

# Analyst/Investor Presentation

FY 2013



# Important Information

## Notice

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- The presentation is for information purposes only and should not be construed as an offer or solicitation to acquire, or dispose of any securities or issues mentioned in this presentation.
- Certain sections of this presentation reference forward-looking statements which reflect Sterling Bank's current views with respect to, among other things, the Bank's operations and financial performance. These forward-looking statements may be identified by the use of words such as 'outlook', 'believes', 'expects', 'potential', 'continues', 'may', 'will', 'should', 'seeks', 'approximately', 'predicts', 'intends', 'plans', 'estimates', 'anticipates' or the negative version of these words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties. In other cases, they may depend on the approval of the Central Bank of Nigeria, Nigerian Stock Exchange, and the Securities and Exchange Commission.
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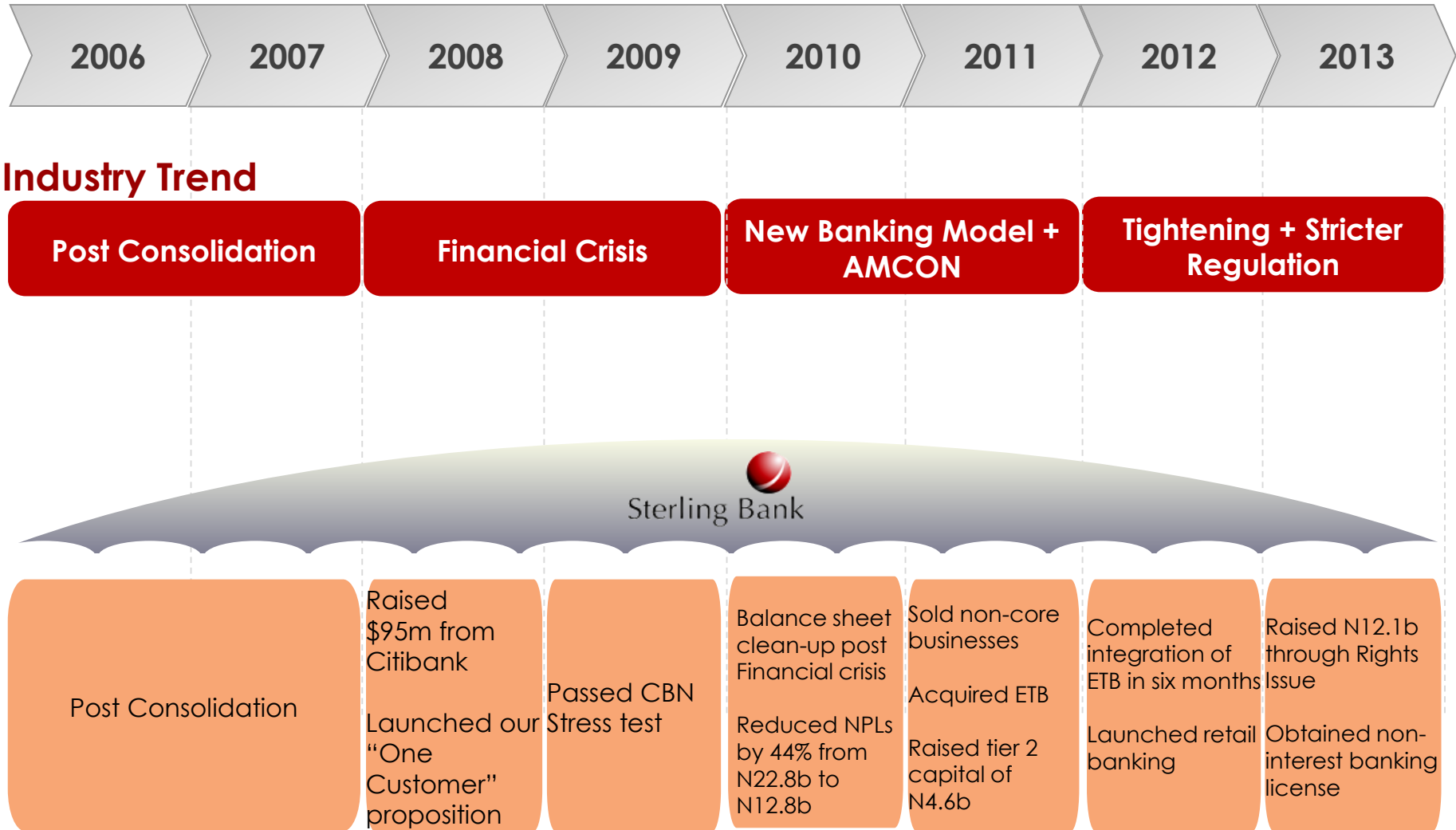
# Agenda

1. Overview
2. Operating environment
3. Performance review
4. Outlook
5. Appendix

The background is a vibrant, abstract composition of geometric shapes. It features a mix of colors including bright yellow, orange, red, and blue. The shapes include circles, triangles, squares, and lines, some of which are layered or overlapping, creating a sense of depth and movement. The overall style is modern and dynamic.

# Overview

# Timeline



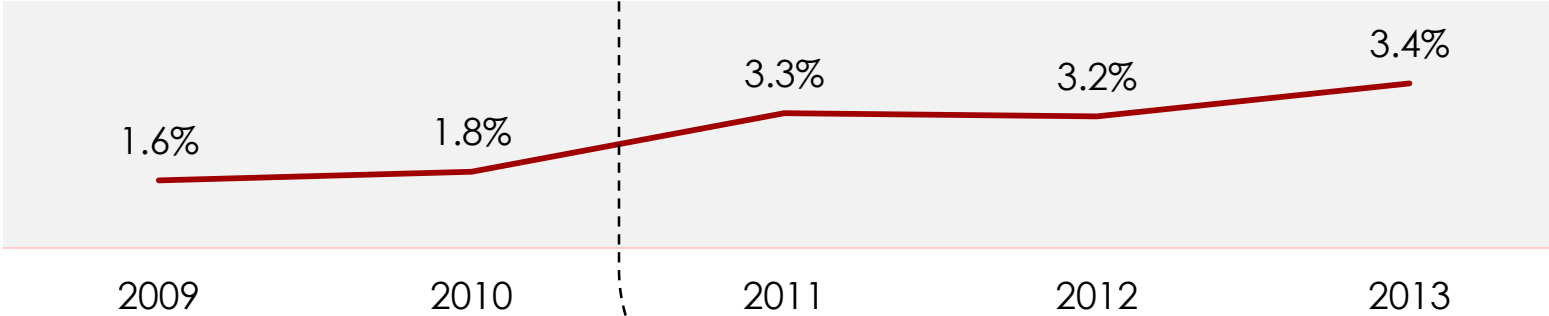
# Market share growth trajectory

Organic growth post ETB merger

Total Assets Market Share



Deposit Market Share



# Sterling Bank at a glance

<b>Company</b>	Sterling Bank is a full service national commercial Bank
<b>Accounting</b>	International Financial Reporting Standards (IFRS)
<b>Auditors</b>	Ernst & Young
<b>Listing</b>	Nigerian Stock Exchange
<b>Focus segments</b>	Retail, Corporate and Institutional clients
<b>Active Customers</b>	> 1,000,000
<b>Headcount</b>	2,735 professional employees
<b>Channels</b>	168 business offices; 300 ATMs; 5,000 POS

<b>Ratings Agency</b>	<b>Short Term</b>	<b>Long Term</b>
GCR	A3	BBB

# Management Metrics

Guidance	Performance
Revenue growth >20%	Earnings rose 33% to N91.6bn (2012: N68.9bn) ✓
Cost-to-income <80%	Cost-to-income of 69.4% (2012: 81.5%) ✓
Return on average Equity (ROAE) >20%	Return on average equity of 15.0% <sup>1</sup> (2012: 15.9%) ✗
Dividend per share = 20k	Dividend per share of 25 kobo (2012: 20 kobo) ✓
NPL ratio <3%	Non-performing loans ratio of 2.1% (2012: 3.8%) ✓
Net loans growth >30%	Net loans grew 40% to N321.7 billion (2012: N229.4bn) ✓
Deposit growth >35%	Deposits grew 22% to N570.5 billion (2012: N466.8bn) ✗

<sup>1</sup> ROAE adjusted for Rights Issue proceeds received in December 2013 was **16.9%**



# Key message

- Sterling Bank is in a strong growth phase – 3% market share by assets
- Earnings are strong - double digit growth year-on-year
- Asset quality is excellent - 2.1% NPL ratio
- Customer base is growing – achieved 1 million customer base
- Strong service culture – rated top ten in the market (KPMG BICSS)
- Shareholder value – consistently paid dividend since 2011
- Conservative management approach focused on sustainable growth

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# Operating Environment

# Operating Environment.../1

## Global

- Global economy made modest recovery in 2013 with an estimated growth rate of 2.4%<sup>1</sup>
- Growth was largely driven by recoveries in the developed economies led by the US, while it moderated in the Emerging markets
- US Federal Reserves began winding down its Quantitative Easing program from January 2014
- Bonny light price was relatively stable and closed the year at US\$111.36/barrel, 55 cents lower than US\$113.66 in 2012

## Domestic

- Domestic economy remained resilient with an estimated Q4 2013 GDP growth of 7.67%<sup>2</sup>
- The non-oil sector remained the key driver of growth while production challenges hampered growth in the oil sector
- However, a relatively stable oil price helped to cushion the foreign reserves shortfall

<sup>1</sup>World Bank; <sup>2</sup>National Bureau of Statistics

# Operating Environment.../2

## Regulatory Policy Changes

- The CBN maintained a tight monetary policy regime by increasing CRR on public sector deposits to 75% and 15% on private sector deposits

***Sterling Bank: moderate exposure to this market; pricing was reviewed across the loan book to maintain margins***

- Review of bank charges resulting in the pegging of savings interest rate at 30% of the monetary policy rate (MPR), phased removal of commission on turnover (COT), among others

***Sterling Bank: Overall impact – moderate***

- ***Total savings account approximately 4.5% of deposits***
- ***Pricing concessions previously approved on COT rates for a large number of clients***
- Suspension of WDAS and the re-introduction of RDAS to maintain exchange rate stability

***Sterling Bank: operational and documentary***



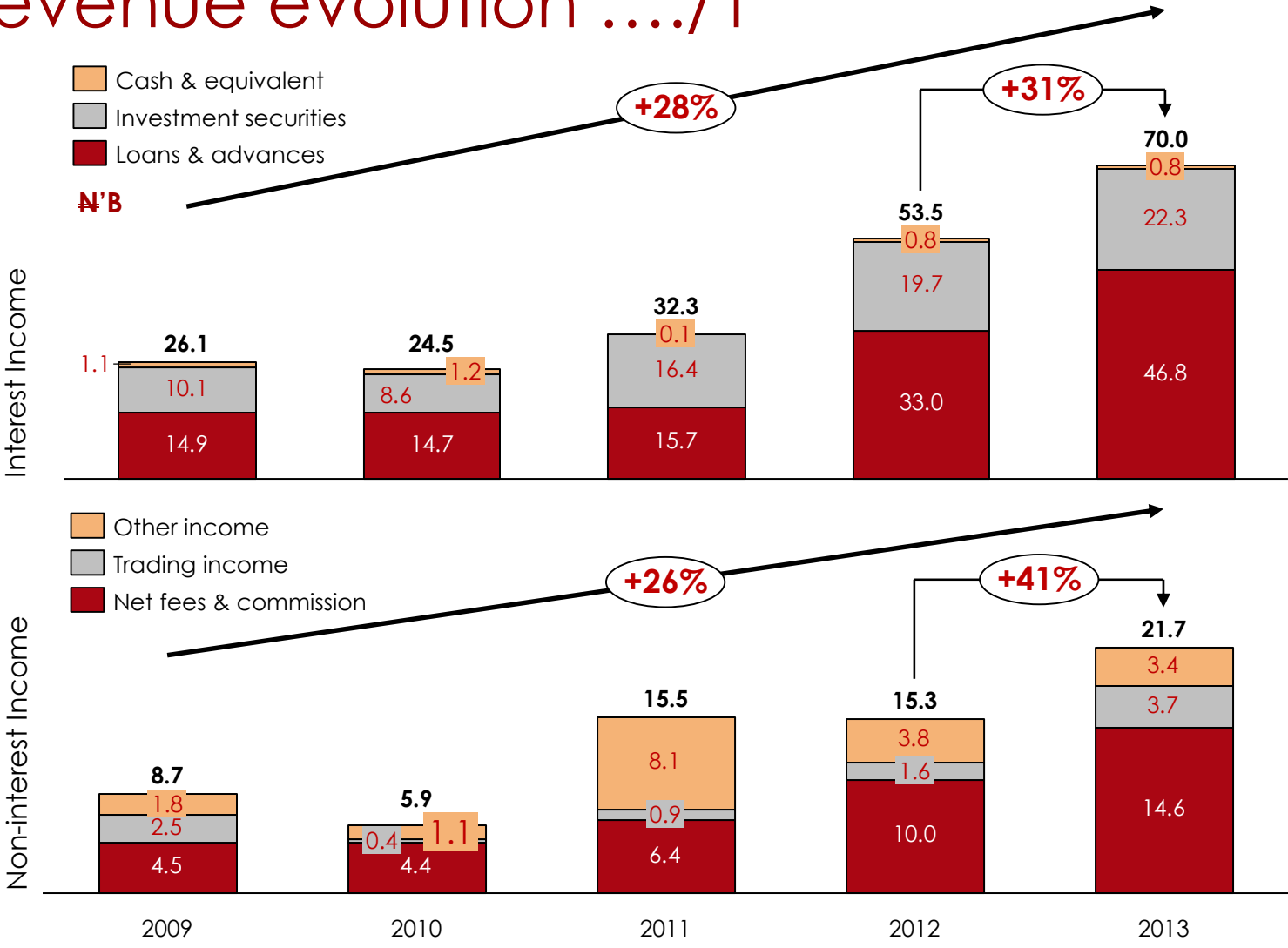
# Performance Review

- Earnings analysis

# Income statement highlights

Items (N' Millions)	Common Size		Common Size		Growth
	2013	2013	2012	2012	
Gross earnings	91,629	100%	68,857	100%	33%
Interest income	69,973	76%	53,542	78%	31%
Interest and similar exp.	(34,160)	37%	(29,648)	43%	15%
Net Interest Margin	35,813	39%	23,894	35%	50%
Net fees & commission	14,564	16%	9,958	14%	46%
Net trading income	3,714	4%	1,553	2%	139%
Other operating income	3,378	4%	3,804	6%	-11%
Non-interest income	21,656	24%	15,315	22%	41%
Operating Income	57,469	63%	39,209	57%	47%
Allowance for Risk Assets	(8,259)	9%	243	0%	-
Net Operating Income	49,210	54%	39,452	57%	25%
Personnel	(10,267)	11%	(9,393)	14%	9%
Depreciation & amortization	(2,694)	3%	(2,568)	4%	5%
Other operating expenses	(26,938)	29%	(19,991)	29%	35%
Operating expenses	(39,899)	44%	(31,952)	46%	25%
Profit before tax	9,310	10%	7,500	11%	24%
Income Tax	(1,035)	1%	(546)	1%	90%
Profit after tax	8,275	9%	6,954	10%	19%

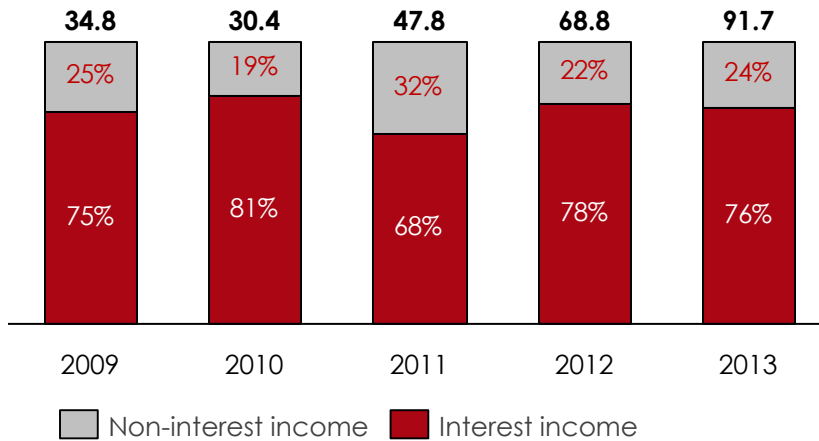
# Revenue evolution .... /1



# Revenue evolution .../2

**N'B**

Gross revenue

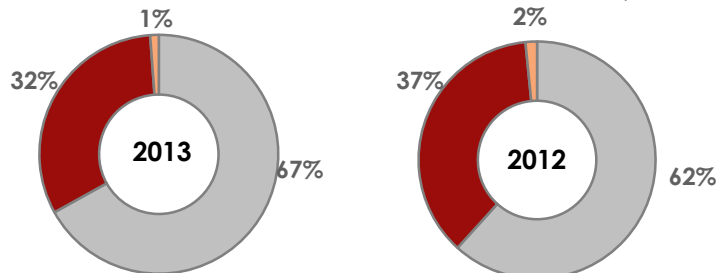


## Comments

- Revenue growth was driven by increased transaction volumes and activities
- Interest income rose by 31% due to a 42% rise in income from loans & advances and accounted for 76% of revenue
- Non-interest income grew by 41% on the back of 139% growth in trading income and accounted for 24% of revenue
- Despite a downward review of bank charges, fees and commissions grew by 46% to N14.6 billion

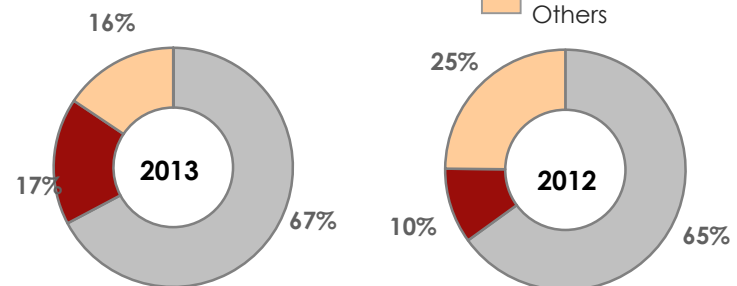
### Interest Income Mix

Legend: ■ Loans & Advances ■ Investment Securities ■ Cash & cash equivalent



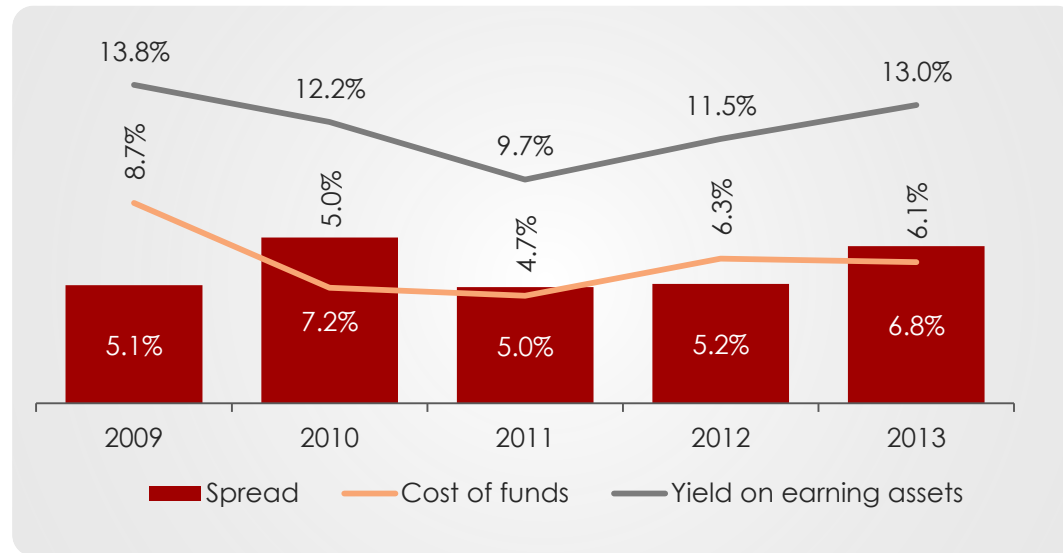
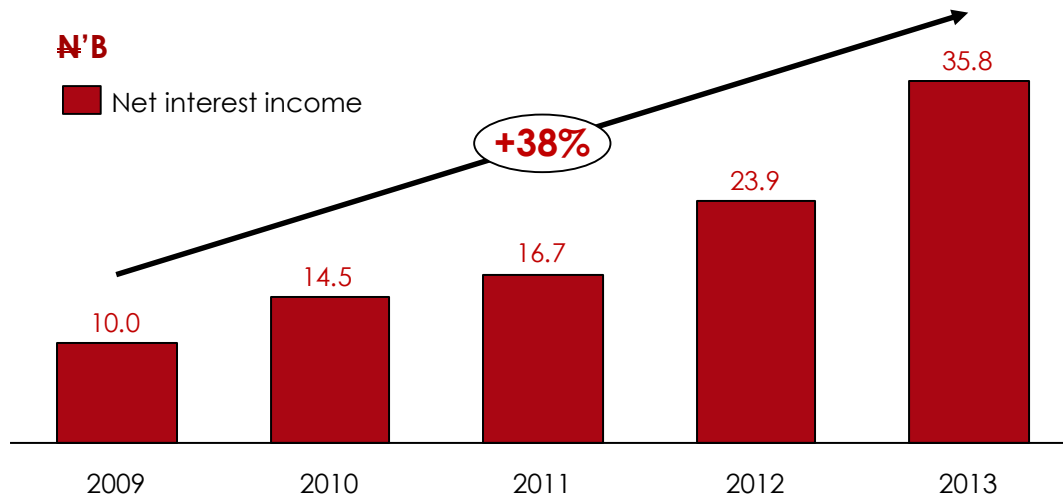
### Non-interest Income Mix

Legend: ■ Fees & Commission ■ Trading Income ■ Others





# Net interest income

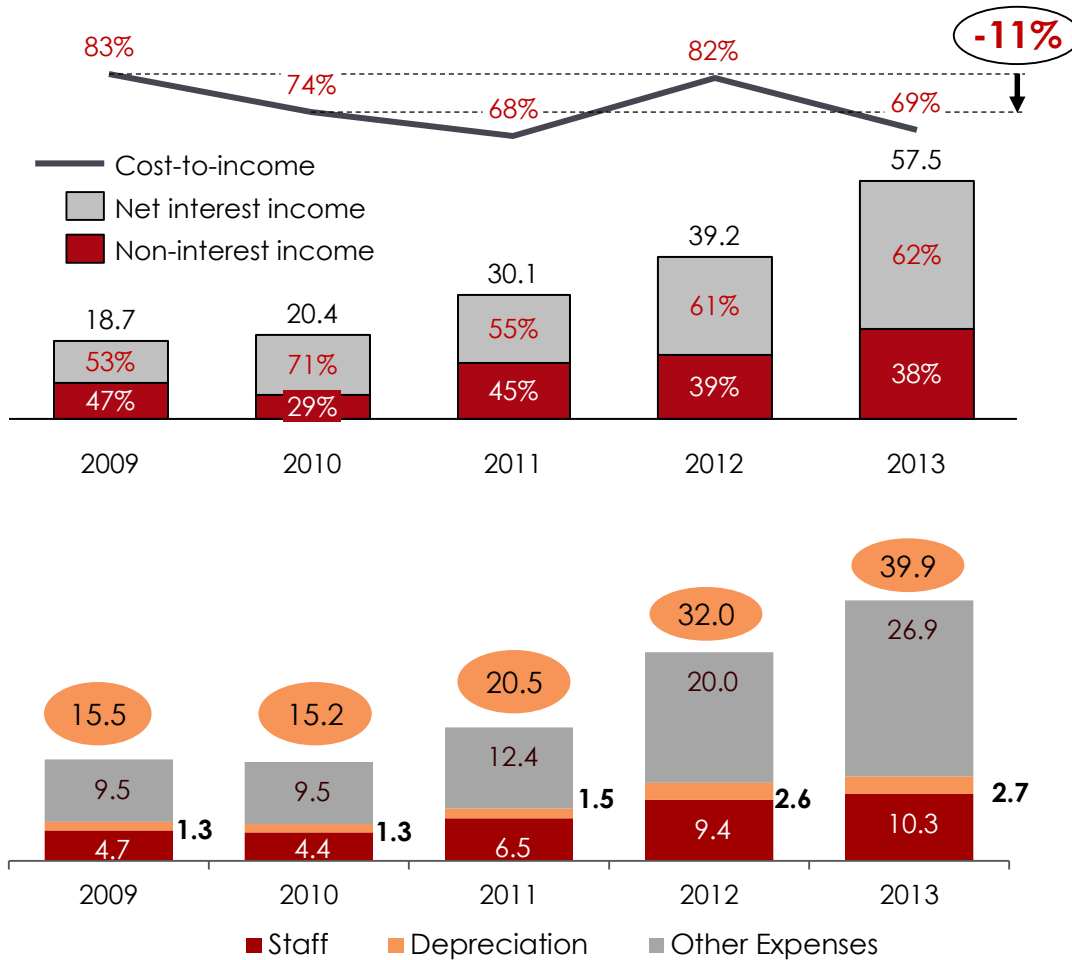


## Comments

- Net interest income rose by 50% to N35.8 billion due to growth in lending activities
- Growth in interest income was strong enough to douse the effect of a 15% increase in interest expense resulting in a 560 basis points rise in net interest margin to 51%
- Yield on earning assets increased by 150 basis points on the back of improved asset quality and reprising of existing facilities in line with the interest rate regime
- Despite a high interest rate environment, funding costs moderated by 20 basis points

# Operating Efficiency

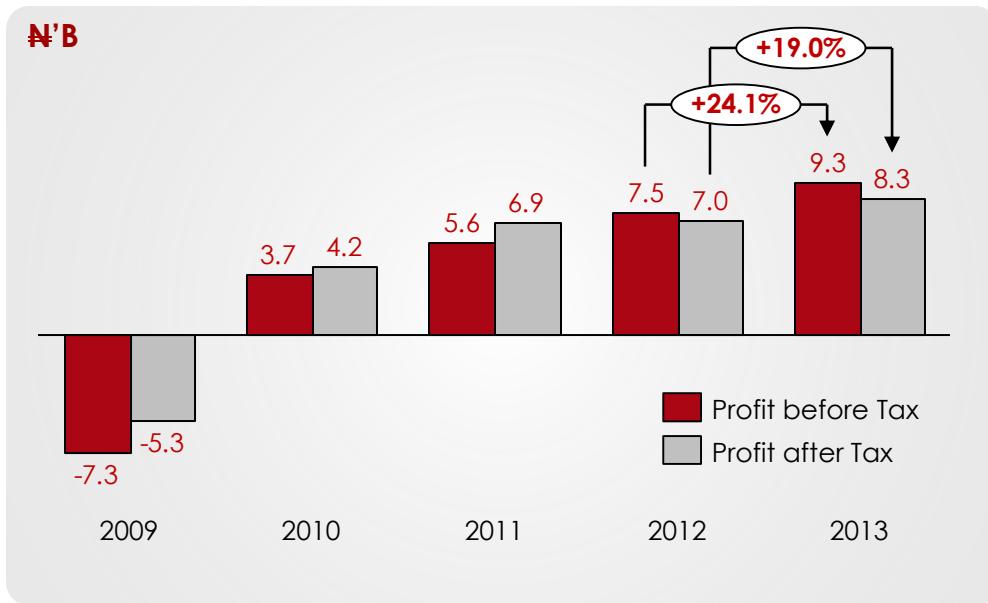
N'B



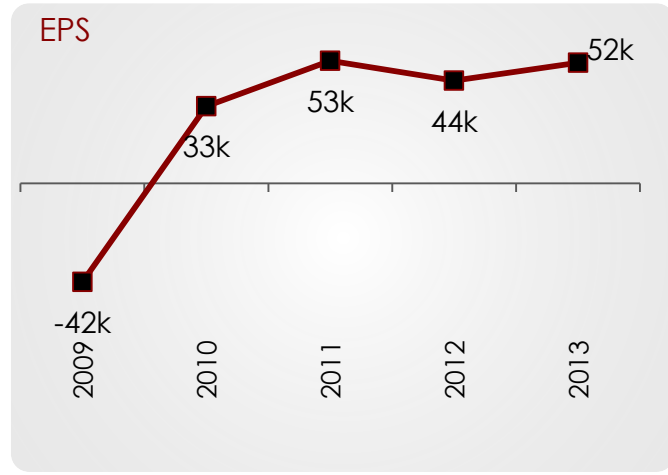
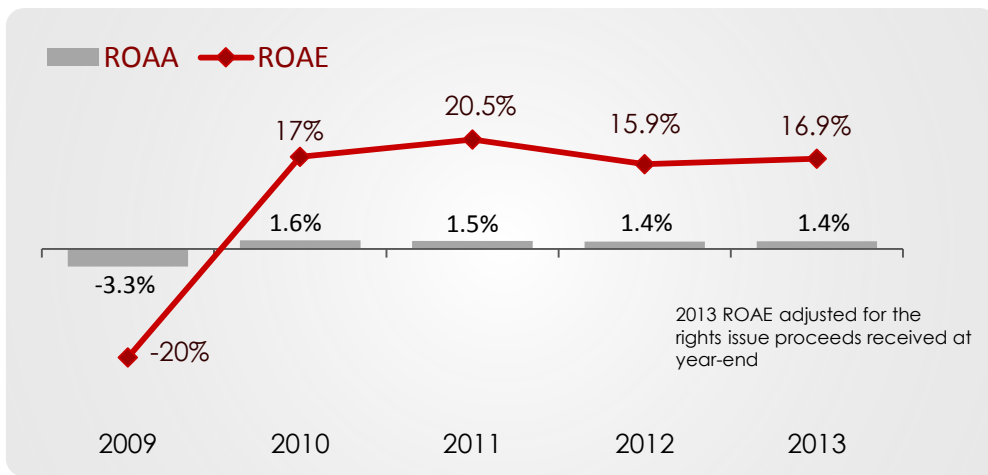
## Comments

- Operating income rose 47% to N57.5 billion driven by improvements in net interest income, resulting from a slower growth in interest expense relative to income
- Increase in operating expenses driven by general admin expenses and an upward review of AMCON sinking fund contribution by 20 basis points to 0.5%
- Increase in general administrative expenses by 54% due to inflationary pressures and ongoing investments in branch expansion and refits
- Increase in personnel costs due to an increase in headcount and staff promotion exercises
- Cost-to-income excluding impairment charge declined to 69% (81% unadjusted) reflecting improvements in operating efficiency

# Profitability



- ## • Comments
- Sustained profit growth momentum despite pressure on earnings arising from regulatory policy changes and a one-time impairment charge of N2.5 billion resulting from discount house exposure
  - PBT rose 24% to N9.3 billion, while PAT grew by 19% to N8.3 billion
  - The Bank has paid dividend consistently since 2011 and has proposed a dividend of 25k per share for 2013



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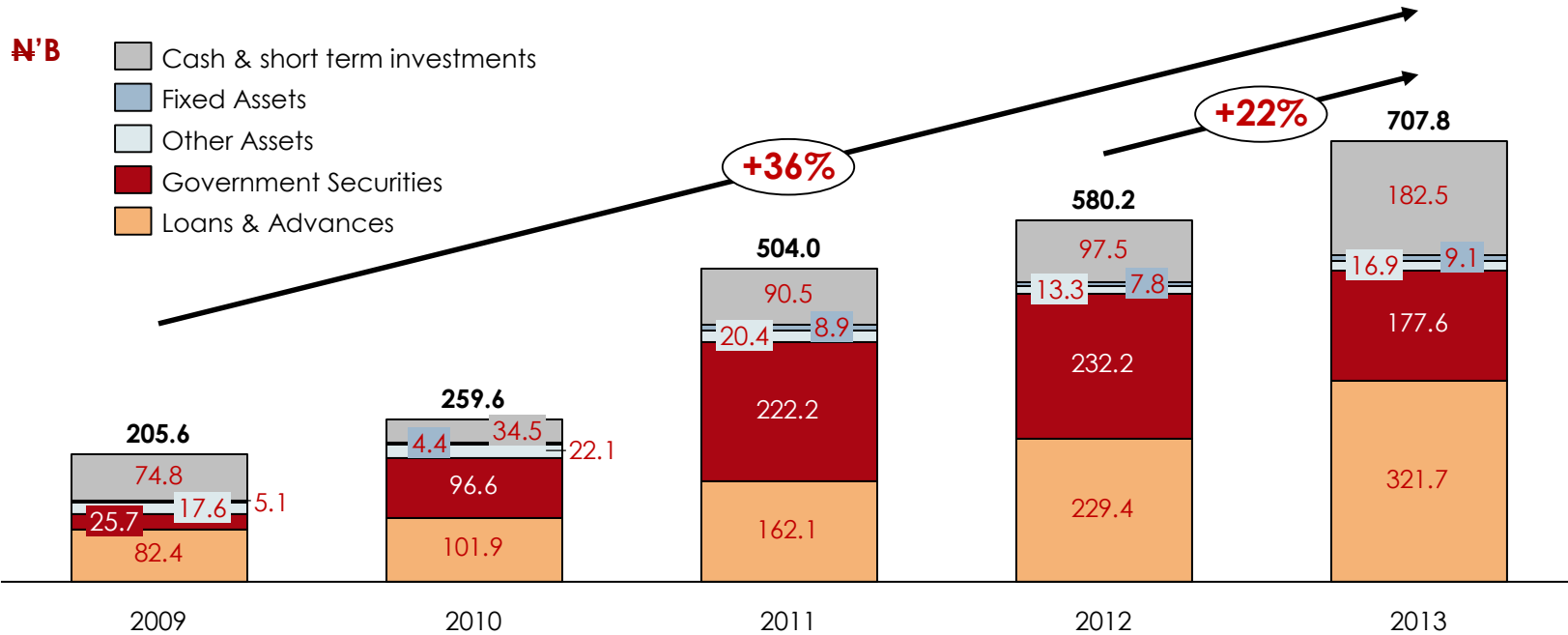
# Performance Review

- Balance sheet analysis

# Highlights of financial position

ASSETS (N'millions)	Common Size		Common Size		Growth
	2013	2013	2012	2012	
Cash & balances with CBN	96,901	13.7%	63,622	11.0%	52.3%
Due from banks	85,601	12.1%	33,879	5.8%	152.7%
Pledged financial assets	79,772	11.3%	57,412	9.9%	38.9%
Loans and advances	321,744	45.5%	229,421	39.5%	40.2%
Investment securities:	97,821	13.8%	174,792	30.1%	-44.0%
Other assets	9,317	1.3%	6,132	1.1%	51.9%
Property, plant and equipment	9,069	1.3%	7,793	1.3%	16.4%
Intangible assets	601	0.1%	203	0.0%	195.6%
Deferred tax assets	6,971	1.0%	6,971	1.2%	0.0%
<b>TOTAL ASSETS</b>	<b>707,797</b>	<b>100.0%</b>	<b>580,226</b>	<b>100.0%</b>	<b>22.0%</b>
<b>LIABILITIES</b>					
Deposits from banks	-		3,119	0.5%	
Deposits from customers	570,511	80.6%	463,726	79.9%	23.0%
Other borrowed funds	38,795	5.5%	30,356	5.2%	27.8%
Debt securities issued	4,564	0.6%	4,564	0.8%	0.0%
Other liabilities	30,469	4.3%	31,819	5.5%	-4.2%
<b>TOTAL LIABILITIES</b>	<b>644,339</b>	<b>91.0%</b>	<b>533,584</b>	<b>92.0%</b>	<b>20.8%</b>
EQUITY	63,458	9.0%	46,642	8.0%	36.1%
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>707,797</b>	<b>100.0%</b>	<b>580,226</b>	<b>100.0%</b>	<b>22.0%</b>

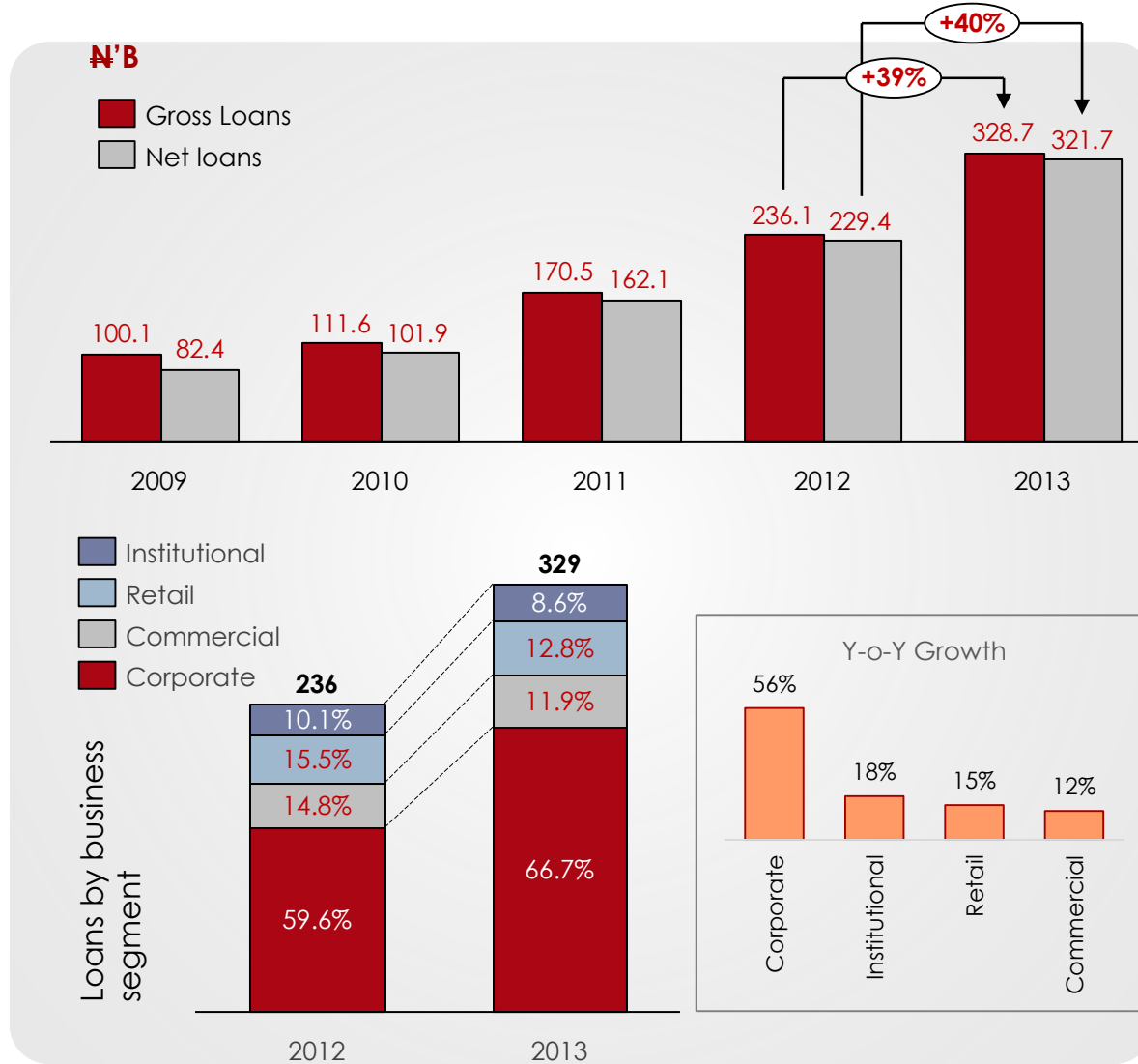
# Assets growth trend



## • Comments

- Growth in total assets was driven by a 40% increase in loans and advances to N321.7 billion
- Decline in Government securities was due to the redemption of sovereign bonds re-invested in higher yield assets classes
- The Bank was a net placer of funds with interbank placement at N85.6 billion representing 47% of cash and short term investments

# Loans and advances



## Comments

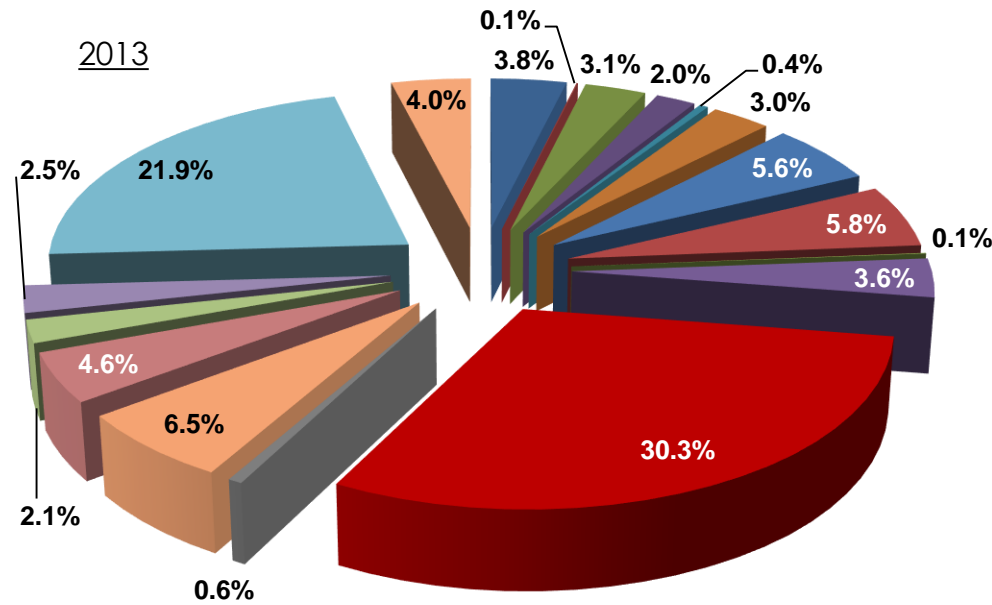
- Gross loans increased by 39% and net loans by 40% to N329 billion and N322 billion respectively
- Growth driven by corporate lending which increased by 56% and accounted for 67% (2012: 60%) of gross loans
- Institutional loans include financial institutions and Government, while retail loans include individual and small businesses

# Loans and advances by sector .../1

Sector Classification (N'millions)	2013	2012	Growth	NPLs	Sector NPL Ratio
Agriculture	12,430	6,508	91%		
Capital market	240	383	-37%	239	99.8%
Communication	10,041	10,951	-8%	136	1.4%
Consumer	6,558	7,442	-12%	513	7.8%
Education	1,434	1,063	35%	32	2.2%
Finance and insurance	9,782	10,590	-8%	22	0.2%
Government	18,428	12,866	43%	266	1.4%
Manufacturing	19,077	14,728	30%	284	1.5%
Mining and quarrying	200	196	2%		
Mortgage	11,834	8,655	37%	4	0.0%
Oil and gas	99,733	68,950	45%	1,376	1.4%
Other public utilities	1,869	148	1163%		
General	21,433	15,062	42%	2,134	10.0%
Domestic Trade	15,248	33,882	-55%	1,297	8.5%
Hospitality	7,004	8,134	-14%	6	0.1%
Power	8,271	216	3729%		
Real estate & construction	72,068	25,643	181%	262	0.4%
Transportation	13,015	10,713	21%	299	2.3%
<b>Total</b>	<b>328,665</b>	<b>236,131</b>	<b>39%</b>	<b>6,871</b>	<b>2.1%</b>

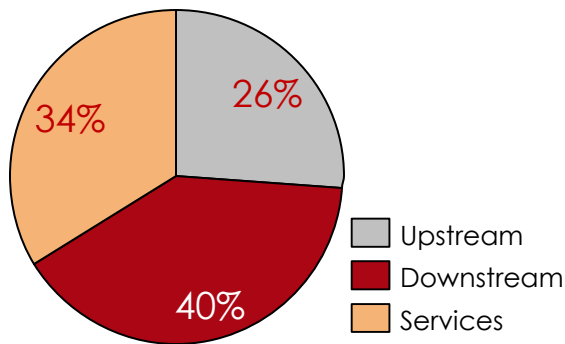


# Loans by sector by sector .../2



- Agriculture (2012, 2.8%)
- Capital Market (2012, 0.2%)
- Communication (2012, 4.6%)
- Consumer (2012, 3.2%)
- Education (2012, 0.5%)
- Finance & Ins. (2012, 4.5%)
- Government (2012, 5.4%)
- Manufacturing (2012, 6.2%)
- Mining & Quarrying (2012, 0.1%)
- Mortgage (2012, 3.7%)
- Oil & Gas (2012, 29.2%)
- Other Public Utilities (2012, 0.1%)
- General (2012, 6.4%)
- Domestic Trade (2012, 14.3%)
- Hospitality (2012, 3.4%)
- Power (2012, 0.1%)
- Real Estate & Const. (2012, 10.9%)
- Transportation (2012, 4.5%)

Oil & gas exposures

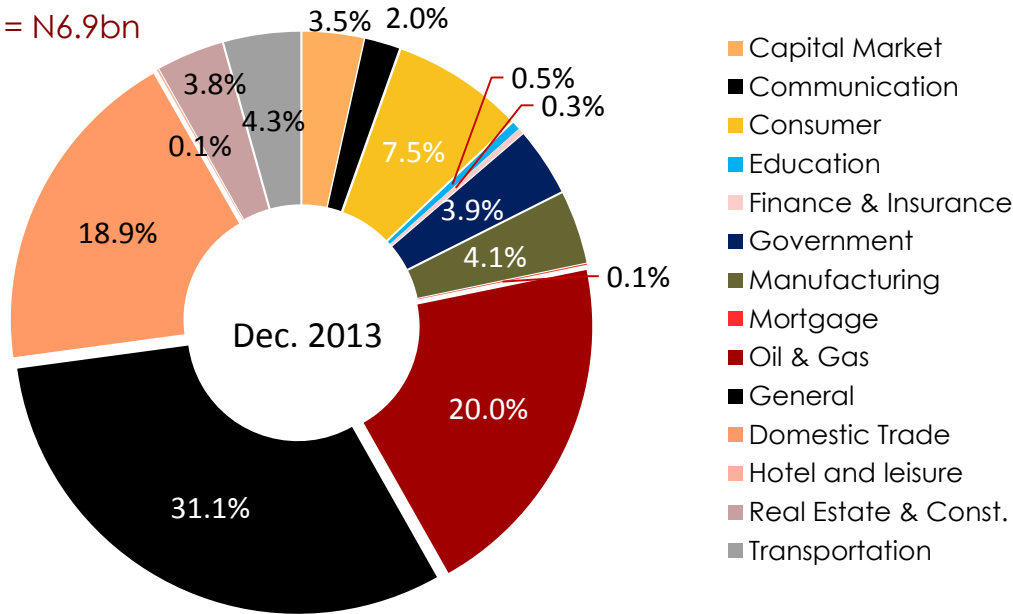


## • Comments

- Well diversified loan book
- Growth was driven by increased exposure to sectors such as Agriculture, Real Estate, Construction, Power
- Construction activities accounted for 63% of exposures to real estate & construction sector

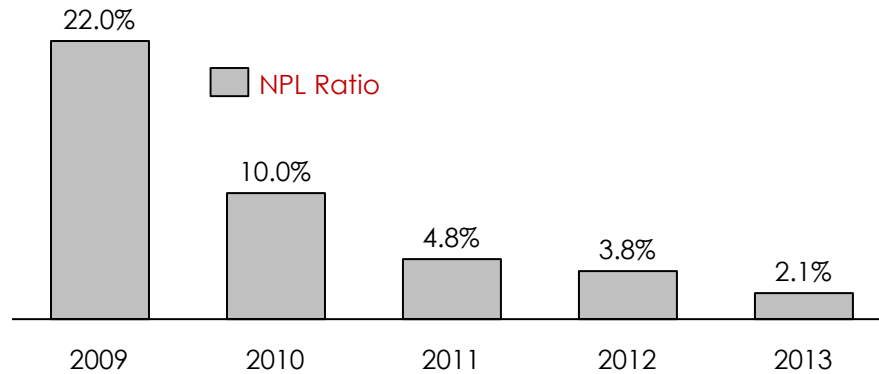
# Asset quality

NPLs: 100% = N6.9bn

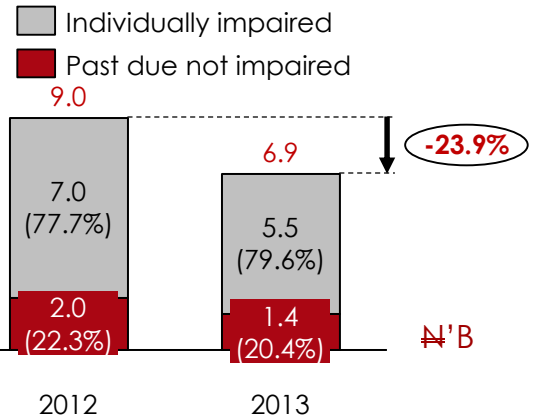


## Comments

- Non-performing loans declined by 23% to N6.9 billion
- Downstream accounted for 86% of NPLs in the oil & gas sector
- Individual loans accounted for 77% of NPLs classified as "General"

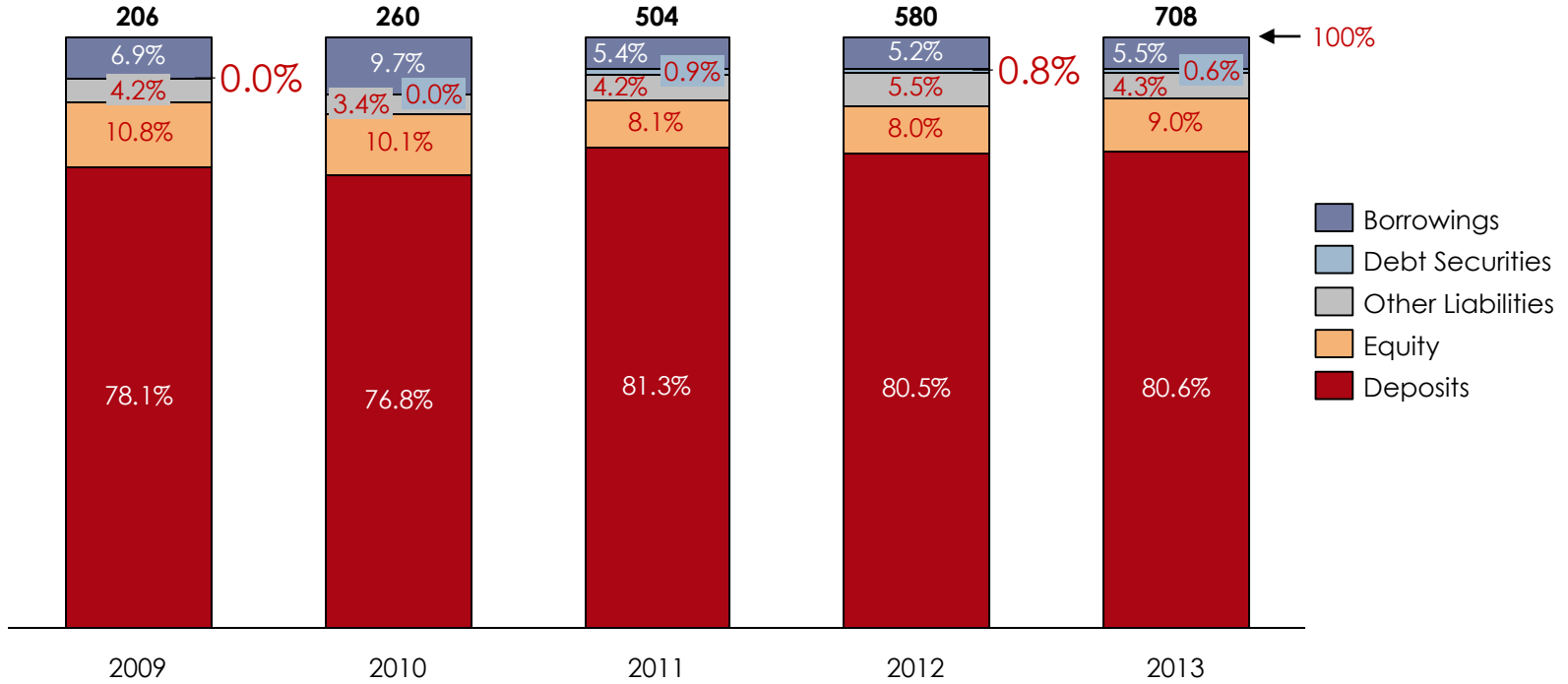


## Breakdown of NPLs

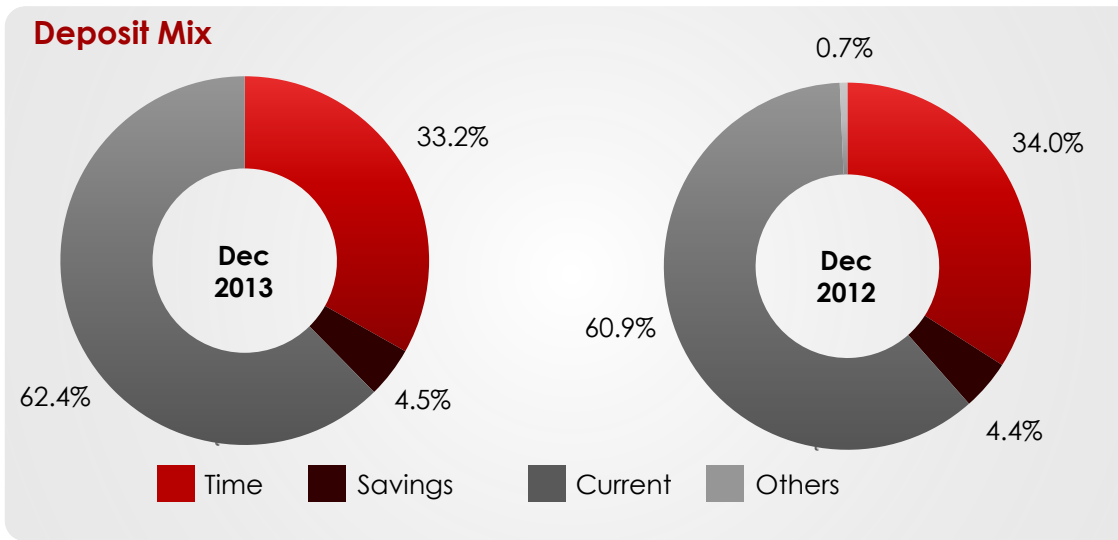
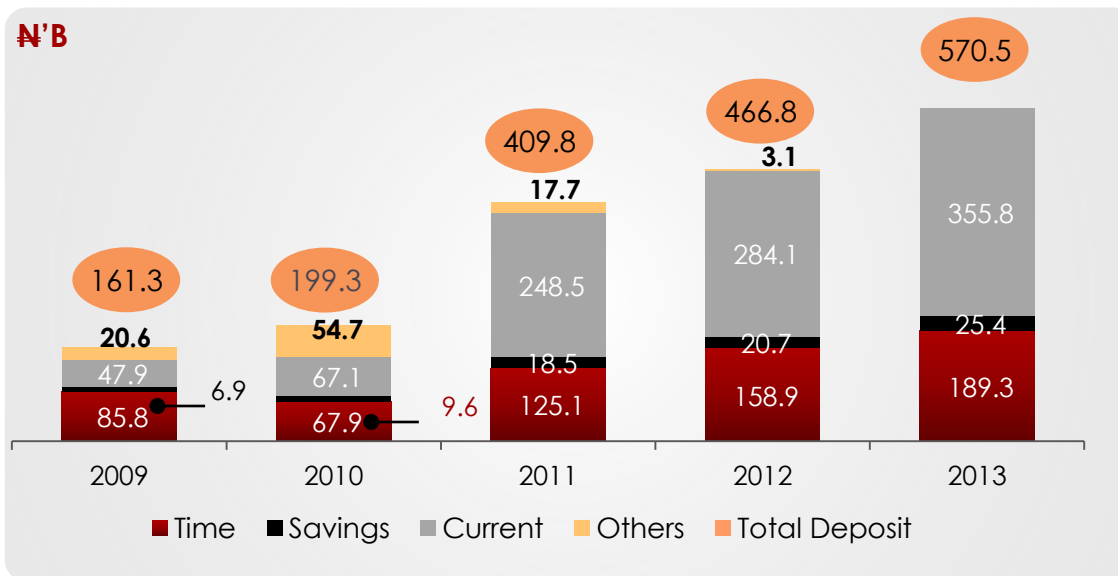


# Asset funding mix

N'B



# Deposits

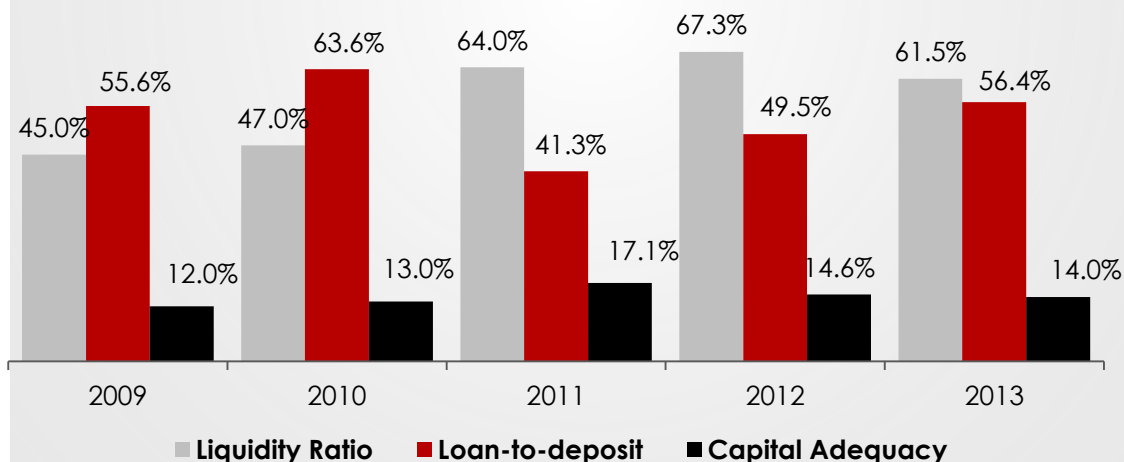


## Comments

- Deposits grew by 22% year-to-date to N570.1 billion driven by growth in current and savings account balances
- Retail deposits accounted for 67% (2012: 65%) of deposits, while wholesale funds accounted for 33%
- Cost of funds improved by 20 basis points to 6.1% from 6.3% in 2012 despite tight monetary policy measures
- We plan to further reduce our funding costs as we consolidate on our evolving retail strategy

# Capital and liquidity

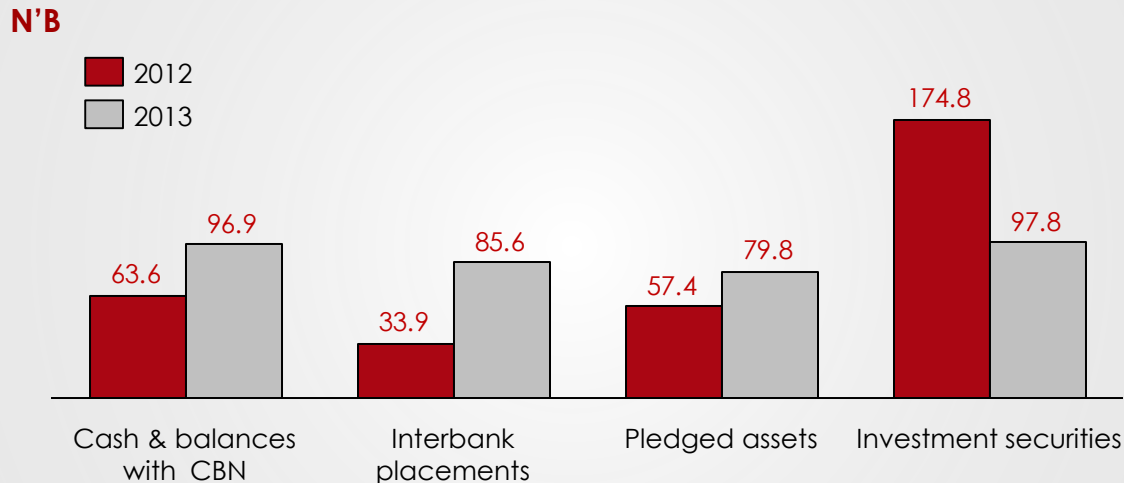
Items (N'millions)	2013	2012	Growth
Tier 1 capital	56,181	38,833	44.7%
Tier 2 capital	6,797	6,075	11.9%
<b>Total regulatory capital</b>	<b>62,978</b>	<b>44,908</b>	<b>40.2%</b>
	-	-	
<b>Risk-weighted assets</b>	<b>448,520</b>	<b>308,113</b>	<b>45.6%</b>
Tier 1 capital ratio	12.5%	12.6%	
Tier 2 capital ratio	1.5%	2.0%	
<b>Capital Adequacy Ratio</b>	<b>14.0%</b>	<b>14.6%</b>	



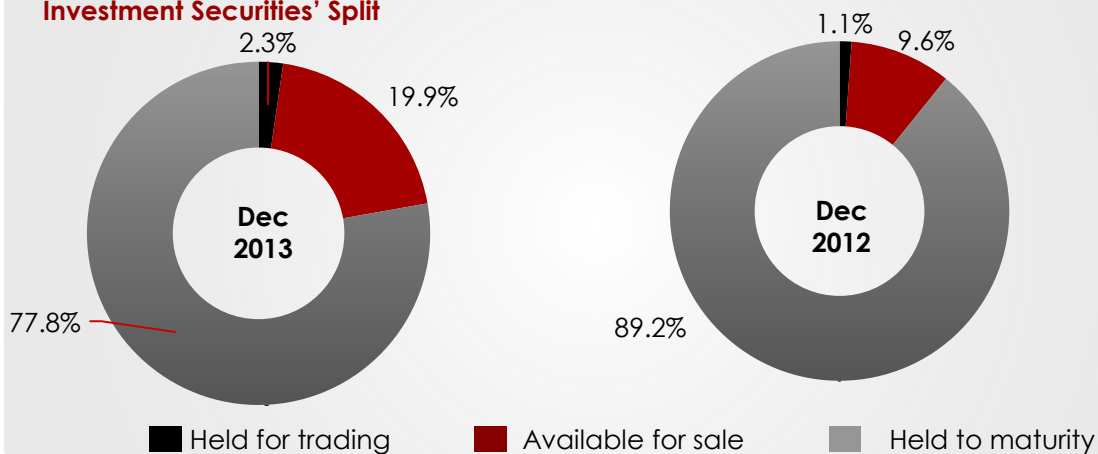
## Comments

- Capital adequacy and liquidity ratios were above the regulatory benchmarks of 10% and 30% respectively
- Successfully completed a rights issue, which was fully subscribed with net proceeds of N12.1 billion received to boost our capital position
- Loan-to-deposit ratio increased from 50% in Dec. 2012 to 56% on the back of growth in loans and advances

# Liquid Assets



## Investment Securities' Split



## Comments

- Liquid assets accounted for 51% of total assets (Dec 2012: 57%) and stood at N360.1bn as at Dec. 2013
- Pledged assets represent collateral for clearing activities, facilities from Citibank and Bank of Industry, as well as letters of credit transactions and accounted for 22% of liquid assets
- Increase in cash and balances with CBN due to an upward review of CRR on public sector deposits to 50%
- Decline in investment securities resulting from the redemption of AMCON and other matured sovereign bonds re-invested in higher yield assets classes

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# Outlook

# Corporate goals

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



# Capital plan

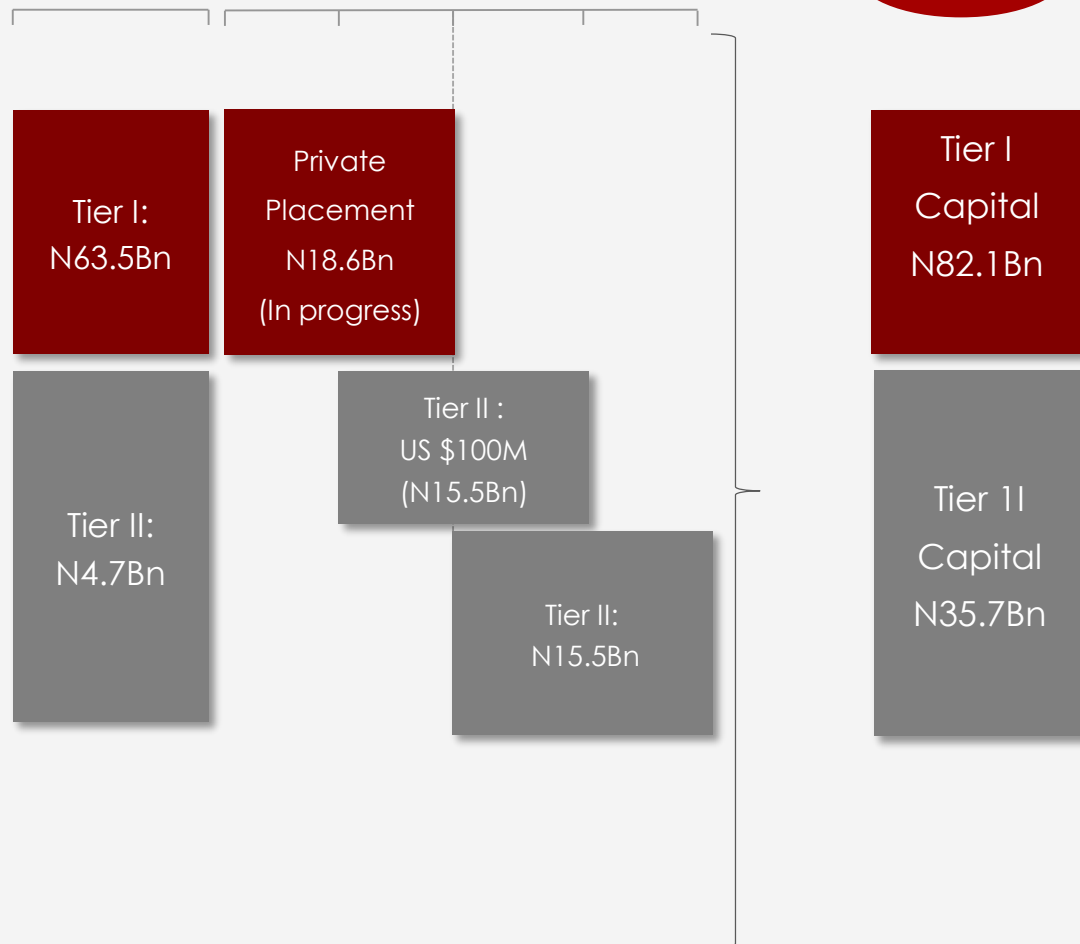
FY 2013  
Capital Position

Q1  
'14

Q2  
'14

Q3  
'14

Q4  
'14



<sup>1</sup> US\$ = N155

## Comments

- Sterling successfully completed equity issuance by way of rights to existing shareholders with net proceeds of N12.1 billion
- We are in the process of concluding the private placement of N18.6 billion (US\$120 million) to further support our capital position
- We also plan to raise multi-currency subordinated debt of N31.0 billion (US\$200 million)
- At the completion of the exercise, we anticipate CAR > 20%

# Fund Utilization

IT Infrastructure	\$30m
Distribution <sup>1</sup>	\$60m
Working Capital	\$310m
<b>Total</b>	<b>\$400m</b>

<sup>1</sup>Store re-fits, expansion of distribution outlets and investment in alternative channels

# FY 2014 guidance

- Double digit growth in earnings > 20%
- ROAE > 20%
- Cost-to-income ratio < 68%
- Loan growth > 25%
- Deposit growth > 29%

# Q&A

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# Appendix

# About Sterling Bank

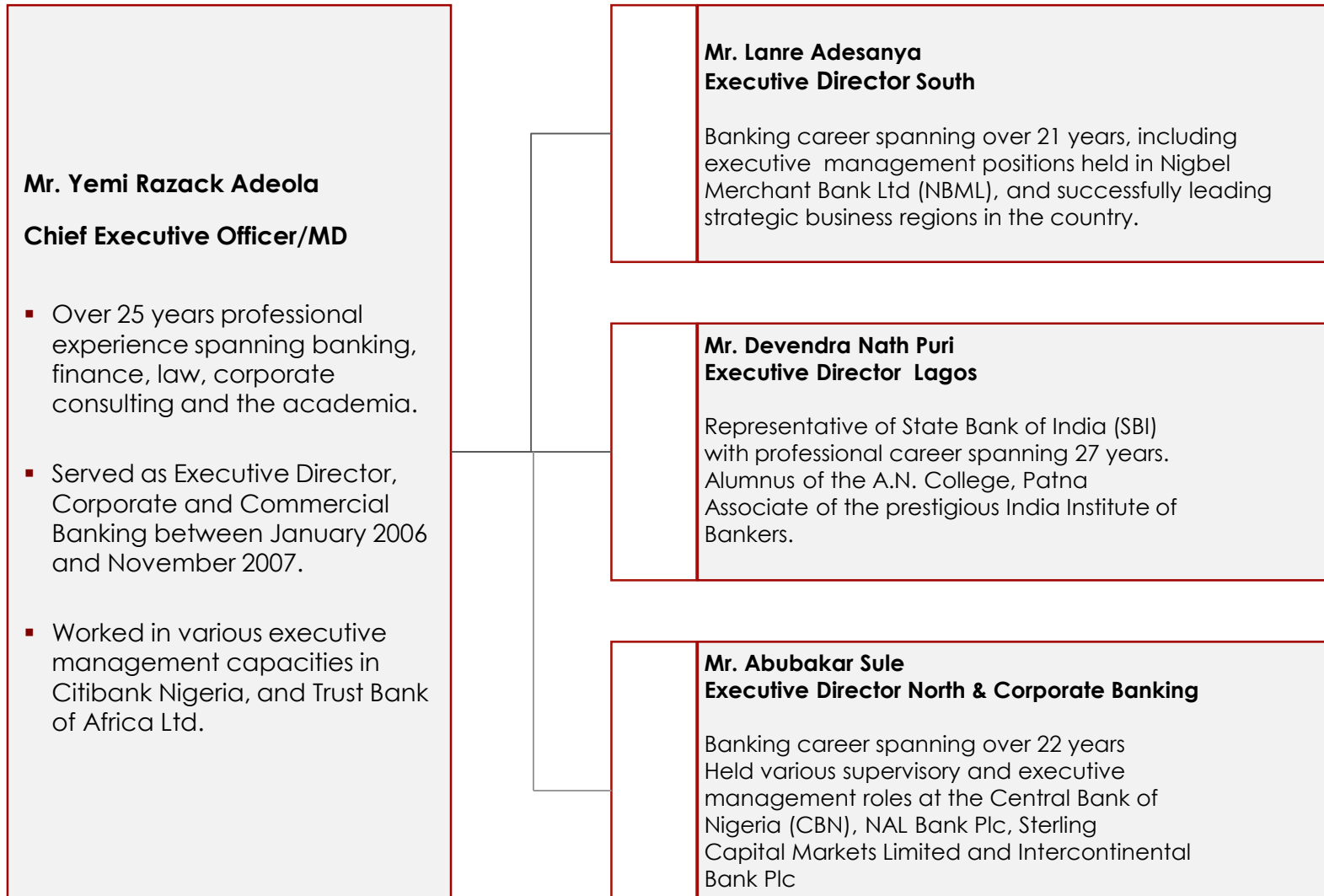
## Our History

Sterling Bank Plc “the one-customer bank” is a full service national commercial bank in Nigeria with asset base above \$4.5 billion (N717 billion) and shareholders’ funds in excess of \$375m (N60billion).

In over 50 years of operations, Sterling Bank (formerly NAL Bank) has evolved from the nation’s pre-eminent investment banking institution to a fully-fledged commercial bank; and completed a merger with 4 other banks – Indo-Nigeria Merchant Bank, Magnum Trust Bank, NBM Bank and Trust Bank of Africa – as part of the 2006 consolidation of the Nigerian banking industry.

With the acquisition of the business interest of the defunct Equitorial Trust Bank in 2011, the Bank enhanced its position in the hierarchy of major players in the sector.

# Senior Management Profile.../1



# Senior Management Profile.../2

## **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.

## **Mr. Mudathir Lawal** **General Manager, Lagos Island Division**

- Mudathir has over 20 years professional experience spanning Trade & Manufacturing, Treasury Marketing, Currency Trading, Inspection and Marketing. A fellow of the Institute of Chartered Accountants of Nigeria (ICAN) and an associate member of the Chartered Institute of Taxation of Nigeria (CITN), Kayode was educated at the Yaba College of Technology, Columbia University and Leeds Metropolitan University and holds qualifications in Accountancy, Marketing Management and Corporate Governance.

## **Mr. Tunde Adeola** **General Manager, Lagos Mainland Division**

Tunde has over 23 years professional experience spanning banking and discount house operations. Prior to his current role, he was responsible for the Bank's Lagos Island 2 Regional business. A lawyer by training, he has worked variously at the erstwhile Liberty Bank Plc, Kakawa Discount House Limited and the Trust Bank of Africa, which merged with four other banks to form Sterling Bank Plc.



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