Analyst Presentation

July 2013

Sterling Bank

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Important Information

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Agenda

- Corporate Information
- Operating Environment
- Strategy
- Financial Highlights
- Earnings Analysis
- Balance Sheet Analysis
- 2013 Outlook

Corporate Information

About Sterling Bank

Our History	Sterling Bank commenced operations as NAL Bank, the nation's first investment banking institution in 1960 The Bank became government owned in 1972 and was managed in partnership with Grindlays Bank Limited, Continental International Finance Company Illinois and American Express Bank Limited In 1992, the Bank was partly privatized and listed as a public company on the Nigerian Stock Exchange (NSE); and in 2000 the government sold its residual interest in the bank, effectively making it a fully privatized institution Sterling Bank emerged from the merger of NAL Bank with four other Nigerian banks namely Magnum Trust Bank, NBM Bank, Trust Bank of Africa and Indo-Nigeria Merchant Bank (INMB) in 2005

About Sterling Bank

Company	Sterling Bank Plc is a full service national commercial bank. In 2011, the Bank acquired Equitorial Trust Bank (ETB) in furtherance of its retail growth strategy
Banking license	National Commercial Banking License
Accounting	International Financial Reporting Standards (IFRS)
Credit rating	Short term A3; Long term BBB (Stable Outlook) – GCR Short term A2; Long term BBB+ (Stable Outlook) - DataPro
Focus segments	Retail market, Corporate and Institutional clients
Headcount	2,672 professional employees
Channels	160 business offices 213 ATMs 3,250 POS

Senior Management Profile

Mr. Yemi Razack Adeola

Chief Executive Officer/MD

- Over 25 years professional experience spanning banking, finance, law, corporate consulting and the academia.
- Served as Executive Director, Corporate and Commercial Banking between January 2006 and November 2007.
- Worked in various executive management capacities in Citibank Nigeria, and Trust Bank of Africa Ltd.

Mr. Lanre Adesanya
Executive Director South

Banking career spanning over 21 years, including executive management positions held in Nigbel Merchant Bank Ltd (NBML), and successfully leading strategic business regions in the country.

Mr. Devendra Nath Puri
Executive Director Lagos

Representative of State Bank of India (SBI) with professional career spanning 27 years.
Alumnus of the A.N. College, Patna
Associate of the prestigious India Institute of Bankers.

Mr. Abubakar Sule
Executive Director North & Corporate Banking

Banking career spanning over 22 years
Held various supervisory and executive management roles at the Central Bank of Nigeria (CBN), NAL Bank Plc, Sterling Capital Markets Limited and Intercontinental Bank Plc

Senior Management Profile….

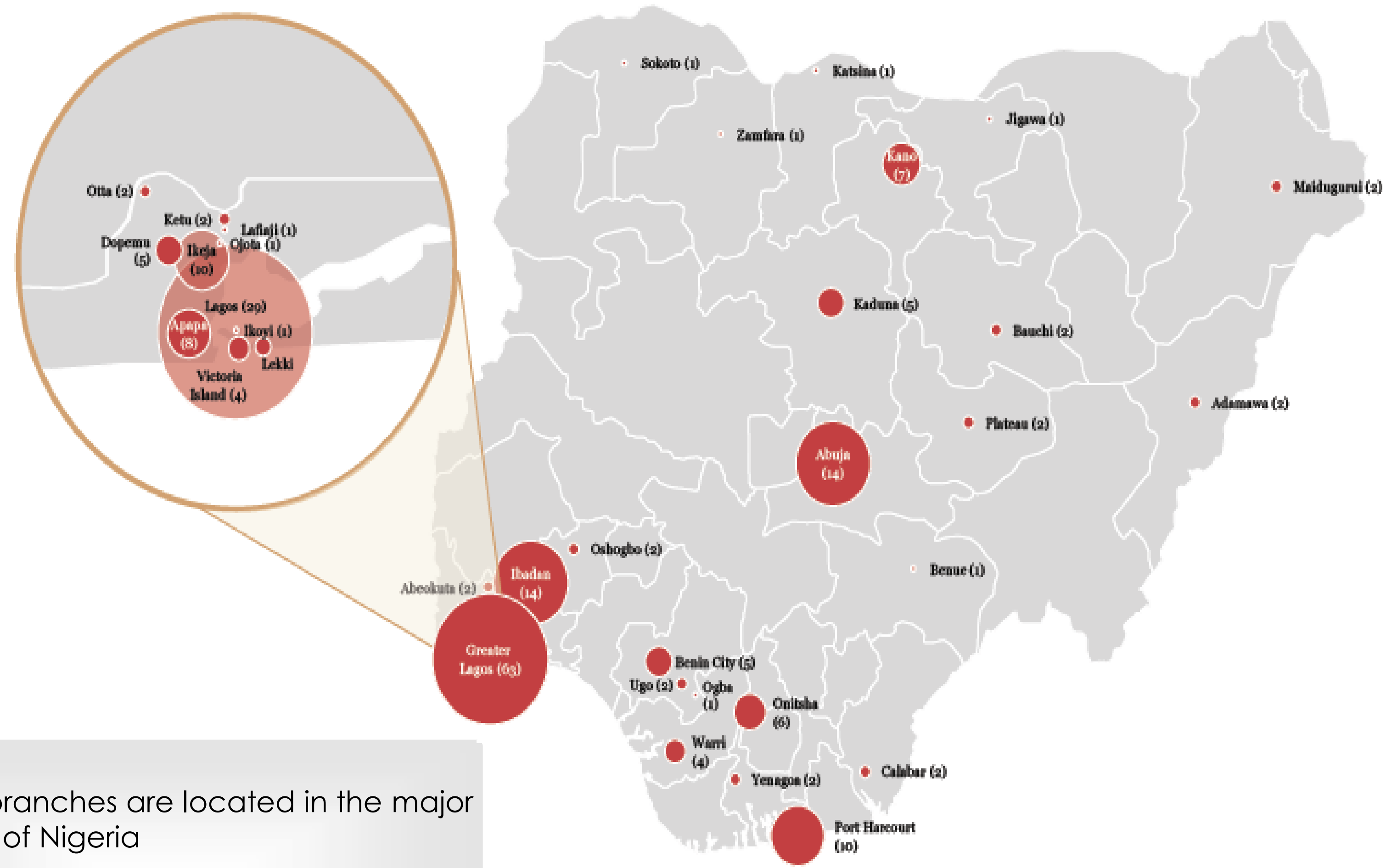
Mr. Yemi Odubiyi
Chief Operating Officer

- Yemi's banking career spans over 17 years. Prior to his current role, he served as Chief Strategist and before that, Head of Structured and Trade Finance. He previously served as Chief Operating Officer at Trust Bank of Africa Limited before its merger into Sterling Bank Plc. in December 2005. He is a graduate of the Citibank Management Associate program and his professional experience spans Strategy & Finance, Corporate & Investment Banking as well as Banking Operations.

Mr. Abubakar Suleiman
Chief Financial Officer

- Abubakar has over 15 years of core banking experience. Prior to his role as Chief Financial Officer, he successfully led the recent integration of ETB into Sterling Bank. He was previously the Group Treasurer with responsibility for trading and balance sheet management. He started his career as a consultant with Arthur Andersen (now KPMG) and has worked with MBC International Bank (now First Bank Nigeria) and Citibank across the Corporate, Commercial and Institutional Banking functions.

Branch Distribution



- Our branches are located in the major cities of Nigeria
- While the bank has a nationwide network, its branch footprint is light enough to allow for efficient growth without excessive real estate costs

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Operating Environment

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Operating Environment

Improving macroeconomic Profile in Q1 2013	
	• GDP growth rate of 6.6% in Q1 2013 against 6.99% in Q4 2012 due to the decline in the contribution of the non-oil sector • Relatively stable exchange rate in Q1 2013 within the +/-3% band • Sustained growth in external reserves to US$48.68bn in Q1 2013 (10%) on the back of favorable crude oil prices and improved crude exports • Inflation moderated to 8.6% in March 2013, while maintaining a single digit • Yield on government securities recorded a downward trend but reversed towards the end of the first quarter • Sustained monetary policy tightening by the apex bank • The NSE All Share Index gained 19.4% in Q1 2013 driven by improved investor confidence and attractive corporate earnings

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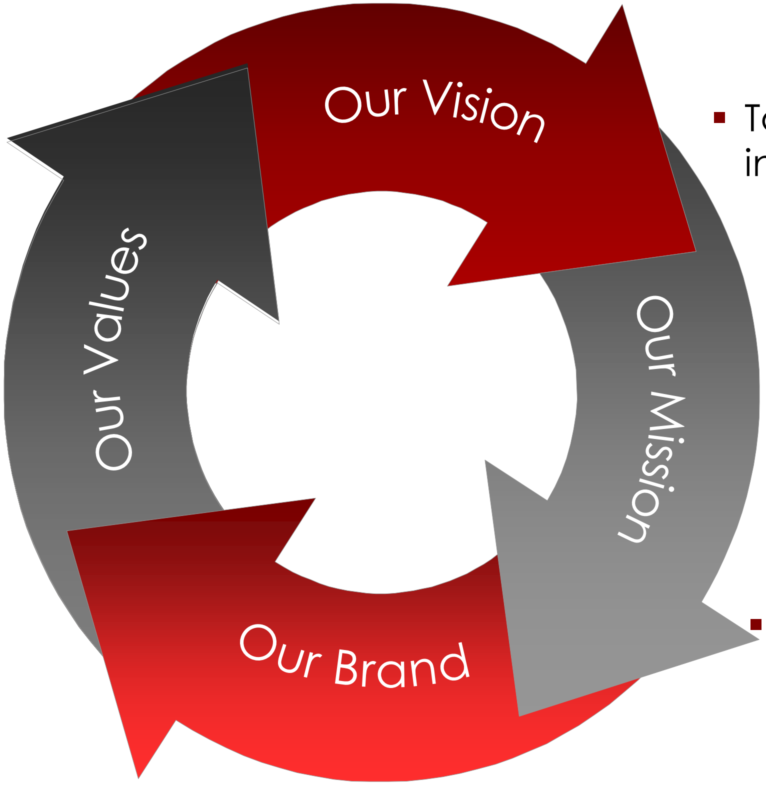
Strategy

Vision & Mission

Our overall business aspirations are reflected in our Vision and Mission Statements, which see the Bank as a leading institution in the medium to long-term.

- **C**ustomer focus, **I**ntegrity, **T**eamwork, **E**xcellence



- To be the financial institution of choice

- We deliver solutions that enhance stakeholders' value

- **O**ne-**C**ustomer

Strategy Roadmap

2011-2016

2016+

Mid-term

- 5% market share measured by assets
- Leading consumer banking franchise (bank of choice for customers in our target markets)
- Diverse retail funding base
- <3% in non-performing loans
- Diversified income streams with top quartile position in all our operating areas
- Investment grade credit rating
- Double digit revenue growth Y-o-Y

Long-term

- Globally competitive financial services franchise by financial and non-financial measures
- Fully scaled business model with institutionalized processes beyond the stewardship of current owners and managers
- Systemically important operator materially impacting all our sectors of business participation
- Great place to work

Sterling Today

Relative Strength

Service	▪ The bank retains a strong reputation for customer service	★★★
Leadership Team	▪ Key leadership has worked together through numerous integrations and industry challenges for over ten years	★★★
Footprint	▪ The Bank is present in key markets with room for expansion in branches and deepening of customer relationships	★★
Brand	▪ The Bank's brand is still not widely familiar among retail customers	★
Operating Efficiency	▪ The Bank has rationalization opportunities in operating costs. In addition, a key component of driving the cost-to-income ratio is additional scale	★
Capital	▪ Capital has limited the Bank's ability to serve its best customers, and is a key requirement to execute the Bank's strategy	★

Moving Forward

Service	▪ In order to maintain our competitive edge within the sector, we will rejuvenate the **'One Customer'** concept by delivering service of a standard that is second to none in the Industry
E- Banking	▪ The Bank will leverage its e-Channels to increase sales points and harness opportunities in the retail market
Technology	▪ Technology leverage with process re-engineering to improve efficiency
Human Capital	▪ The Bank will employ global best practices in its recruitment and people management to ensure optimal staff performance and engagement
Strategic Alliance	▪ Strategic Alliances with both local and offshore partners to harness potential business opportunities
Product Innovation	▪ Product innovation that would differentiate the Bank from competition and appeal to the entire value chain of target market segments
Branch Strategy	▪ Optimizing branch network and branch type to meet strategic objectives and product and service delivery goals

Key Issues Today

Low Capital Base	▪ Capital base of N54bn representing 52% of peer group average and 22% of industry average
High Funding Costs	▪ Weighted average cost of funds of 5.9% representing 70 basis points above peer group average
Brand Presence	▪ Brand not fully established in target sectors
Operating Efficiency	▪ High cost-to-income ratio of 74% in line with peer group average of 75%

Meeting Capital Challenges

Capital Injection	The Bank plans to raise additional capital in 2013 from both domestic and international sources. The capital raising program is phased as follows: **Phase 1 -** Tier I capital • This is expected to be achieved through a Private Placement (US$120million) • Rights Issue of US$80 million • The process commenced in Q1 2013 **Phase 2 -** Tier II capital • The Bank plans to raise subordinated debt of N30 billion (US$200 million) multi-currency • The process will commence in Q3 2013 and will be completed by Q1 2014

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Use of Funds

	Tier I	Tier II
IT System	$30m	
Branch Optimisation	$20m	
Branch Expansion	$20m	
Alternative Channels	$20m	
Lending Book		$200m
Bonds	$100m	
Total	$190m	$200m

Reducing our Cost of Funds

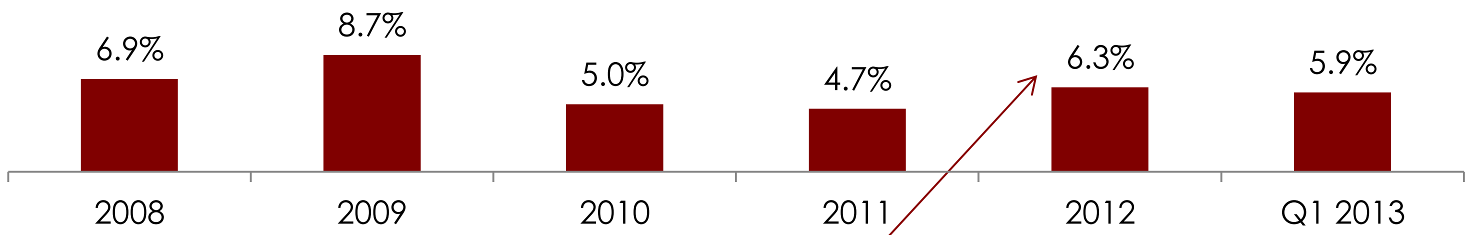
Cost of funds

- Leverage our strong customer service appeal to build retail deposit base - mix of funding is being moved from wholesale to retail.
- Through our deposit growth strategy we have moved deposit mix from 60/40 Wholesale/Retail to 35/65 Wholesale/Retail over the last 3 years
- Customer acquisition costs have been brought down significantly from an average of N50,000 to an average of N9,500 per new customer as a result of a number of initiatives implemented and we expect it to drop further:

  Sales outsourcing, virtual sales, telemarketing and third party acquirers for low end customers

  Customer acquisition by full time relationship managers limited to high value accounts

Cost of fund trend



MPR rose 175 basis points to 12% in December 2011,
CRR rose 400 basis points to 12% in July 2012 driving up cost of funds industry-wide.

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Raising Brand Awareness

Brand Presence

- Focus on providing customers with an easy and seamless interface in dealing with the bank through our various distribution points
- Restructuring of the service organization to support retail drive
- Alignment of physical infrastructure with people, processes and systems:

  Modernization to capture high street retail look and feel

  Restructuring along the lines of hub (generic) and spoke (targeted) delivery platforms
- Shifting from a traditional organization-centric model to a customer-centric model that is integrated around the customer's needs



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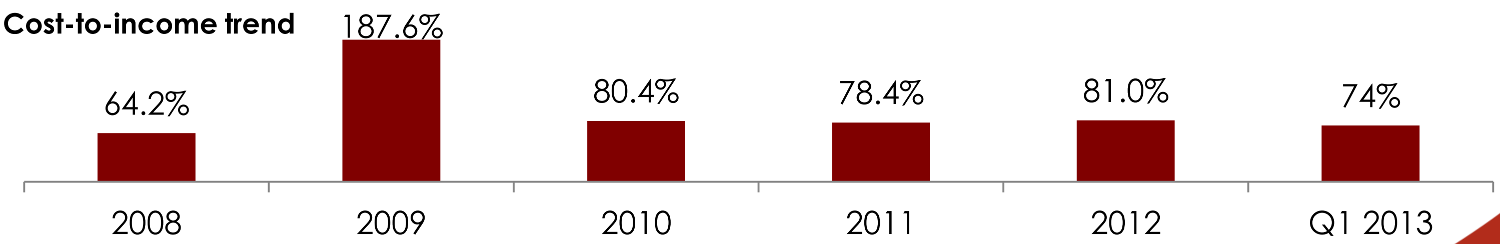
Improving Efficiency

Operating Efficiency

Improved operating costs - Infrastructure and related costs are high relative to size of bank:

- With additional capital the Bank will seek to take more deposits and make more loans from existing infrastructure.
- We have a unique deposit growth strategy focused on depositor rewards, more efficient execution and better leveraging of existing branch infrastructure with limited new branches.
- The focus is on efficient growth and deeper exposure to customers. Additional capital increases operating leverage and immediately makes the business more efficient and more profitable
- Automation of existing manual processes to enable us free the workforce to focus on value adding, business enhancing tasks

Cost-to-income trend



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Financial Highlights

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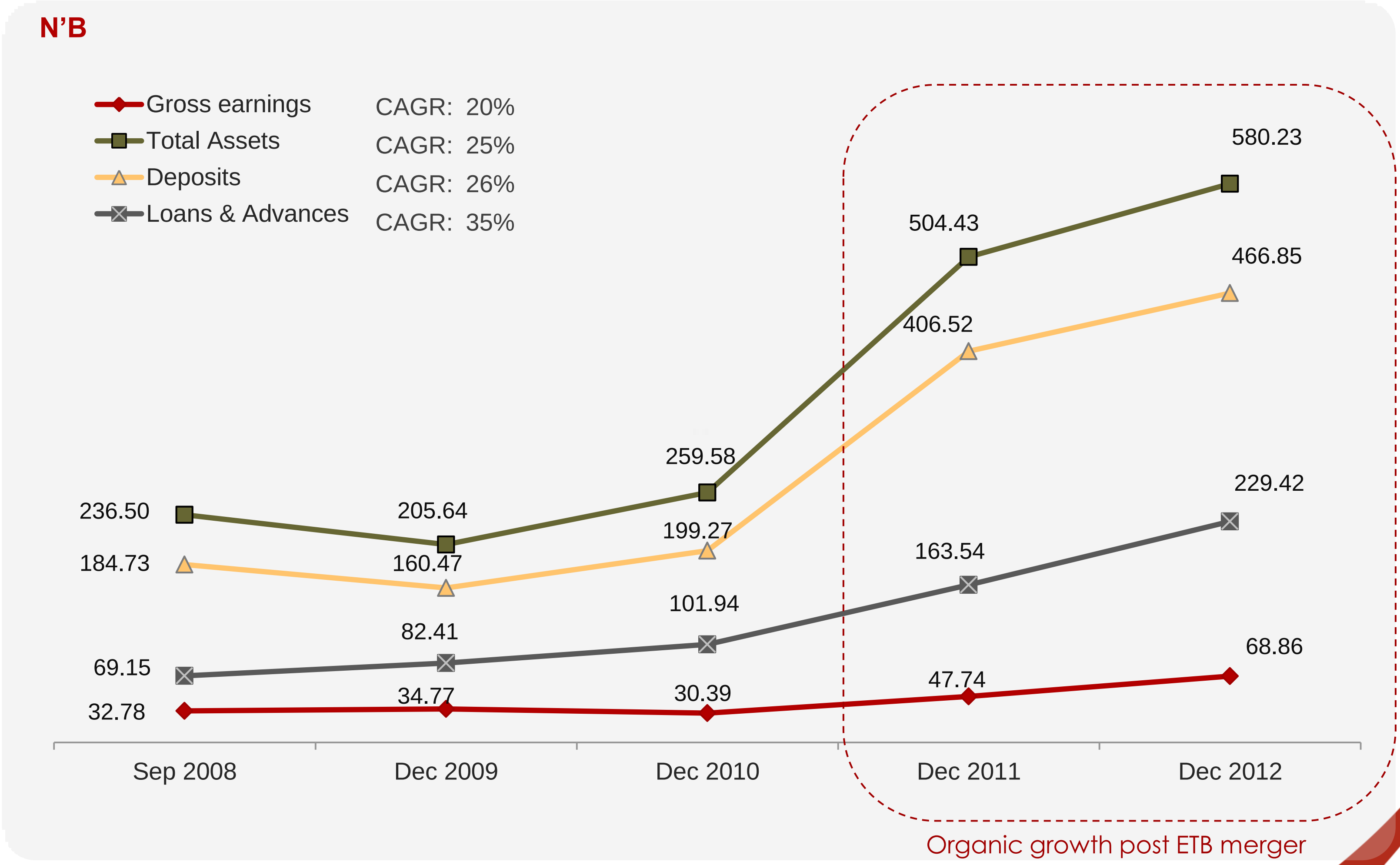
Growth Trends: Year-on-Year Review



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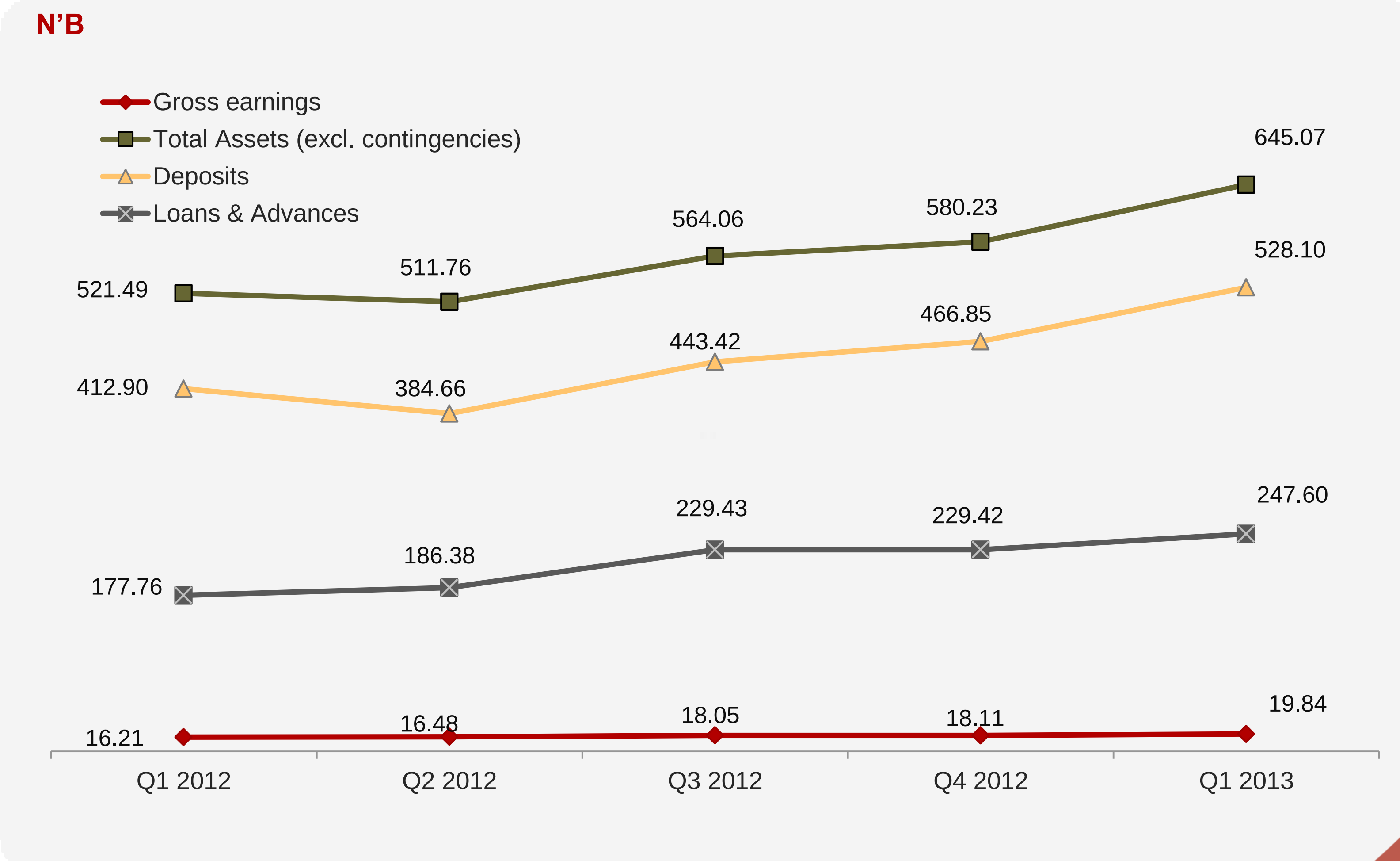
Growth Trends: Quarter-on-Quarter Review



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Financial Highlights

Income statement

- Earnings rose 22% to N19.8bn (Q1 2012: N16. 2bn)
- Net interest income up 4% to N6.5bn (Q1 2012: N6. 3bn)
- Non-interest income up 111% to N5.6bn (Q1 2012: N2.6bn)
- Net operating income up 29% N11.7bn (Q1 2012: N9.1bn)
- Operating expenses up 17% to N8.7bn (Q1 2012: N7.4bn)
- Profit before tax up 85% to N3.0bn (Q1 2012: N1.6bn)
- Profit after tax up 96% N2.7bn (Q1 2012: N1.4bn)

Financial Highlights…

Balance sheet

- Total assets up 11% N645.1bn (Dec 2012: N580.2bn)
- Total liabilities up 12% N595.8bn (Dec 2012: N533.6bn)
- Loans and advances up 8% N247.6bn (Dec 2012: N229.4bn)
- Total deposits up 13% N528.1bn (Dec 2012: N466.8bn)

Key ratios

- Return on average equity of 23.0% (Q1 2012: 13.2%)
- Return on average assets of 2.0% (Q1 2012: 1.3%)
- Cost-to-income of 74.2% (Q1 2012: 82.0%)
- NPL ratio of 3.7% (Dec. 2012: 3.8%)

Earnings Analysis

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Revenue Sources

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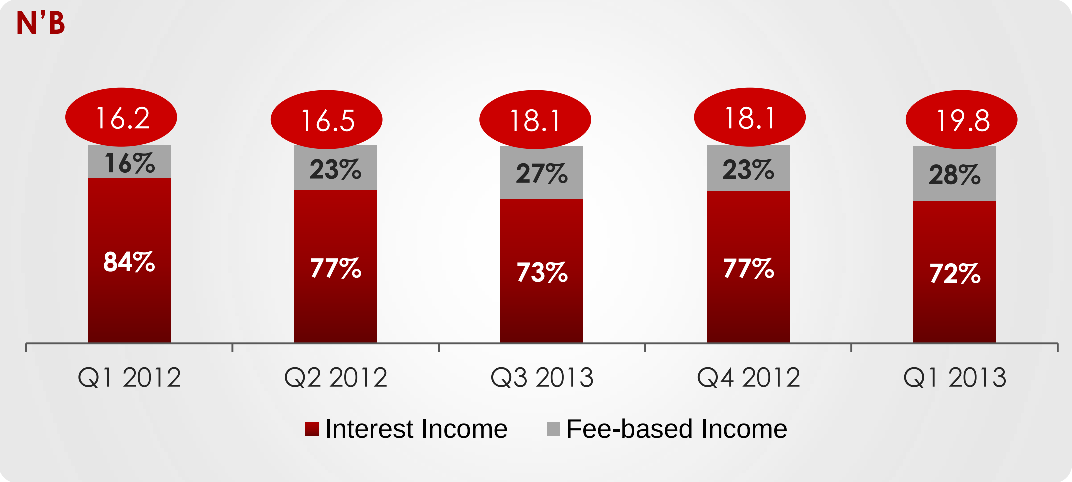
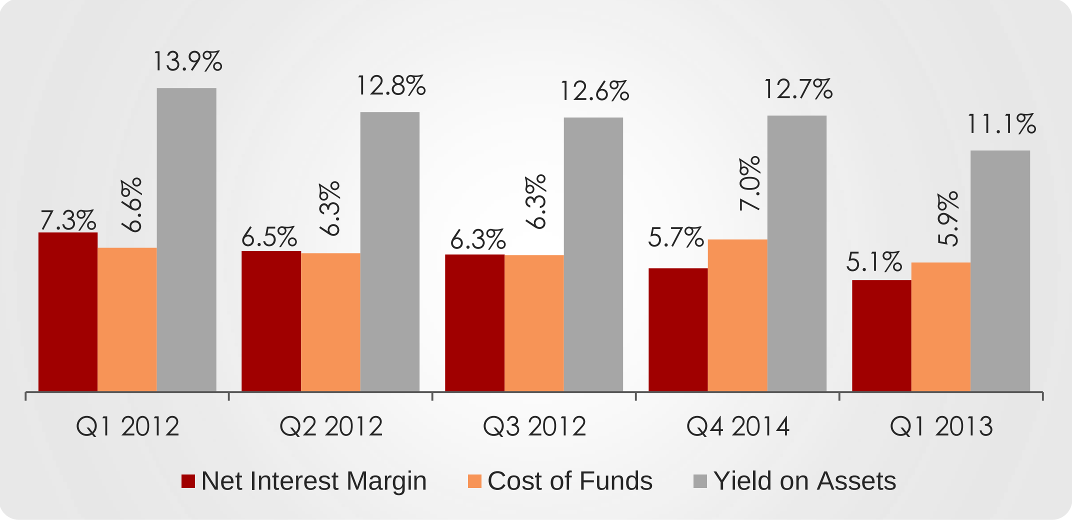
Revenue Drivers





Comments

- Earnings rose 22% YoY and 10% QoQ
- Interest income remained a major driver of earnings with 72% contribution in Q1 2013
- Cost of funds improved by 70 basis points YoY and 110% QoQ reflecting progress in our retail deposit drive
- Yield on assets declined by 160 basis points QoQ to off-set the improvement in funding costs resulting in a 60 basis points decline in net interest margin
- We expect yield to improve in the coming quarters as we increase quality risk assets creation

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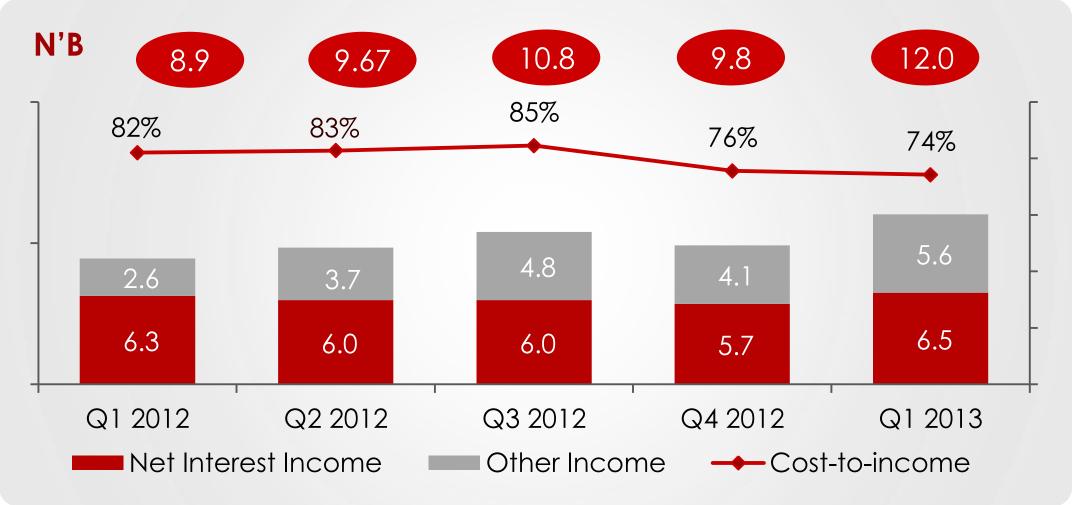
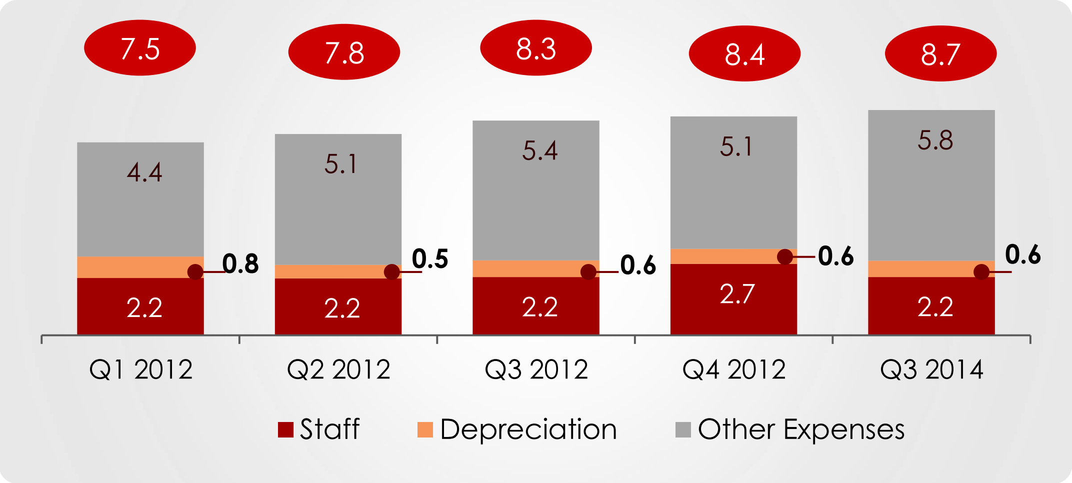
Operating Efficiency





Comments

- Operating income rose 35% YoY and 22% QoQ to N12 .0 billion, while net operating income was N11.7 billion due to impairment charge of N335 million in Q1 2013
- Net operating income rose 29% to off-set the 17% growth in operating expenses resulting in about 800 basis points improvement in cost-to-income ratio YoY to 74%
- Growth in operating expenses reflected increase in AMCON surcharge and inflationary pressures

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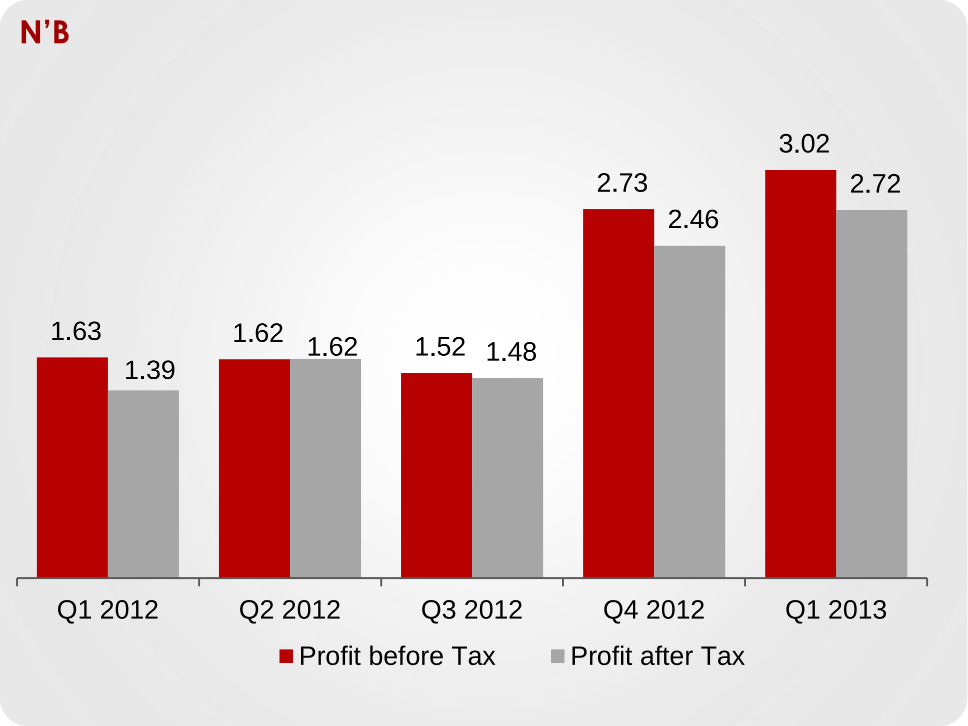
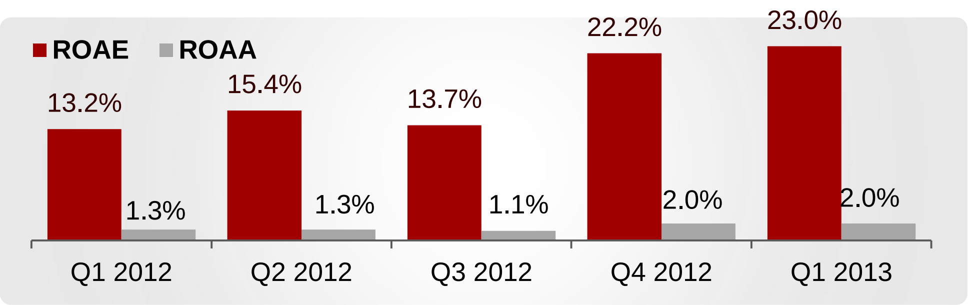
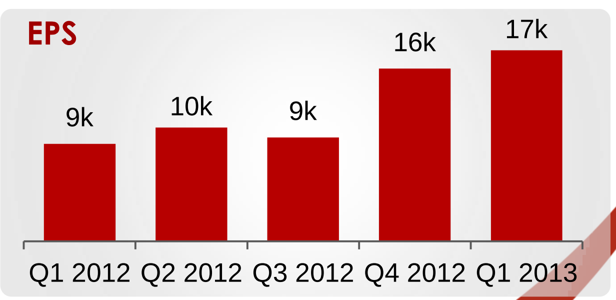
Profitability



Comments

- The Bank has recorded strong growth in profitability reflecting improvements in operating efficiency
- PBT rose 85% to N3.0 billion, while PAT rose 96% to N2.7 billion
- Strong rebound in ROAE and ROAA to 23% and 2% respectively in line with our medium term goals





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Balance Sheet Analysis

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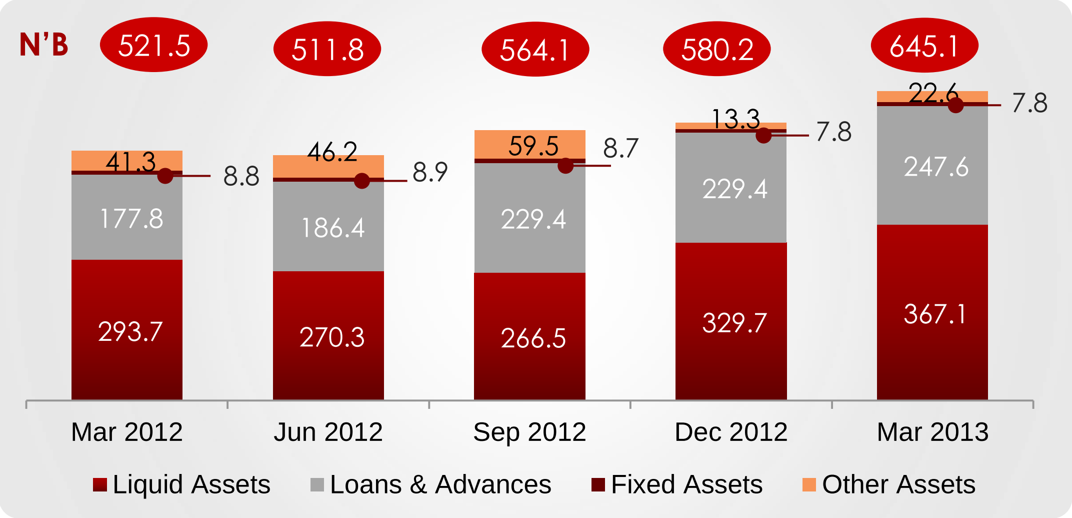
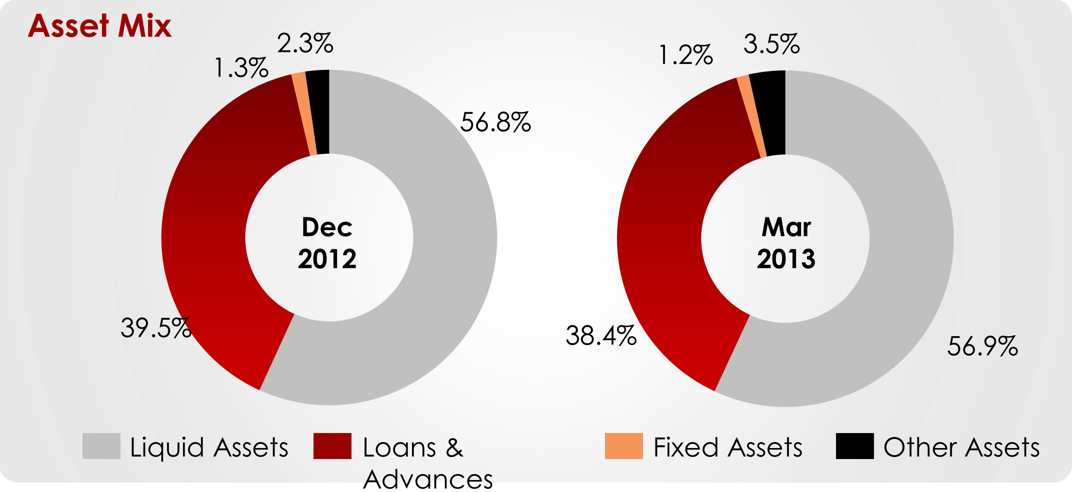
Asset Decomposition





Comments

- Total assets grew 11% in Q1 2013
- Income generating assets increased by12% and accounted for 86% of total assets
- Loan penetration was 38% down from 40% in Dec. 2012
- Liquid assets, which were largely government securities – Treasury Bills and Bonds, accounted for 57% of total assets

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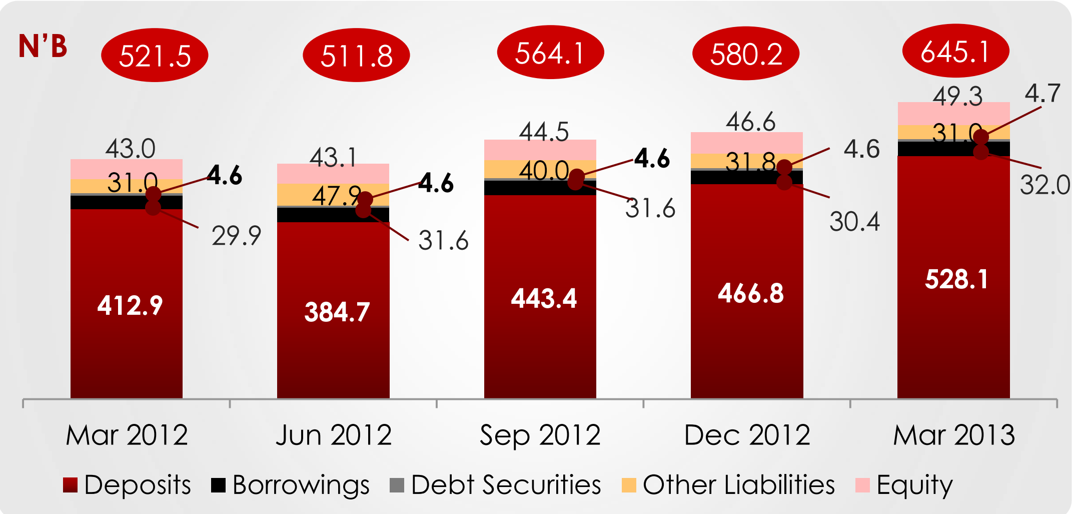
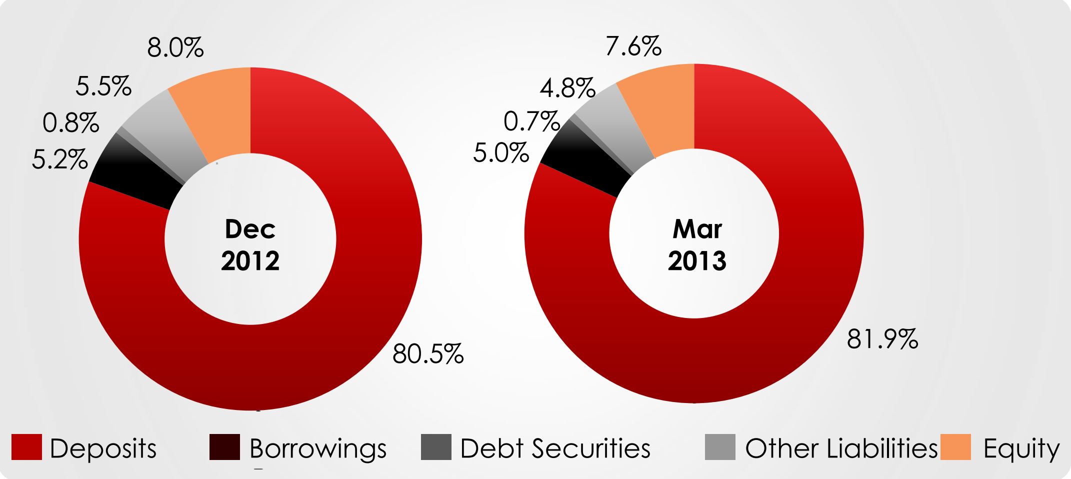
Assets Funding Mix





Comments

- Diversified funding base with deposits as the major funding source
- Deposits funded 82% of total assets (Dec. 2012 81%)
- Borrowings consist of facilities from Citibank, Bank of Industry (under the CBN intervention fund) and Agric. Fund for on-lending to the agricultural sector
- Debt securities of N4.6 billion, a 7-year unsecured debenture stock at 13%

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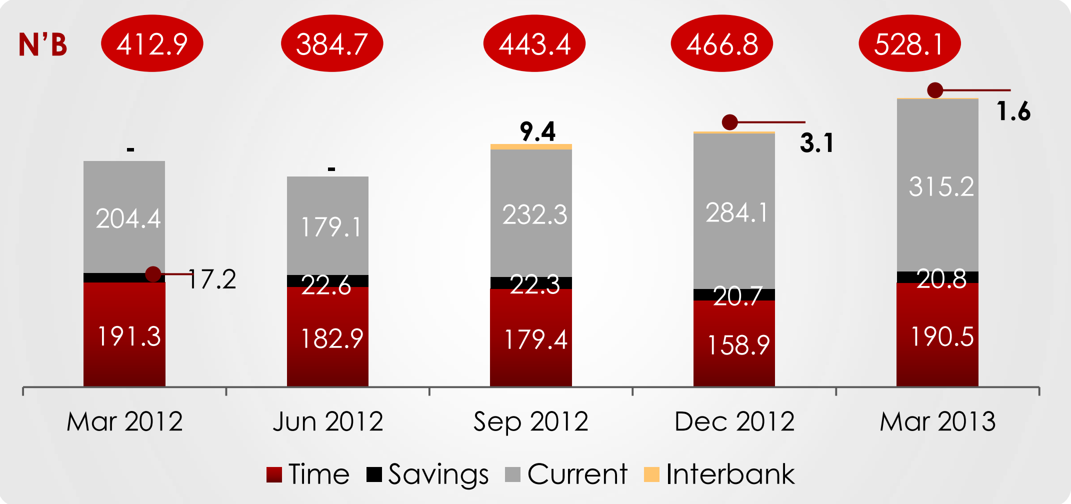
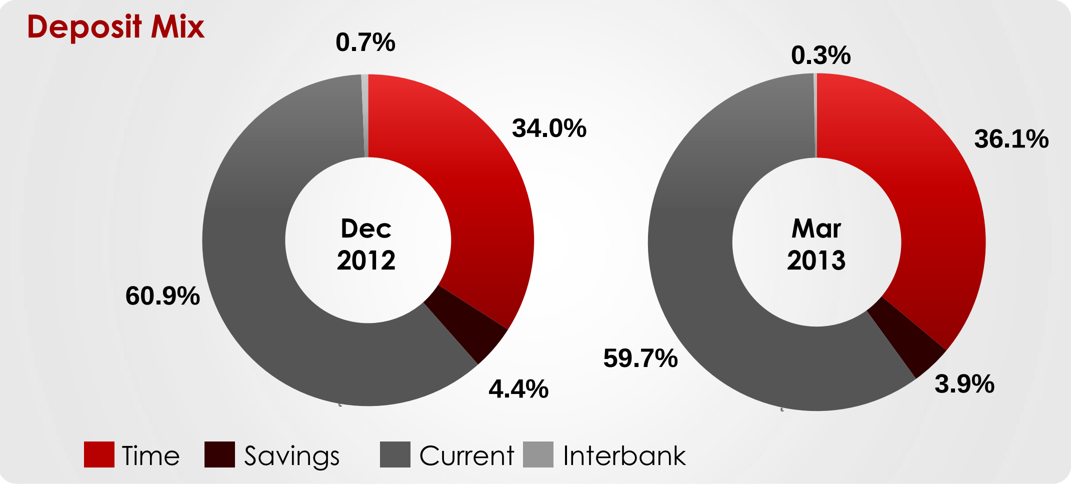
Deposits





Comments

- Deposits grew 13% year-to-date Mar. 2013 to N528 billion without compromising mix
- Low cost deposits accounted for 64% of total deposits (wholesale, 36%) reflecting the benefits of our retail business
- Cost of funds declined by 70 basis points to 5.9%
- We plan to further reduce our funding costs as our new retail strategy gains momentum

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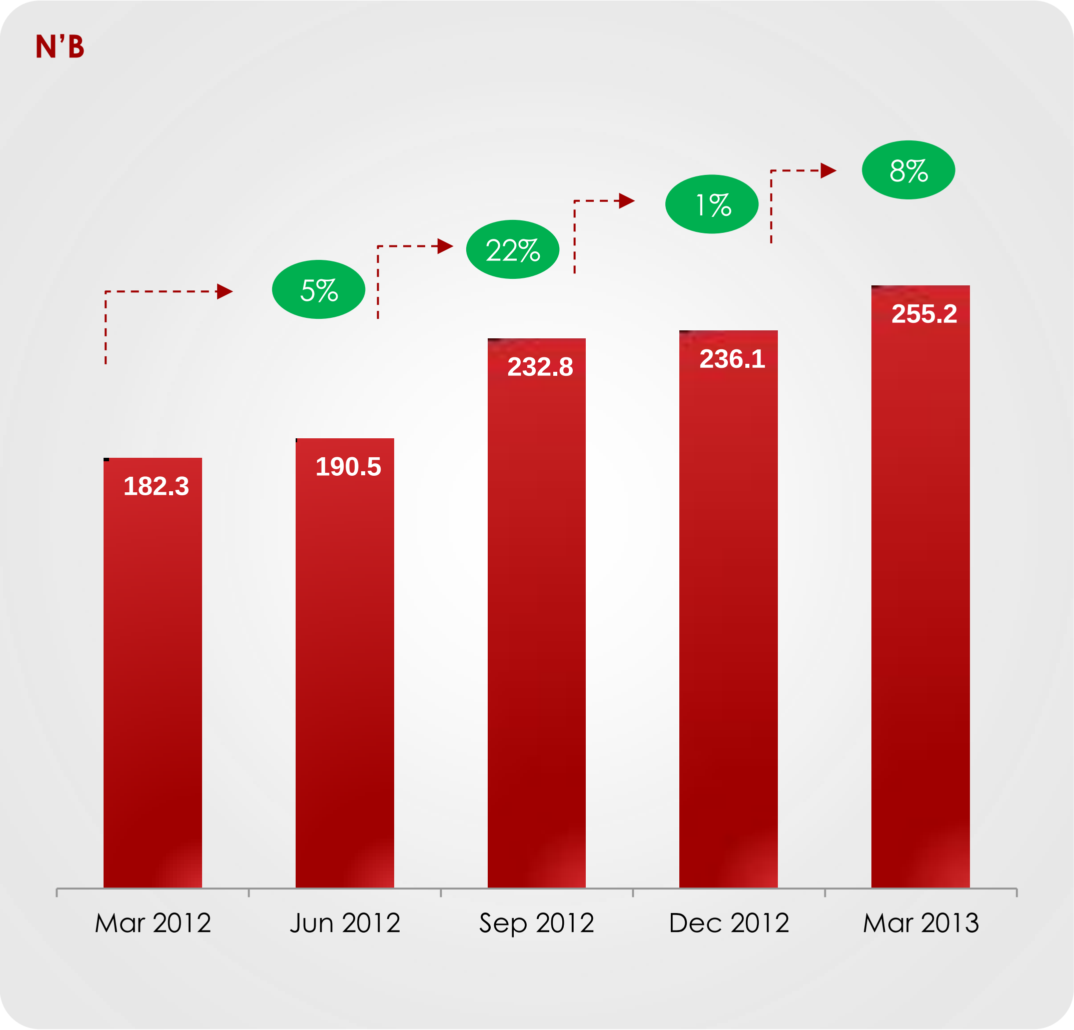
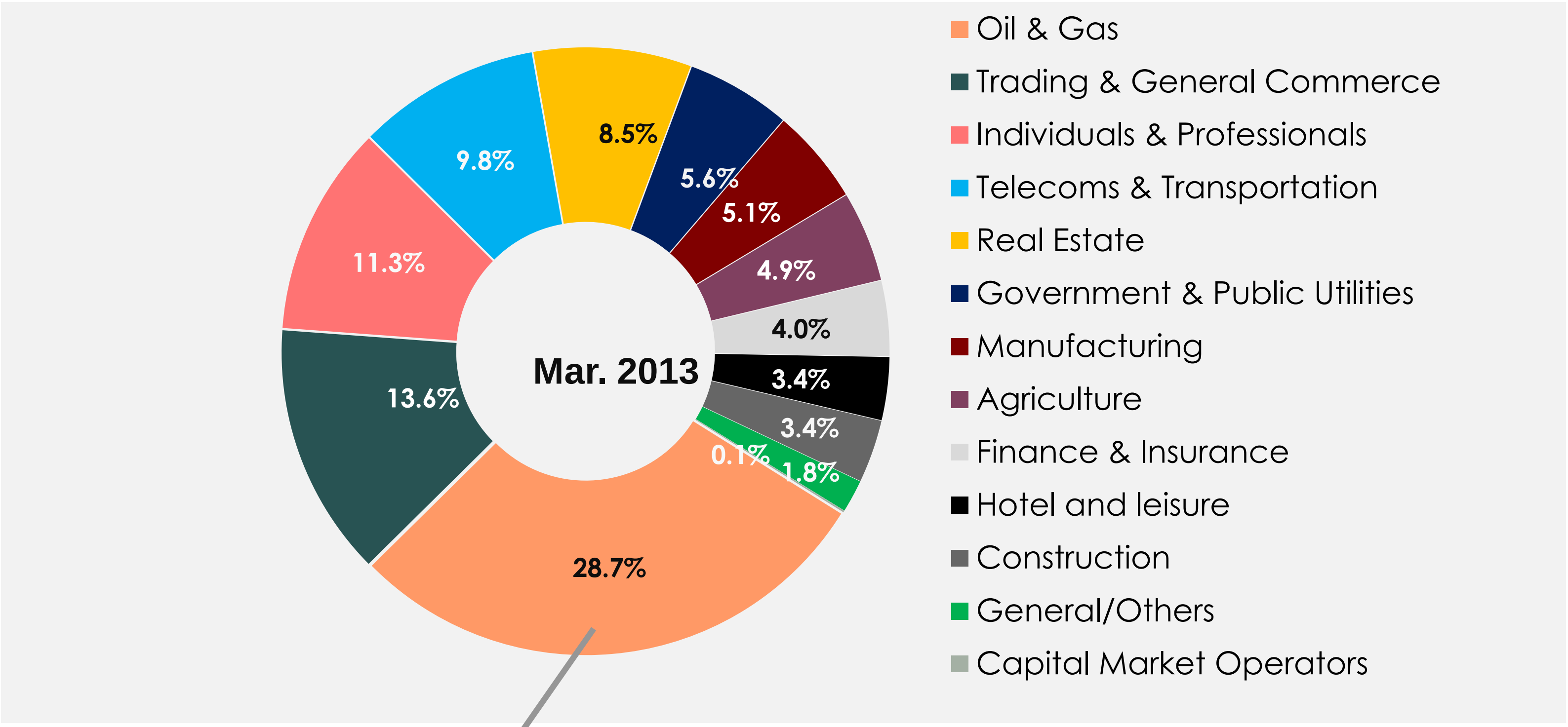
Gross Loans Trend

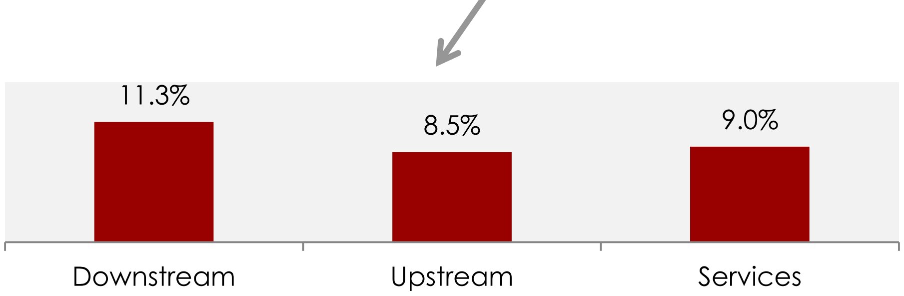


Comments

- Gross loans and advances rose by 8% year-to-date Mar. 2013
- Growth was largely driven by loans to corporate entities, which accounted for 89% of total loans
- Well diversified loan book to capture growth sectors
- Oil & gas loans were made up of exposures in the upstream (26%) , downstream (38%) and services (36%) sub-sectors

Gross Loans by Sector





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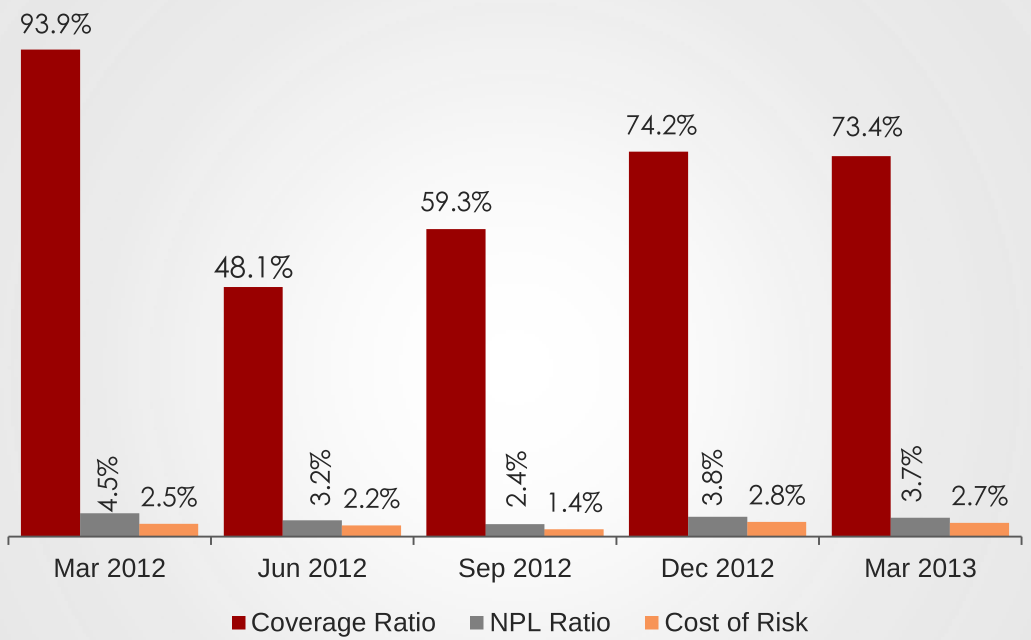
Asset Quality



Comments

- Continuous improvement in asset quality
- NPL ratio was reduced by 10 basis points to 3.7% from 3.8% in Dec. 2012
- Non-performing loans coverage ratio was 73%, while cost of risk reduced to 2.7%

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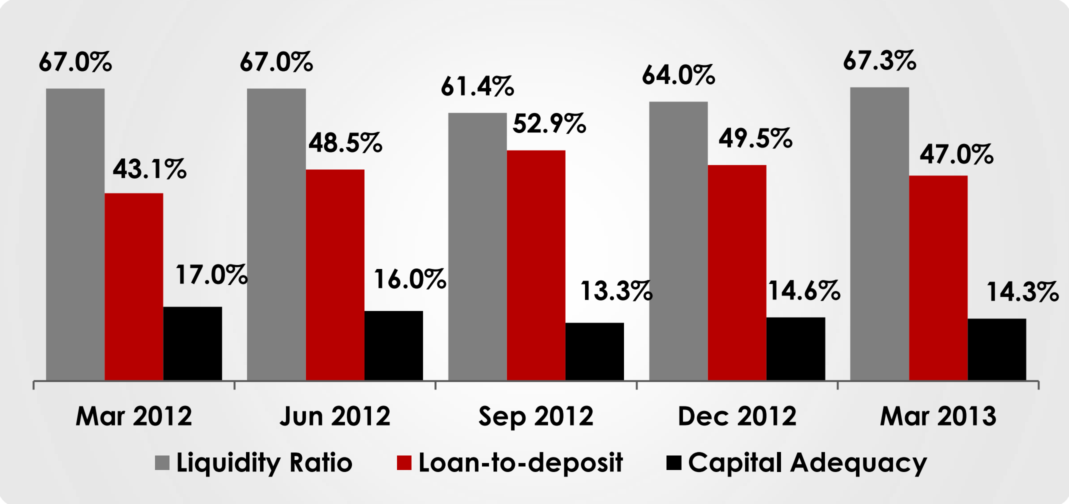
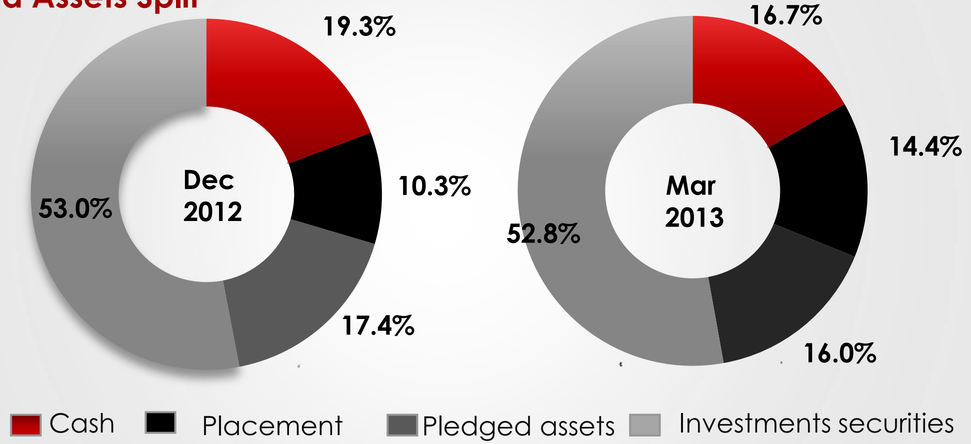
Capital Adequacy and Liquidity



Liquid Assets Split



Comments

- Reduction in loan-to-deposit ratio to 47% as deposit growth outpaced loan growth in Q1 2013
- Investment securities were predominantly TBs and bonds of which 66% are held to maturity
- Pledged assets were also made up of TBs and government bonds and accounted for 16% of liquid assets
- Capital adequacy ratio was relatively stable at 14% year-to-date above the regulatory benchmark of 10%

2013 Outlook

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Specific Action Plan for 2013

Retail

- A revamped retail strategy focusing on customer acquisition and low cost deposit mobilization
- Effective use of alternative channels to serve our teeming retail customers
- Deployment of robust CRM to aid understanding of customer behaviour and preferences for effective deployment of enterprise resources
- Use of a Virtual Sales (telemarketing) Force, an expanded contact centre and social media to engage with customers and provide superior service

Corporate

- Leverage our planned capital injection to enhance capacity to meet the financing needs our corporate clients
- Focus on growth sectors – education, agriculture, telecoms and oil & gas
- Focus on low cost deposits by following the value chain
- Leverage our robust trade platform to grow trade business
- Leverage our efficient risk management framework and monitoring systems

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Specific Action Plan for 2013

Operational Efficiency

- Continuous automation and streamlining of processes to improve cost efficiency
- Conclude remodelling of branch infrastructure and energy sources in conformity with our retail focus to reduce cost of doing business
- Deploy MIS for effective performance measurement, reporting, and decision making

Balance Sheet Efficiency

- Improve average yield on assets by reinvesting maturing investments in government securities
- Leverage our retail strategy to generate cheap deposits to fund our corporate lending
- Increase balance sheet aggressiveness on the back of new capital

Milestones in Q1 2013

- 23% return on average equity (ROAE) in line with our medium term goal
- 11% growth in total assets to N645bn
- Deposit growth of 14% to N528bn without compromising mix
- Successfully launched SUPA current account for small business and Kia-Kia (savings account) for the mass retail
- Launched a social banking platform through Facebook
- Deployed an expanded contact centre and virtual sales force to enhance service delivery at the retail end
- Attained the "Payment Card Industry Data Security Standard" (PCIDSS) 2.0 certification
- Commenced the process of raising additional N12 billion Tier 1 capital by way of Rights Issue

FY 2013 Performance Indicators

- Double digit growth in earnings > 20%
- ROAE > 20%
- Cost-to-income ratio <78%
- Loan growth > 31%
- Deposit growth > 36%
- Growth in active customer count > 30%

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Thank you

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