

# Analyst/Investor Presentation

Q1 2014



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# Agenda

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

The background is a solid dark red color. On the left side, there are several overlapping geometric shapes and patterns in lighter shades of red. These include a large upward-pointing arrow, a circle containing four smaller circles, a circle with radial lines, and various other circles and arcs. The word "Overview" is written in white, bold, sans-serif font on the right side of the image.

# Overview

# 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              |

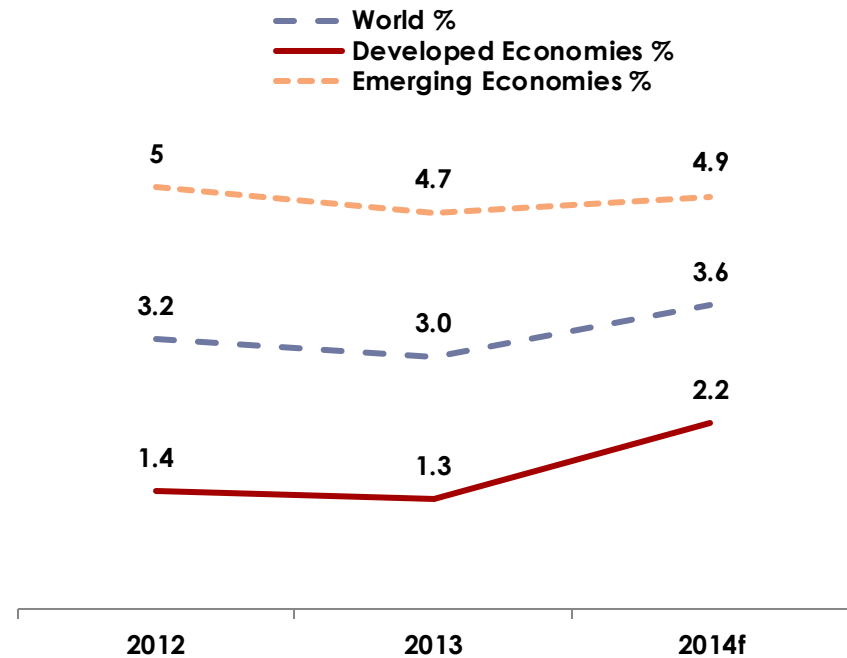
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# Operating Environment

# Operating Environment.../1

## Global Developments

- Prospects for global economic recovery remain bright largely bolstered by improved economic activities in the developed economies of US, the European Union and Japan
- Rising consumer expenditure and reducing unemployment level made the Federal Reserves to further taper its bond buying program to US\$45bn despite a poor Q1 GDP growth of 0.1%
- Emerging economies safe for India continue to drag in terms of growth as indicated by the PMI of the BRIC economies which came in below the 50% benchmark
- China's first quarter growth figure of 7.4%, 30 basis points lower than the 7.7% recorded in the first quarter of 2013

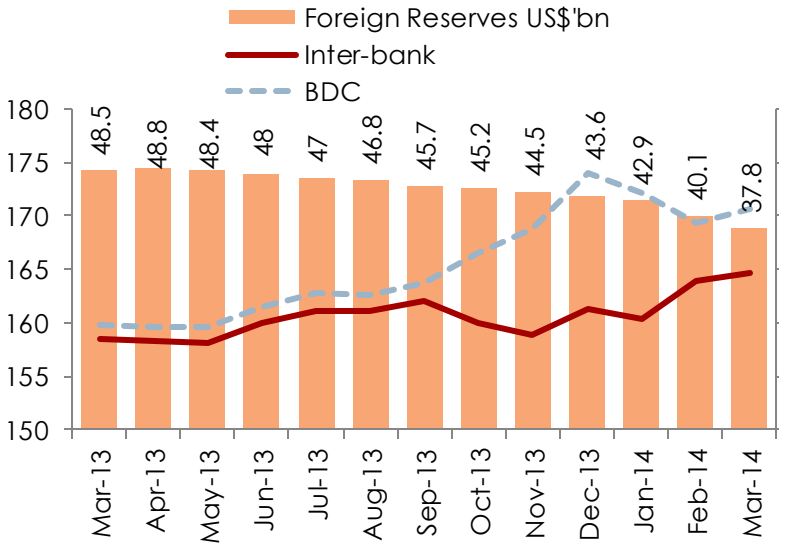
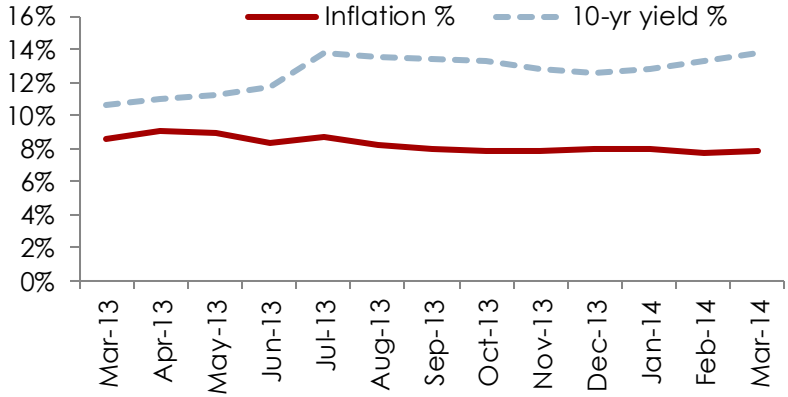


Source: IMF 2014

# Operating Environment.../2

## Domestic Developments

- Nigeria now officially the biggest economy in Africa with a nominal GDP of US\$510bn following a successful rebasing exercise
- Crude-oil price and oil production averaged US\$110.17/barrel and 1.89 mbpd respectively in Q1 2014
- Inflation stood at an average of 7.8% in the first quarter and a 12-month average of 8.2%
- Yields on 10-year FG bonds increased to 14.0% in March 2014 due to domestic economic shocks
- The Naira came under pressure due to portfolio reversals arising from the commencement of Quantitative Easing by the US Federal Reserves
- The CBN maintained its tightening stance with an upwards review of Cash Reserve Requirement on public sector deposits to 75% and private sector deposits to 15%





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# Performance Review

- Highlights

# Performance Highlights.../1

## Income statement

Earnings rose 24% to N24.6bn (Q1 2013: N19.8bn)

Net interest income up 58% to N10.3bn (Q1 2013: N6.5bn)

Non-interest income up 7% to N6.0bn (Q1 2013: N5.6bn)

Net operating income up 30% to N15.2bn (Q1 2013: N11.7bn)

Operating expenses up 34% to N11.6bn (Q1 2013: N8.7bn)

Profit before tax up 17% to N3.5bn (Q1 2013: N3.0bn)

Profit after tax up 15% to N3.1bn (Q1 2013: N2.7bn)

# Performance Highlights.../2

## Balance sheet

Net loans & advances up 5% to N337.21bn (Dec 2013: N321.7bn)

Customer deposits down 5% to N540.0bn (Dec 2013: N570.5bn)

Shareholders' funds up 5% to N66.4bn (Dec 2013: N63.5bn)

Total assets down 1% to N701.9bn (Dec 2013: N707.8bn)

## Key ratios

Return on average equity of 20.0% (Q1 2013: 22.7%)

Return on average assets of 2.0% (Q1 2013: 2.0%)

Cost-to-income ratio of 71.7% (Q1 2013: 72.1%)

NPL ratio of 1.8% (Dec. 2013: 2.1%)

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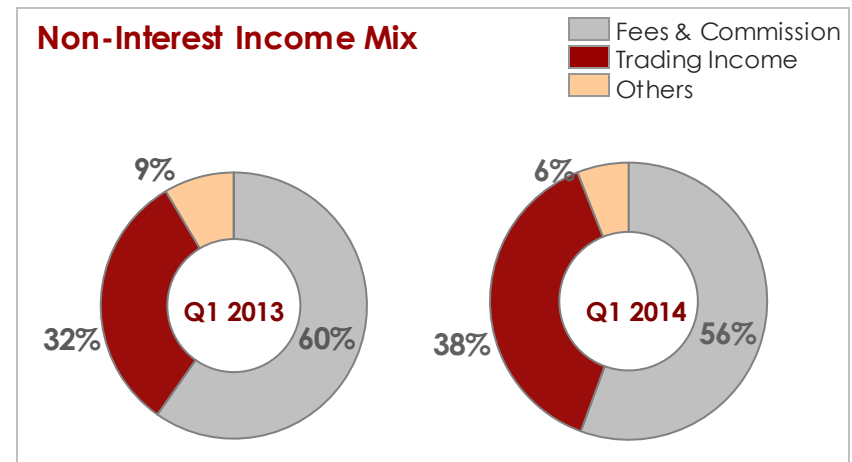
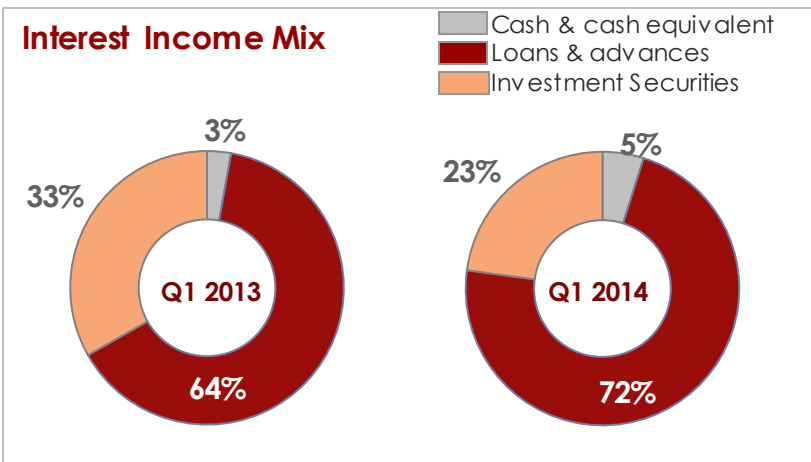
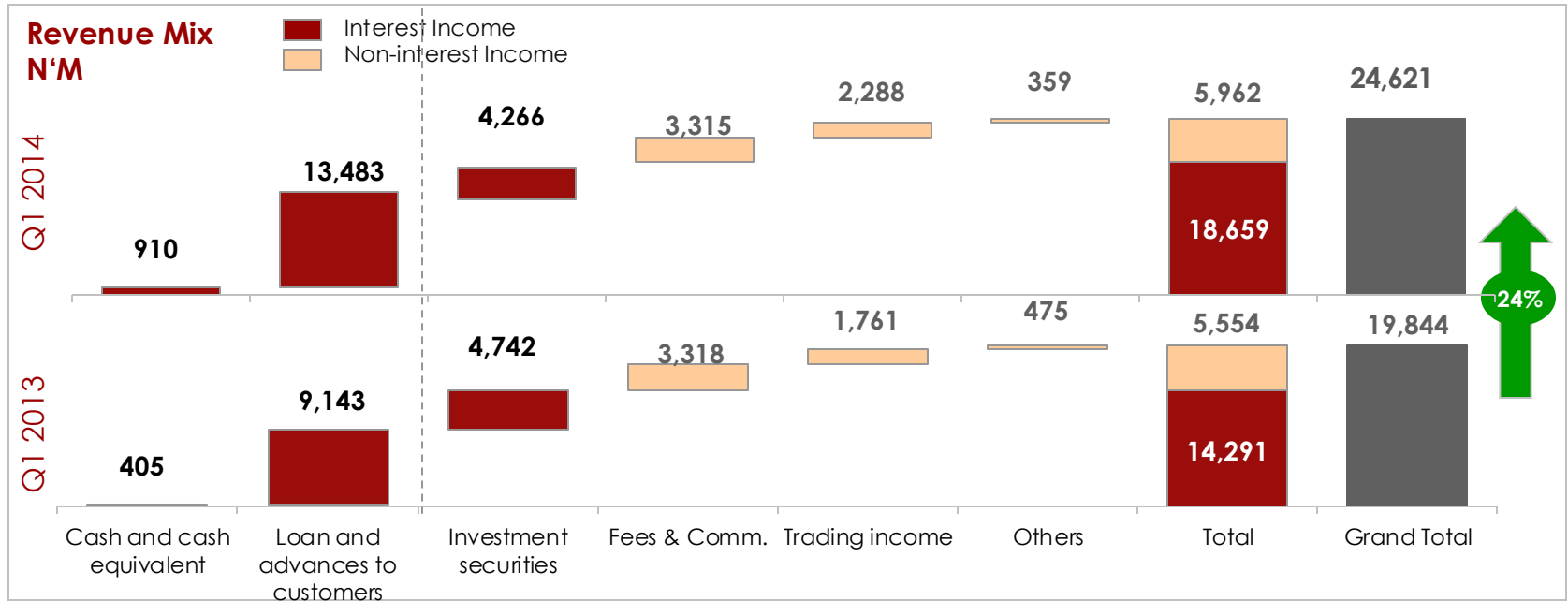
# Performance Review

- Earnings analysis

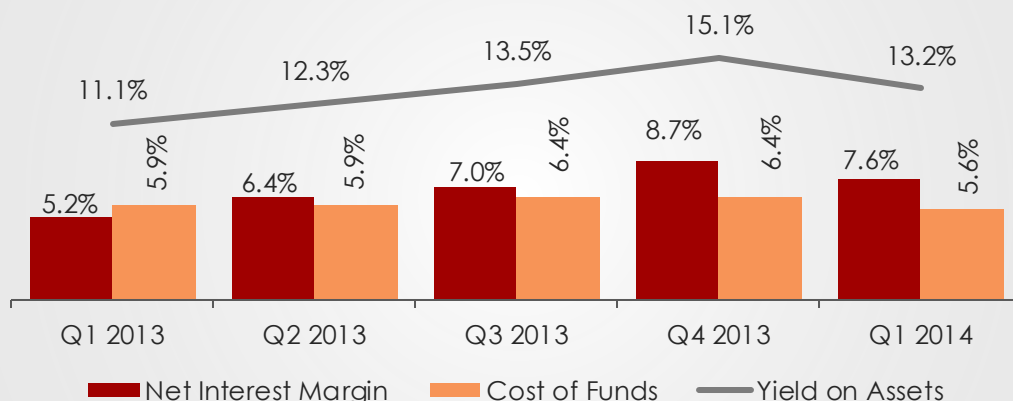
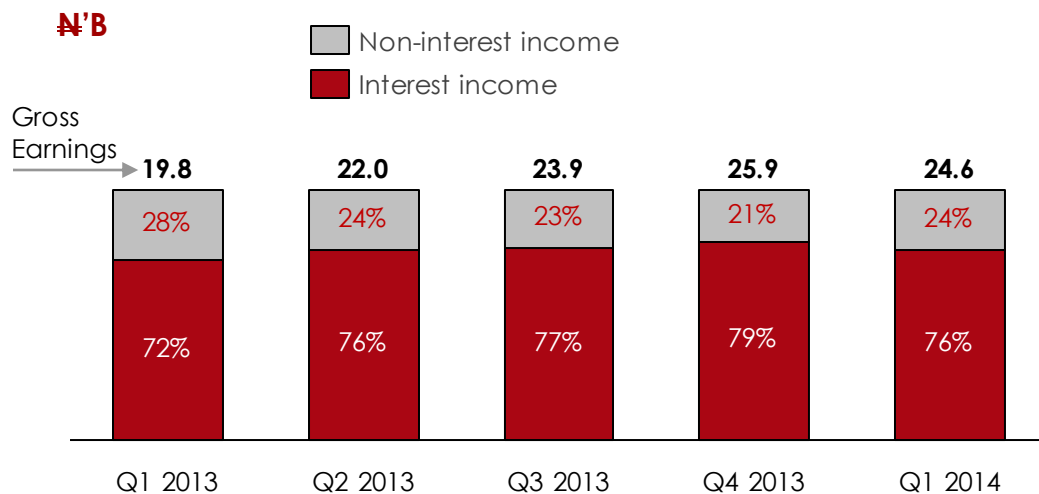
# Income statement

| Items (N' Millions)             | Common Size   |            | Common Size   |            | Growth     |
|---------------------------------|---------------|------------|---------------|------------|------------|
|                                 | Mar 2014      |            | Mar 2013      |            |            |
| Gross Earnings                  | 24,621        | 100%       | 19,844        | 100%       | 24%        |
| Interest income                 | 18,659        | 76%        | 14,291        | 72%        | 31%        |
| Interest expense                | (8,397)       | 34%        | (7,800)       | 39%        | 8%         |
| <b>Net interest income</b>      | <b>10,262</b> | <b>42%</b> | <b>6,490</b>  | <b>33%</b> | <b>58%</b> |
| Net fee and commission          | 3,315         | 13%        | 3,318         | 17%        | 0%         |
| Trading income                  | 2,288         | 9%         | 1,761         | 9%         | 30%        |
| Other operating income          | 359           | 1%         | 475           | 2%         | -24%       |
| Non-interest Income             | 5,962         | 24%        | 5,554         | 28%        | 7%         |
| <b>Operating income</b>         | <b>16,224</b> | <b>66%</b> | <b>12,044</b> | <b>61%</b> | <b>35%</b> |
| Net impairment charges          | (1,042)       | 4%         | (334)         | 2%         | 212%       |
| <b>Net Operating income</b>     | <b>15,182</b> | <b>62%</b> | <b>11,710</b> | <b>59%</b> | <b>30%</b> |
| Personnel expenses              | (2,753)       | 11%        | (2,247)       | 11%        | 22%        |
| Depreciation and amortisation   | (712)         | 3%         | (633)         | 3%         | 12%        |
| Other operating expenses        | (8,175)       | 33%        | (5,809)       | 29%        | 41%        |
| <b>Profit before income tax</b> | <b>3,542</b>  | <b>14%</b> | <b>3,020</b>  | <b>15%</b> | <b>17%</b> |
| Income tax expense              | (405)         | 2%         | (297)         | 1%         | 36%        |
| <b>Profit after tax</b>         | <b>3,137</b>  | <b>13%</b> | <b>2,723</b>  | <b>14%</b> | <b>15%</b> |

# Revenue Sources



# Revenue Drivers

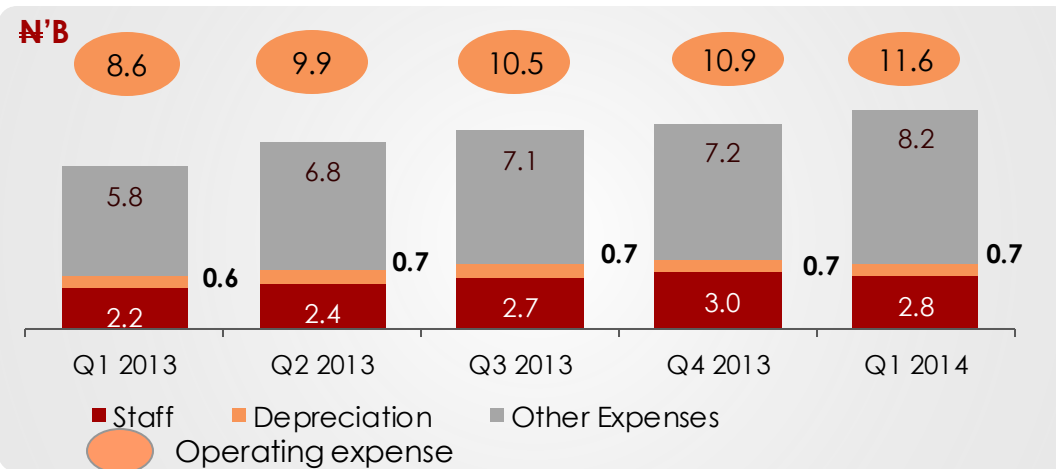
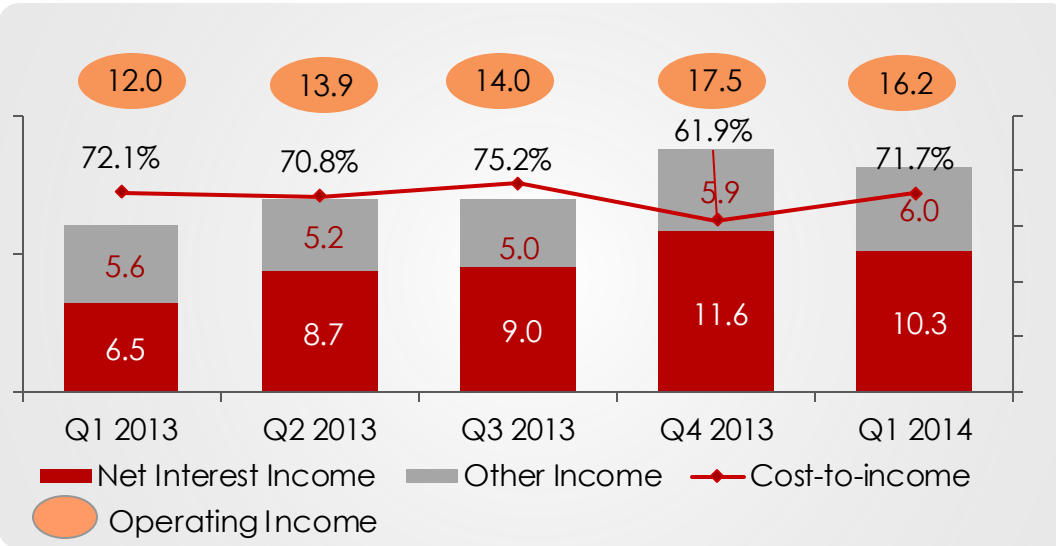


## Comments

- Gross earnings rose 24% to N24.6bn from N19.8bn in Q1 2013
- Earnings was driven by interest income, which rose by 31% and accounted for 76% on the back of an increase in lending activities
- Net interest margin improved by 240 basis points to 7.6% from 5.2% in Q1 2013 driven mainly by a 210 basis points increase in yield on earning assets
- Despite a high interest rate environment, funding costs moderated by 30 basis points to 5.6%

# Operating Efficiency

N'B



## Comments

- Operating income rose 34% to N16.2 billion from N12.0 billion in Q1 2013 due to a 58% increase in net interest income
- Growth in net interest income boosted by a 31% growth in interest income relative to a modest increase of 8% in interest expense
- Increase in operating expenses driven by on-going investments in branch refits and expansion in addition to an increase in AMCON surcharge
- Cost-to-income excluding impairment charge declined by 40 basis points to 71.7% (76.7% unadjusted) from 72.1% in Q1 2013 reflecting improvements in operating efficiency



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# Performance Review

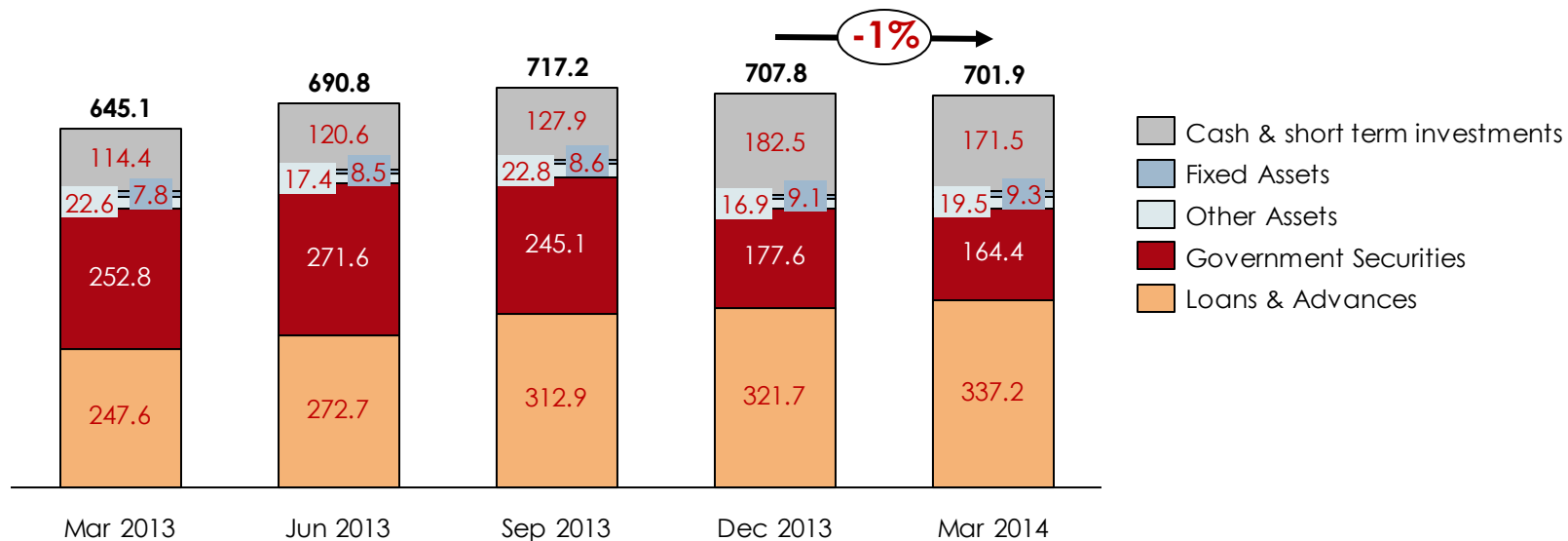
- Balance sheet analysis

# Financial position

| Items (N' Millions)                 | Common Size<br>Mar 2014 |             | Common Size<br>Dec 2013 |             | Growth     |
|-------------------------------------|-------------------------|-------------|-------------------------|-------------|------------|
|                                     |                         |             |                         |             |            |
| <b>ASSETS</b>                       |                         |             |                         |             |            |
| Cash and balances with CBN          | 111,852                 | 16%         | 96,901                  | 14%         | 15%        |
| Due from banks                      | 59,682                  | 9%          | 85,601                  | 12%         | -30%       |
| Pledged assets                      | 83,867                  | 12%         | 79,772                  | 11%         | 5%         |
| Loans and advances                  | 337,185                 | 48%         | 321,744                 | 45%         | 5%         |
| Investment in securities            | 80,505                  | 11%         | 97,821                  | 14%         | -18%       |
| Other assets                        | 11,974                  | 2%          | 9,317                   | 1%          | 29%        |
| Property, plant and equipment       | 9,265                   | 1%          | 9,069                   | 1%          | 2%         |
| Intangible assets                   | 594                     | 0%          | 601                     | 0%          | -1%        |
| Deferred tax assets                 | 6,971                   | 1%          | 6,971                   | 1%          | 0%         |
| <b>TOTAL ASSETS</b>                 | <b>701,896</b>          | <b>100%</b> | <b>707,797</b>          | <b>100%</b> | <b>-1%</b> |
| <b>LIABILITIES</b>                  |                         |             |                         |             |            |
| Deposits from Banks                 |                         |             |                         |             |            |
| Deposits from Customers             | 540,010                 | 77%         | 570,511                 | 81%         | -5%        |
| Other borrowed funds                | 50,434                  | 7%          | 38,795                  | 5%          | 30%        |
| Debt securities in issue            | 4,716                   | 1%          | 4,564                   | 1%          | 3%         |
| Other liabilities                   | 40,296                  | 6%          | 30,470                  | 4%          | 32%        |
| <b>TOTAL LIABILITIES</b>            | <b>635,456</b>          | <b>91%</b>  | <b>644,339</b>          | <b>91%</b>  | <b>-1%</b> |
| Equity                              | 66,441                  | 9%          | 63,458                  | 9%          | 5%         |
| <b>TOTAL LIABILITIES AND EQUITY</b> | <b>701,896</b>          | <b>100%</b> | <b>707,797</b>          | <b>100%</b> | <b>-1%</b> |

# Assets growth trend

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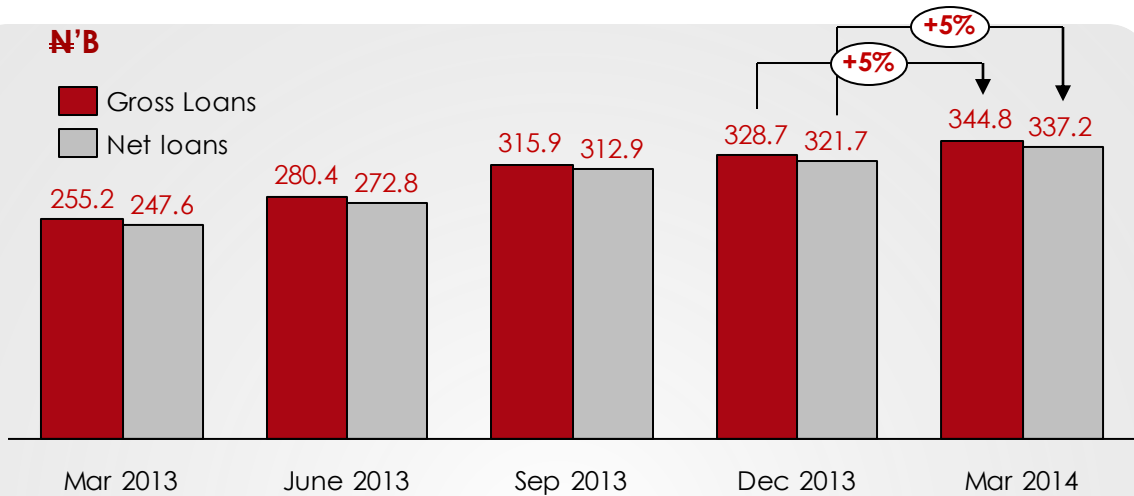
## Comments

- Total assets moderated by 0.8% due to a 5% reduction in deposits
- Decline in Government securities 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 N60 billion representing 35% of cash and short term investments

# Loans and advances

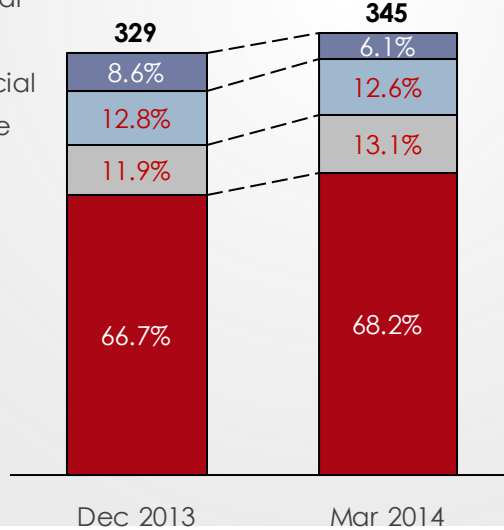
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■ Gross Loans  
■ Net loans

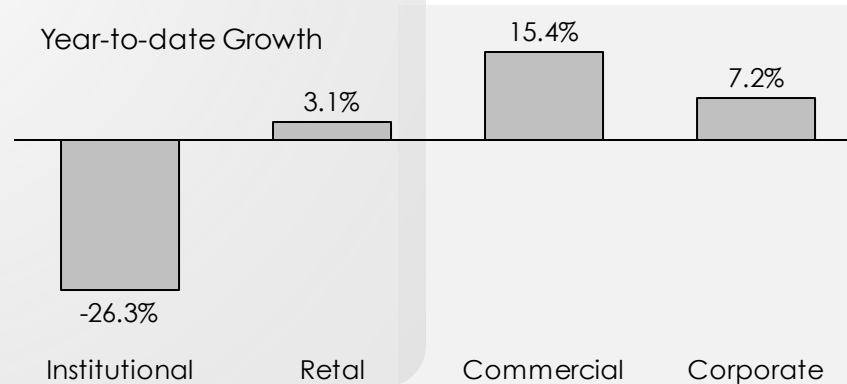


■ Institutional  
■ Retail  
■ Commercial  
■ Corporate

Loans by business segment



Year-to-date Growth



## Comments

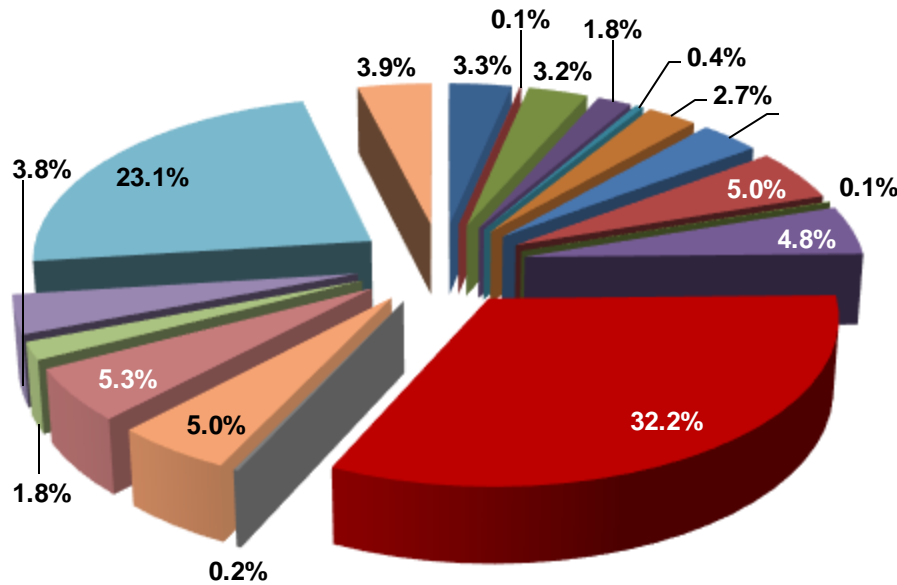
- Gross loans increased by 5% to N345 billion driven by growth in lending to the corporate and commercial segments
- Corporate lending accounted for 68.2% of total loans, while retail and commercial lending accounted for 12.6% and 13.1% respectively
- Decline in Institutional loans due to pay-down of existing facilities

# Loans and advances by sector .../1

| Sector Classification (N'millions) | Mar 2014       | Dec 2013       | Growth      | NPLs         | Sector NPL Ratio |
|------------------------------------|----------------|----------------|-------------|--------------|------------------|
| Agriculture                        | 11,452         | 12,430         | -7.9%       | -            | 0.0%             |
| Capital market                     | 240            | 240            | -0.1%       | 239          | 99.9%            |
| Communication                      | 10,953         | 10,041         | 9.1%        | 125          | 1.1%             |
| Consumer                           | 6,314          | 6,558          | -3.7%       | 268          | 4.2%             |
| Education                          | 1,493          | 1,434          | 4.1%        | 7            | 0.5%             |
| Finance and insurance              | 9,324          | 9,782          | -4.7%       | 5            | 0.1%             |
| Government                         | 11,275         | 18,428         | -38.8%      | 253          | 2.2%             |
| Manufacturing                      | 17,324         | 19,077         | -9.2%       | 118          | 0.7%             |
| Mining and quarrying               | 192            | 200            | -3.8%       | -            | 0.0%             |
| Mortgage                           | 16,590         | 11,834         | 40.2%       | -            | 0.0%             |
| Oil and gas                        | 111,119        | 99,733         | 11.4%       | 1,452        | 1.3%             |
| Other public utilities             | 728            | 1,869          | -61.1%      | -            | 0.0%             |
| General                            | 17,108         | 21,433         | -20.2%      | 2,271        | 13.3%            |
| Domestic Trade                     | 18,270         | 15,248         | 19.8%       | 1,284        | 7.0%             |
| Hospitality                        | 6,124          | 7,004          | -12.6%      | 7            | 0.1%             |
| Power                              | 13,207         | 8,271          | 59.7%       | -            | 0.0%             |
| Real estate & construction         | 79,550         | 72,068         | 10.4%       | 50           | 0.1%             |
| Transportation                     | 13,522         | 13,015         | 3.9%        | 75           | 0.6%             |
| <b>Total</b>                       | <b>344,785</b> | <b>328,665</b> | <b>4.9%</b> | <b>6,153</b> | <b>1.8%</b>      |

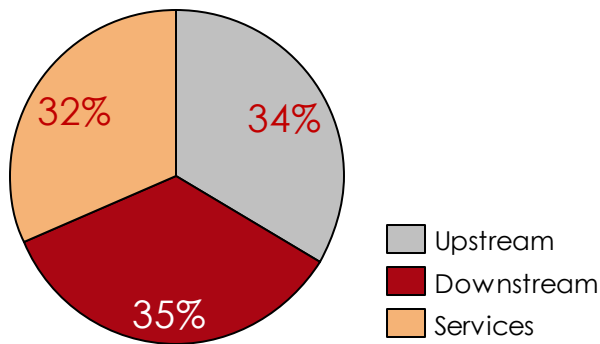
# Loans by sector by sector .../2

**Mar 2014**



- Agriculture (2013, 3.8%)
- Capital Market (2013, 0.1%)
- Communication (2013, 3.1%)
- Consumer (2013, 2%)
- Education (2013, 0.4%)
- Finance & Ins. (2013, 3%)
- Government (2013, 5.6%)
- Manufacturing (2013, 5.8%)
- Mining & Quarrying (2013, 0.1%)
- Mortgage (2013, 3.6%)
- Oil & Gas (2013, 30.3%)
- Other Public Utilities (2013, 0.6%)
- General (2013, 6.5%)
- Domestic Trade (2013, 4.6%)
- Hospitality (2013, 2.1%)
- Power (2013, 2.5%)
- Real Estate & Const. (2013, 21.9%)
- Transportation (2013, 4%)

Oil & gas exposures

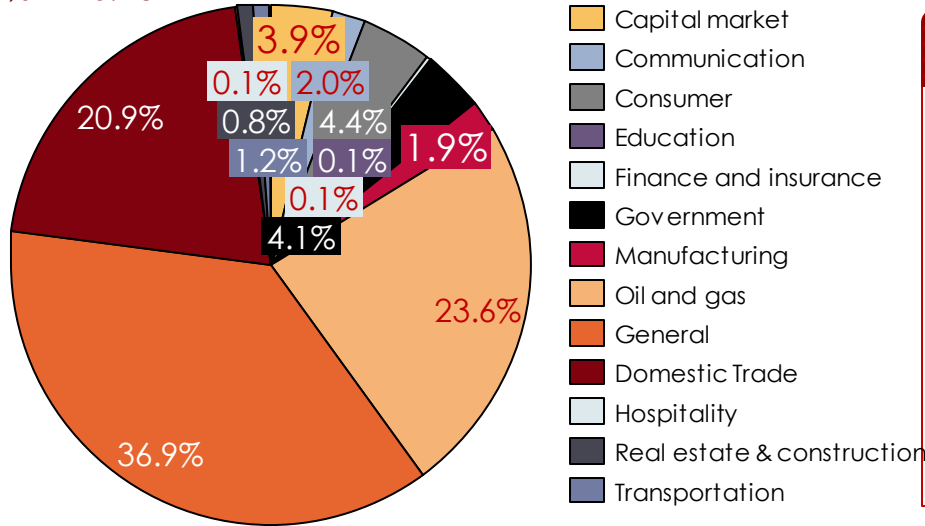


## Comments

- Well diversified loan book
- Growth was driven by increased exposure to sectors such as oil & gas, real estate, mortgages and power
- Construction activities accounted for 66% of exposures to real estate & construction sector

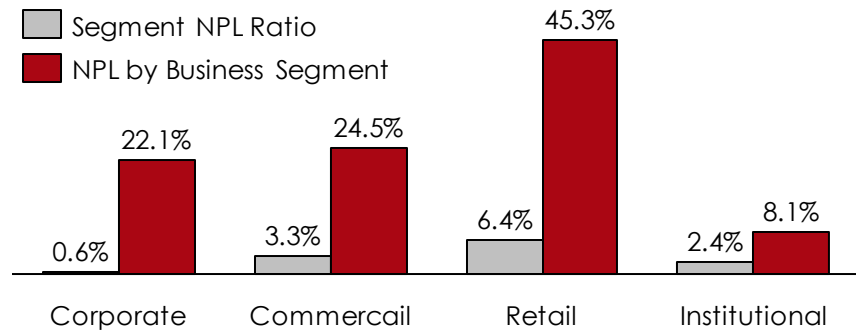
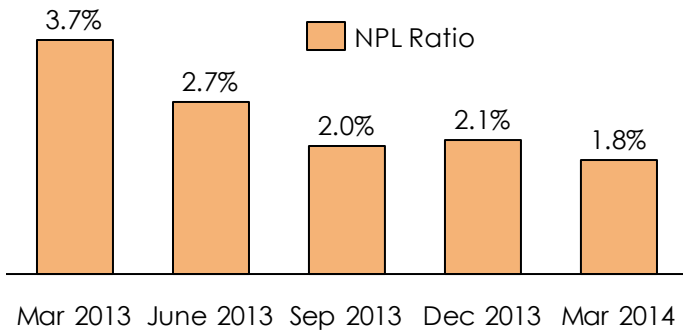
# Asset quality

NPLs: 100% = N6.2bn

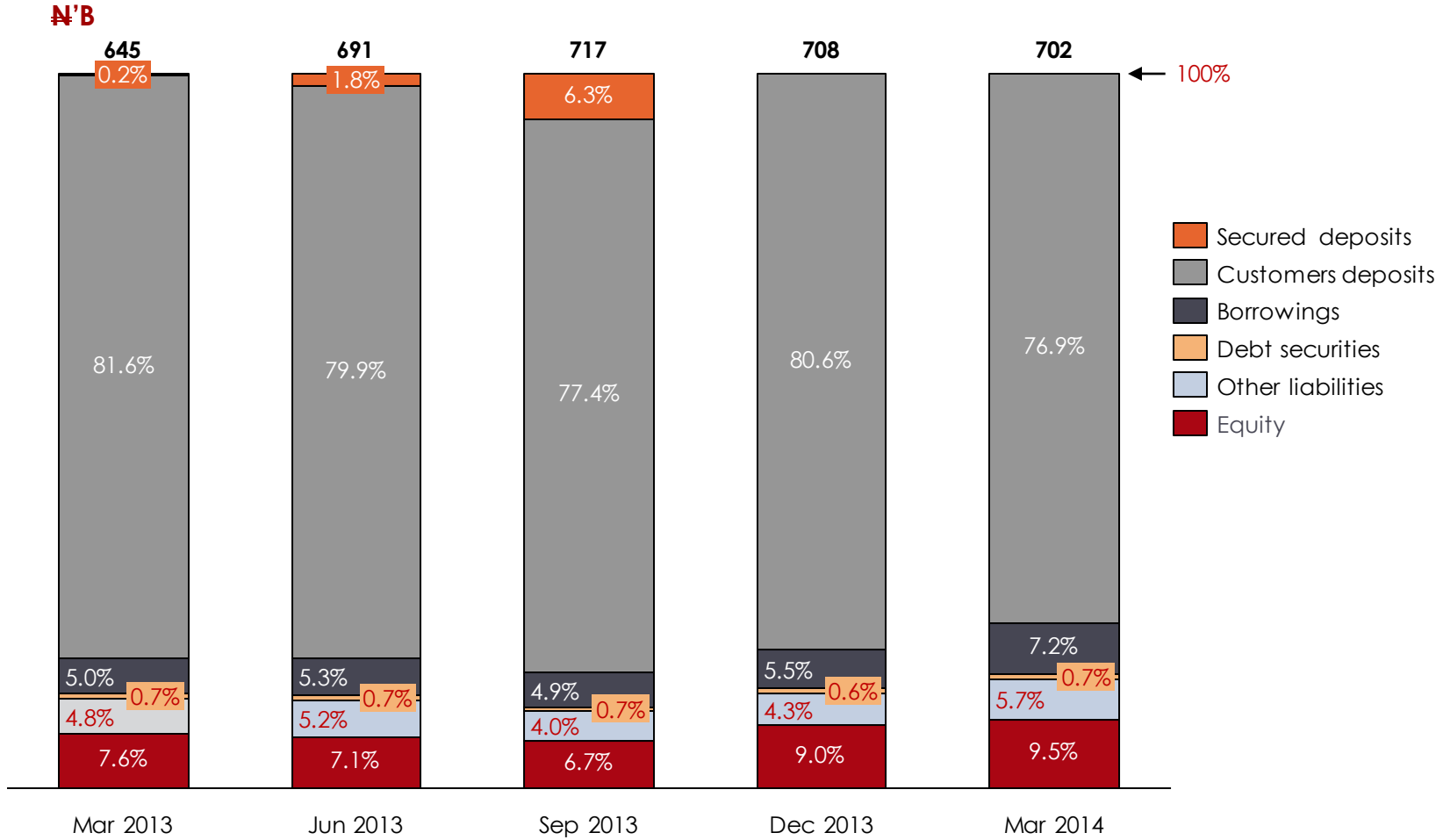


### Comments

- NPL ratio further declined to 1.8% reflecting an improvement in asset quality despite growth in loans and advances
- Individual loans accounted for 83% of NPLs classified as "General"



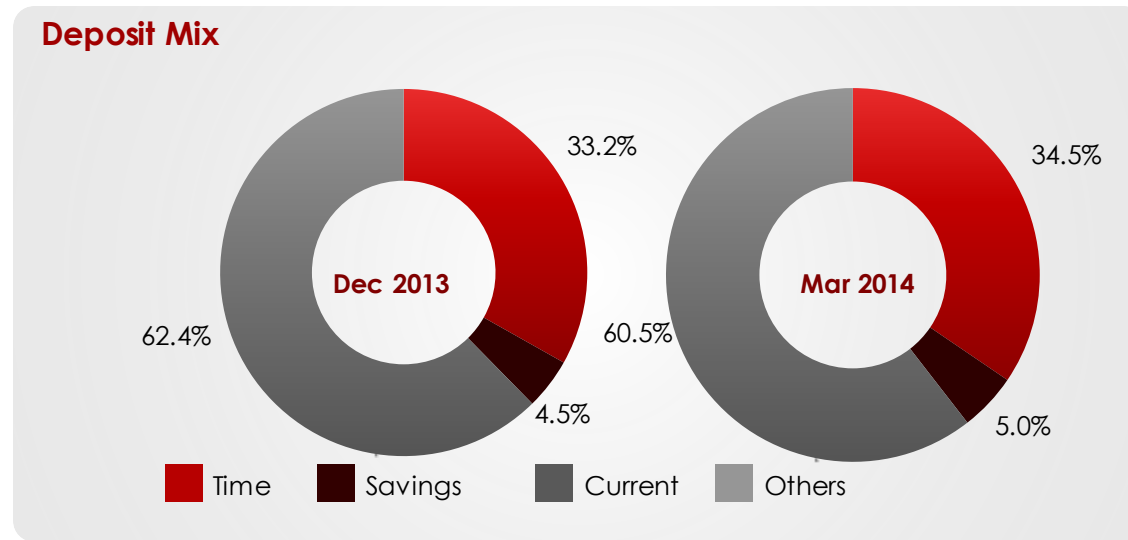
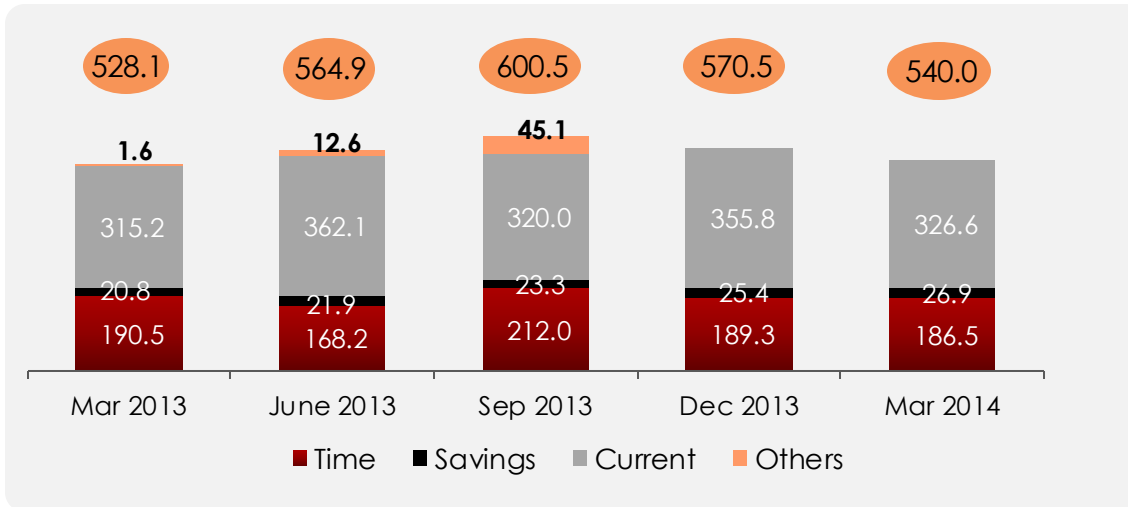
# Funding mix





# Deposits

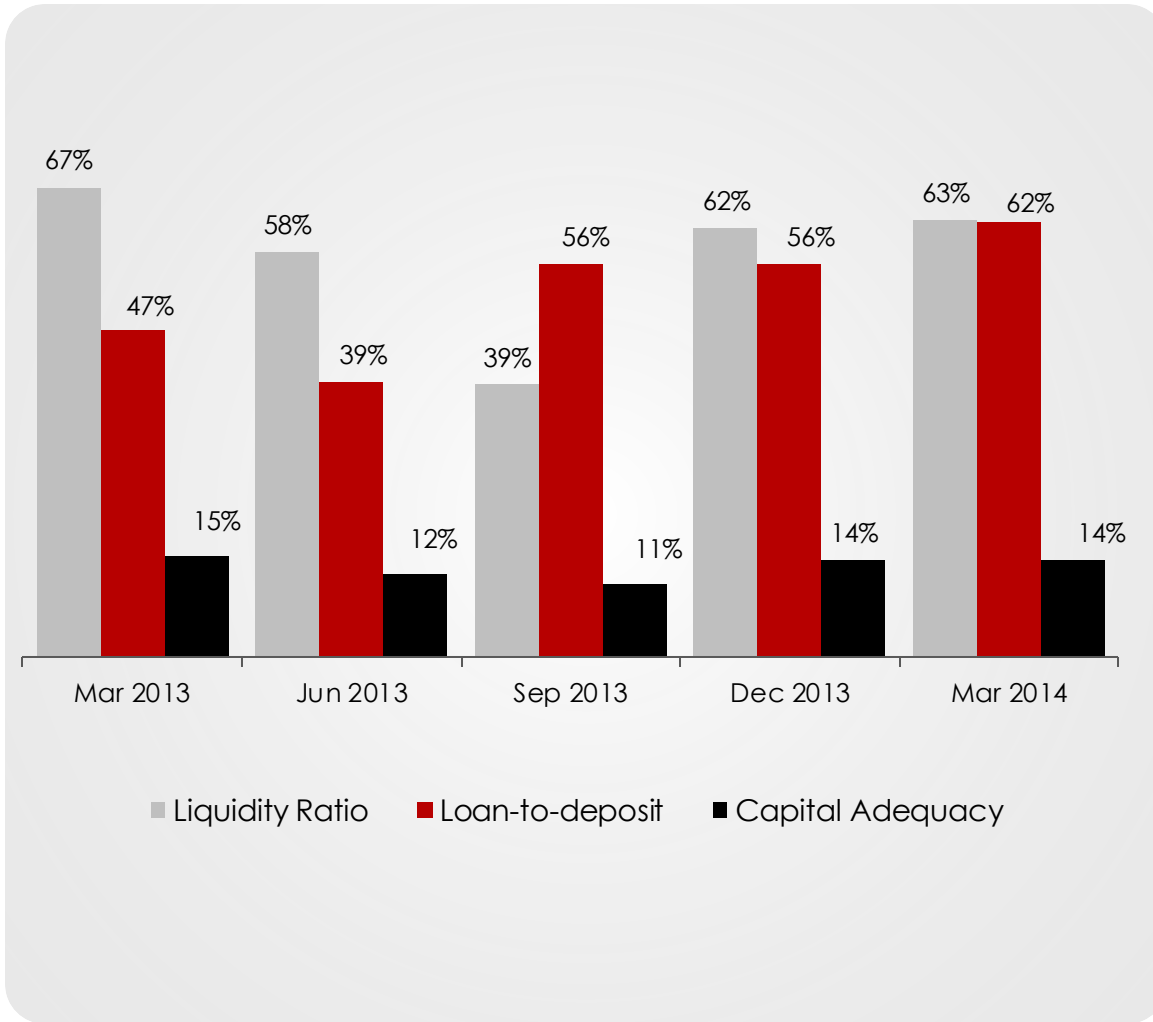
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## Comments

- Deposits declined marginally by 5% year-to-date to N540.0 billion reflecting Management's focus on balance sheet efficiency
- Retail deposits accounted for 66% (2013: 67%) of deposits, while wholesale funds accounted for 34%
- We will continue the upgrade of our physical infrastructure and rollout of conventional and alternative channels to deepen market penetration of our products and grow retail deposit market share

# Capital and liquidity

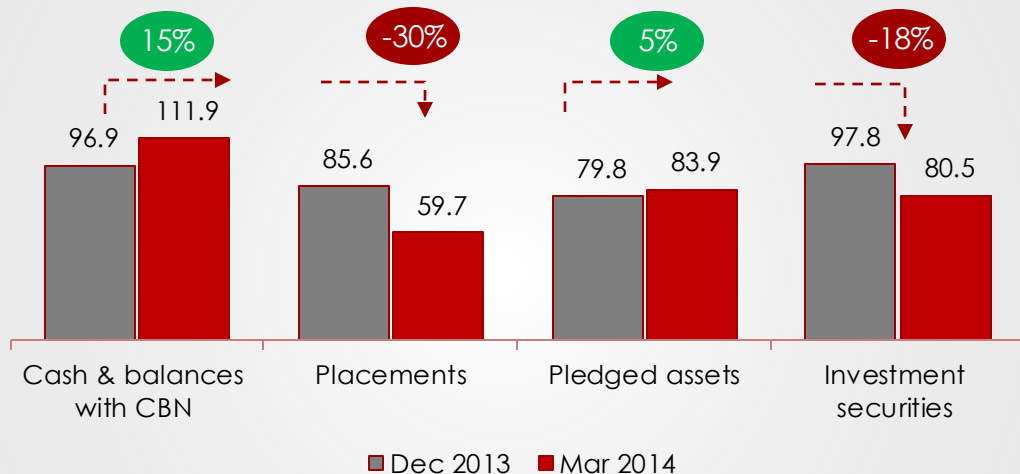


## Comments

- Capital adequacy and liquidity ratios were above the regulatory benchmarks of 10% and 30% respectively
- Loan-to-deposit ratio increased from 56% in Dec. 2013 to 62% largely due to the decline in deposits
- We expect a capital adequacy ratio of c. 20% on completion of our capital raising program

# Liquid assets

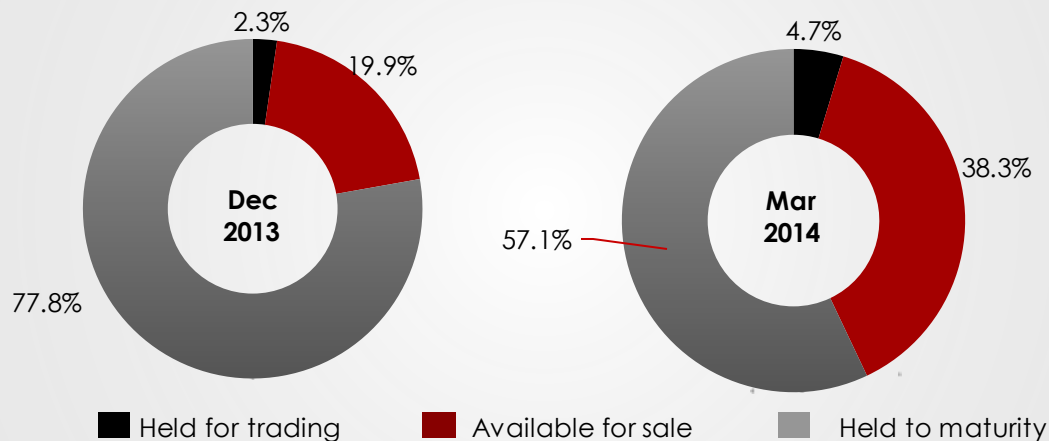
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## Comments

- Liquid assets accounted for 48% of total assets (Dec 2013: 52%) and stood at N335.9bn
- Investment securities made up of Treasury Bills and Bonds accounted for 24% of liquid assets
- Pledged assets accounting for 25% of liquid assets represent collateral for clearing activities, facilities from foreign banks and Bank of Industry, as well as letters of credit transactions

## Investment Securities' Split





# Key strategic initiatives

- Completion of the capital raising exercise
- Upgrade of our physical infrastructure to reflect the retail look and feel
- Rollout of conventional and alternative channels to deepen market penetration of our products
- Roll-out of our agency Banking model to drive financial inclusion
- Commencement of private banking business targeted at the high net worth individuals
- Launch of the One-Education initiative targeted at the education sector value
- Deployment of a new core banking application to fully enhance service delivery to our customers
- Strengthening of our performance management system for sales and back-office workforce to improve staff productivity

# FY 2014 guidance

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

# Key message

- Sterling Bank is in a strong growth phase – 3% market share by assets
- Double digit growth in earnings - 24% QoQ
- Excellent asset quality – 1.8% NPL ratio
- Growing customer base >1 million active customers
- Stronger capital base – N71 billion
- Expanding retail foot print – 168 branches; 300 ATMs; 5,000 POS
- 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

# Contact Information

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