap	(305.6)	7.0	72.6	518.2
Cumulative liquidity gap	(305.6)	(298.6)	(226.0)	292.2

Source: Sterling AFS.

Credit risk (strategic overview)

Risk management

The bank is exposed to a wide range of risks, most notably credit, liquidity, market and operational risks, and has put in place risk rating models and approval authority limits for all credit risk transactions. The board is responsible for the overall risk management of the bank. These functions are performed through its board committees, which are assisted by the management committees. Sterling has continued to improve on its risk management framework, in a bid to contain credit risk.

Asset composition

Total assets declined by 2.6% at FYE15, underpinned by a decline in cash and liquid assets, as well as net loans and advances during the year. Cash and other liquid assets declined by 21.5% at FYE15, to constitute a lower 23.4% (FYE14: 29.0%) of the overall portfolio.

Table 7: Asset mix	F14		F15	
	N'bn	%	N'bn	%
Cash and liquid assets	**237.2**	**29.0**	**186.3**	**23.4**
Cash	*10.8*	*1.3*	*16.2*	*2.0*
Liquidity reserve deposits	*133.3*	*16.3*	*84.4*	*10.6*
Treasury bills and bonds	*1.9*	*0.2*	*4.7*	*0.6*
Balances with other banks	*91.2*	*11.1*	*81.0*	*10.2*
Customer advances	371.2	45.4	338.7	42.5
Investments	94.6	11.6	164.8	20.7
Available for sale inv.	*49.0*	*6.0*	*119.5*	*15.0*
Held to maturity inv.	*45.6*	*5.6*	*45.4*	*5.7*
Property, Plant and Equipment	14.0	1.7	15.3	1.9
Other assets	100.7	12.3	91.2	11.5
Total*	**817.7**	**100.0**	**796.4**	**100.0**

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

Investment securities which comprise equities and bonds, rose 74.2% during the year due to increase in government bonds (as state government loan were liquidated in exchange for FGN bonds). As a result, the investment pool constituted a higher 20.7% of the asset base at FYE15 (FYE14: 11.6%).

Loan portfolio

Table 8: Loan book characteristics (%)			
By sector:			
Agriculture	3.7	Mortgage	3.4
Oil and gas	40.0	Manufacturing	2.3
Real estate & Constr.	11.4	IT & Comm.	8.3
Financial Inst.	3.8	Power	4.1
Government	9.9	Others	13.2
Largest exposures		**By Maturity:**	
Single largest	5.0	< 3 month	39.4
Five largest	18.5	1-3 months	6.0
Ten largest	31.3	3-12 months	12.9
Twenty largest	50.1	> 12 months	41.7

Source: Sterling AFS.

Sterling's gross loans and advances declined by 6.9% to N354.5bn in F15. According to management, the decline was underpinned by the liquidation of state government loans during the year. Although the bank's lending cuts across different economic sectors, the oil and gas sector (upstream) dominated the lending portfolio, constituting 40.0% of the loan book at FYE15. However, per management, for F16, the bank will actively participate in the Agricultural sector (food crops, production etc.), which is anticipated to increase contribution to the loan book at FYE16. Management also noted that participation in the real estate and public sectors may be slowed going forward. The loan book is expected to grow by another 21.8% in F16.

The advances book is somewhat short-dated with 58.3% of exposures maturing within one year. The portfolio also reflects some degree of concentration, having the single and twenty largest obligors accounting for 5.0% and 50.1% of total exposures respectively. The single largest exposure equated to 17.6% of shareholders' funds at FYE15 (albeit within the 20% regulatory limit).

Contingencies

Off balance sheet assets relating to performance bonds and guarantees, letters of credits and other commitments totalled N166.2bn (17% of total assets including contingencies and commitments) at FYE15, compared to N203.8bn (20%) in the previous year. Note is taking of the fact that 18.4% were backed by cash at FYE15.

Asset quality

Sterling's gross NPL ratio ended at 4.8% in F15 (F14: 3.1%), comparing favorably with the peer average of 6.1%, and regulatory limit of 5%. While noting that N2.2bn was written off during the year, impaired loans' coverage by specific provisions improved to 68.2% in F15 (F14: 54.6%). Further analysis of the bank's asset quality reflects that over 50% of the NPLs pertained to the oil and gas (downstream) and general commerce sectors. That said, exposure risk is partly mitigated given the fact that 99% of these exposures were secured against real estate, cash collateral, stocks, and securities etc.

Table 9: Asset quality	F14	F15
	N'bn	N'bn
Gross advances	**380.9**	**354.5**
Performing	369.0	337.5
Impaired	11.9	17.0
Provision for impairment	**(9.7)**	**(15.7)**
Individually impaired	*(6.5)*	*(11.6)*
Collectively impaired	*(3.1)*	*(4.2)*
Net NPLs	**2.3**	**1.2**
Select asset quality ratios:		
Gross NPLs ratio (%)	3.1	4.8
Specific provision coverage ratio	54.6	68.2
Net NPLs ratio (%)	1.5	1.6
Net NPLs/Capital (%)	8.0	6.1

Source: Sterling AFS.

Financial performance and prospects

A five-year financial synopsis is reflected at the back of this report, supplemented by the commentary below.

The bank's NPAT has progressively grown over the review period, attaining a review period high of N10.3bn in F15 (representing 14.4% growth over F14) despite a challenging operating environment. The moderate 3.8% growth in net interest income was offset by the notable (18.5%) increase in interest expense, which saw net interest income decline by 8.1% to N39.5bn in F15 (and interest margin compressed by 100bps to 8.7% during F15). Non-interest income grew 13.8% to N29.3bn during the year, supported by growth in securities trading. Accordingly, total operating income remained flat at N68.8bn during F15, trailing the budgeted N84.7bn for the period.

While there was an increase in depreciation and amortisation expenses during the year reflecting distributions channel optimisation, the total operating expense line declined 1.9% to N49.7bn, resulting in a reduction of the cost ratio to 72.2%, from 73.6% in F14. Consequently, the bank reported net profit before tax of N11.0bn (F14: N10.7bn). While the ROaA improved to 1.3% in F15 (F14: 1.2%), ROaE dipped to 11.4% (F14: 12.2%) on the back of modest earnings growth combined with growth in equity.

Table 10: Budget F16 vs. interim results	Actual F15 (N'bn)	Budget F16 (N'bn)	Actual 1Q-F16 (N'bn)	% of budget*
Statement of comprehensive income				
Net interest income	39.5	62.1	11.4	73.6
Other income	29.3	25.6	5.0	85.2
Total income	**68.8**	**87.7**	**16.9**	**77.0**
Impairment charge	(8.2)	(10.8)	(1.4)	13.3
Operating expenses	(49.7)	(61.8)	(12.6)	81.7
Profit before tax	**11.0**	**15.0**	**2.8**	**74.7**
Statement of financial position				
Deposits	590.9	782.9	577.8	73.8
Advances	338.7	412.6	350.9	85.1
Total assets	769.4	1,035.0	804.3	77.7
Tier I capital	95.6	102.2	94.4	92.4

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

Management has forecast 33.4% growth in pre-tax profit for F16. An enlarged earning asset base is expected to yield a 27.5% growth in total operating income. Sterling's unaudited results for 1Q F16 measured below budget, with a pre-tax profit of N2.8bn, representing 74.7% of budgeted levels on an annualised basis. This notwithstanding, management is optimistic that the set budget will be achieved by year-end as the national budget is passed and economic activities pick up.

Sterling Bank Plc

(Naira in millions except as noted)

Year end: 31 December					
Statement of Comprehensive Income Analysis	**2011**	**2012**	**2013**	**2014**	**2015**
Interest income	32,276	53,542	69,973	77,932	80,909
Interest expense	(15,573)	(29,648)	(34,160)	(34,915)	(41,367)
Net interest income	**16,703**	**23,894**	**35,813**	**43,017**	**39,542**
Other income	15,465	15,315	21,656	25,747	29,285
Total operating income	**32,168**	**39,209**	**57,469**	**68,764**	**68,827**
Impairment charge	(6,034)	243	(8,259)	(7,389)	(8,151)
Operating expenditure	(20,493)	(31,952)	(39,899)	(50,627)	(49,659)
Net profit before tax	**5,640**	**7,500**	**9,310**	**10,748**	**11,016**
Tax	1,268	(546)	(1,035)	(1,743)	(724)
Net profit after tax	**6,909**	**6,954**	**8,275**	**9,005**	**10,293**
Other comprehensive income/(loss)	(102)	248	(445)	(836)	2,285
Total comprehensive income	**6,806**	**7,201**	**7,830**	**8,169**	**12,578**
Statement of Financial Position Analysis					
Subscribed capital	26,542	26,542	38,668	57,154	57,154
Reserves (incl. net income for the year)	14,516	20,101	24,790	27,561	38,411
Hybrid capital (incl. eligible portion of subordinated term debt)	4,562	4,564	4,564	4,564	4,564
Total capital and reserves	**45,619**	**51,206**	**68,021**	**89,279**	**100,129**
Bank borrowings (incl. deposits, placements & REPOs)	17,744	3,119	-	-	-
Deposits	306,316	463,310	432,263	655,751	590,696
Other borrowings	-	4,541	4,695	10,251	10,251
Short-term funding (< 1 year)	**324,060**	**470,970**	**436,958**	**666,002**	**600,947**
Deposits	85,734	416	138,248	193	193
Other borrowings	27,301	25,815	34,100	35,120	50,035
Long-term funding (> 1 year)	**113,035**	**26,231**	**172,348**	**35,313**	**50,228**
Payables/Deferred liabilities	19,306	18,753	19,249	27,127	45,082
Other liabilities	**19,306**	**18,753**	**19,249**	**27,127**	**45,082**
Total capital and liabilities	**502,021**	**567,160**	**696,576**	**817,721**	**796,386**
Balances with central bank	23,908	48,307	82,196	133,321	84,410
Property, plant and equipments	8,931	7,793	9,069	13,952	15,258
Receivables/Deferred assets (incl. zero rate loans)	70,073	70,719	96,661	100,680	91,212
Non-earnings assets	**102,912**	**126,819**	**187,927**	**247,953**	**190,881**
Short-term deposits & cash	7,981	7,983	8,190	10,778	16,232
Loans & advances (net of provisions)	162,063	229,421	321,744	371,246	338,726
Bank placements	56,589	28,144	80,894	91,173	81,015
Marketable/Trading securities	-	1,999	2,201	1,949	4,693
Equity investments	172,476	172,794	95,620	94,621	164,839
Total earning assets	**399,109**	**440,341**	**508,649**	**569,767**	**605,505**
Total assets†	**502,021**	**567,160**	**696,576**	**817,721**	**796,386**
Contingencies	**78,673**	**127,950**	**201,629**	**203,843**	**166,245**
Ratio Analysis (%)					
Capitalisation					
Internal capital generation	16.6	15.4	12.3	9.6	13.2
Total capital / Net advances + net equity invest. + guarantees	11.0	9.7	11.0	13.3	14.9
Total capital / Total assets	9.1	9.0	9.8	10.9	12.6
Liquidity ‡					
Net advances / Deposits + other short-term funding	39.5	48.7	55.9	55.7	56.3
Net advances / Total funding (excl. equity portion)	37.1	46.1	52.8	52.9	52.0
Liquid & trading assets / Total assets	12.9	6.7	13.1	12.7	12.8
Liquid & trading assets / Total short-term funding	19.9	8.1	20.9	15.6	17.0
Liquid & trading assets / Total funding (excl. equity portion)	14.8	7.7	15.0	14.8	15.7
Asset quality					
Impaired loans / Gross advances	7.8	3.8	2.1	3.1	4.8
Total loan loss reserves / Gross advances	5.5	2.8	2.1	2.5	4.4
Bad debt charge (income statement) / Gross advances (avg.)	4.4	(0.1)	3.0	2.1	2.2
Bad debt charge (income statement) / Total operating income	18.8	(0.6)	14.4	10.7	11.8
Profitability					
Net income / Total capital (avg.)	9.5	14.9	13.1	10.4	13.3
Net income / Total assets (avg.)	0.9	1.3	1.2	1.1	1.6
Net interest margin	9.1	9.7	10.6	9.7	8.7
Interest income + com. fees / Earning assets + guarantees (a/avg.)	3.6	6.1	6.3	5.7	5.2
Non-interest income / Total operating income	48.1	39.1	37.7	37.4	42.5
Non-interest income / Total operating expenses (or burden ratio)	75.5	47.9	54.3	50.9	59.0
Cost ratio	63.7	81.5	69.4	73.6	72.2
OEaA (or overhead ratio)	5.4	6.0	6.3	6.7	6.2
ROaE[β]	20.5	15.9	15.0	12.2	11.4
ROaA	1.8	1.3	1.3	1.2	1.3
Nominal growth indicators					
Total assets	95.1	13.0	22.8	17.4	(2.6)
Net advances	59.0	41.6	40.2	15.4	(8.8)
Shareholders funds	56.0	13.6	36.1	33.5	12.8
Total capital and reserves	73.3	12.2	32.8	31.3	12.2
Deposits (wholesale)	96.7	18.3	23.0	15.0	(9.9)
Total funding (excl. equity portion)	94.8	13.8	22.5	15.1	(7.1)
Net income	62.9	5.8	8.7	4.3	54.0

† 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 rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating 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 2015 (plus four years of comparative numbers), latest internal and/or external report to management, full year detailed budgeted financial statements for 2016, most recent year-to-date management accounts to 31 March 2016, reserving methodologies and capital management policies. In addition, information specific to the rated entity and/or industry was also received.