

# STERLING

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B A N C S H A R E S

World class banking. Deep Texas roots.®

Houston

Dallas

Fort Worth

San Antonio

# Forward-looking statements

**E**xcept for historical information contained herein, this presentation contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve risks and uncertainties and are based on beliefs and assumptions of management at the time that this presentation was prepared. The Company does not assume any obligation to update the forward-looking statements. These statements provide our expectations but are not guarantees of future performance. There are several factors, many beyond our control that could cause our results to differ significantly from expectations including the timing and amount of revenues that may be recognized by the Company; continuation of current revenue and expense trends (including trends affecting charge-offs); our ability to integrate acquisitions and realize expected cost savings and revenue enhancements from acquisitions; unforeseen changes in the Company’s markets; adverse changes in the loan portfolio and the resulting credit risk-related losses and expenses; potential inadequacy of our allowance of credit losses; our ability to maintain or improve loan quality levels and origination volumes and competitive influences over product pricing. Additional factors that could cause actual results or conditions to differ significantly from these forward-looking statements can be found in the Company’s most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission and available at the Securities and Exchange Commission’s web site ([www.sec.gov](http://www.sec.gov)).

# Sterling Profile

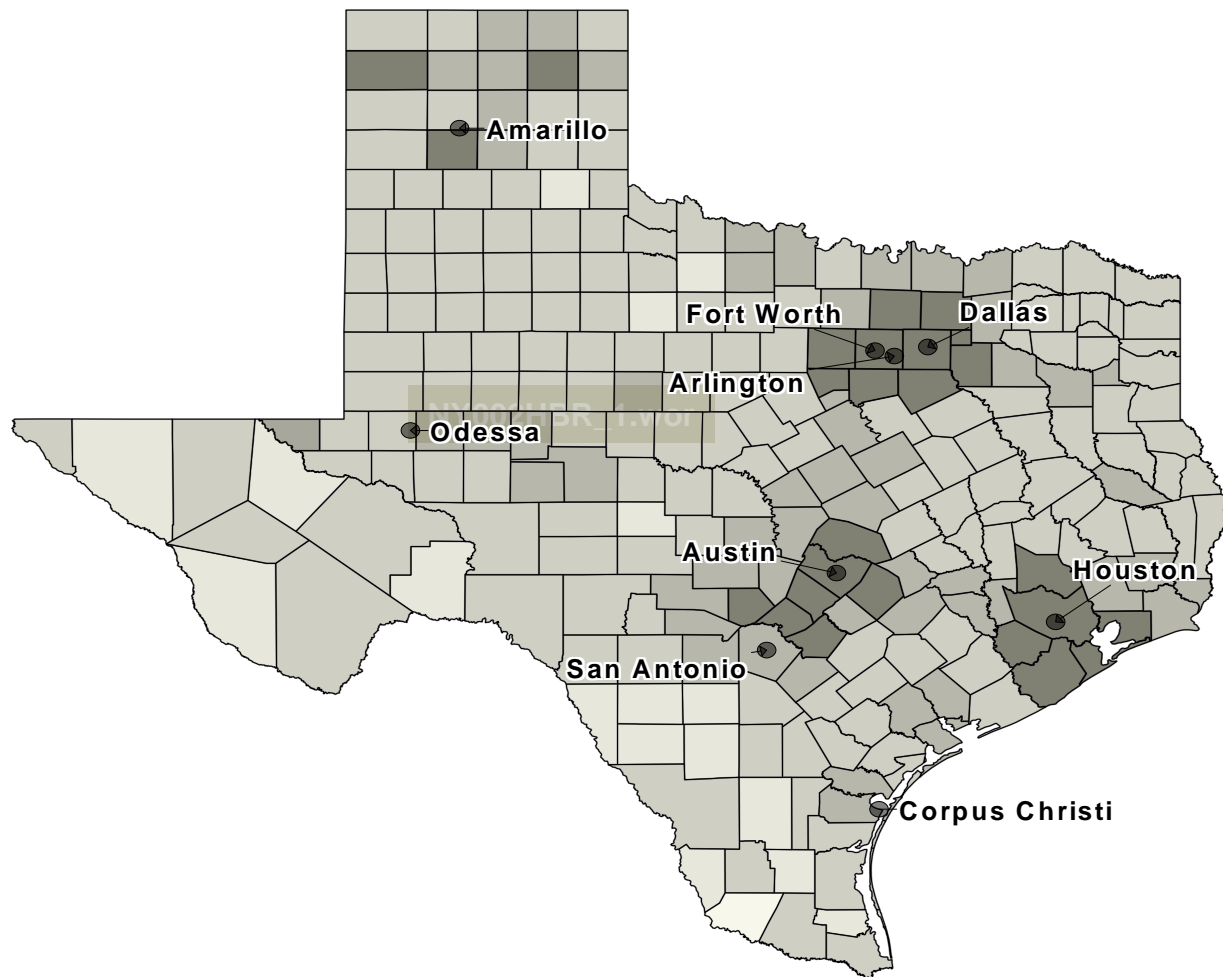
- ▶ \$4.7 billion in assets
- ▶ Footprint encompasses four of the top 20 largest U.S. cities (including three in the top 10):
  - 29 banking centers in **Houston** area
  - 13 banking centers in **San Antonio** area
  - 17 banking centers in **Dallas/Fort Worth** area
- ▶ Target market: Small and medium sized-businesses






\*Entered into the Fort Worth market in 2008 with the acquisition of First Horizon branches

# Market Profile

- ▶ Major metropolitan areas in Texas - **Houston, Dallas, Fort Worth, and San Antonio**
- ▶ High concentration of small to medium-sized businesses
- ▶ Small to medium-sized businesses are underserved by banks
- ▶ Above average population growth rates w/ diverse industry base

# Market Profile



Median HH Income	
	>\$50,000
	\$40,000-\$50,000
	\$30,000-\$40,000
	\$20,000-\$30,000
	>\$20,000

# Market Data

MSA	Total Population 2007 (actual)	Projected Change 2007 – 2012	2007 Average HH Income	Projected HH Income Growth 2007-2012	Deposits (\$000) 6/30/07	Deposit CAGR 2000-2007
Dallas - Fort Worth - Arlington	6,118,183	12.59%	\$85,745	21.33%	\$113,200,688	10.56%
Houston - Sugar Land - Baytown	5,620,734	11.48%	\$80,446	19.14%	\$104,090,146	9.85%
San Antonio	1,985,996	10.78%	\$65,274	15.59%	\$18,038,835	5.80%

Note: Non-retail branches are not included; Bank & Thrift Deposits.

Source: SNL Financial (ESRI), US Census Bureau

# Houston Area

- ▶ Home to 26 FORTUNE 500 companies
- ▶ 4<sup>th</sup> largest city in the U.S.
- ▶ Third largest number of consular offices in U.S.
- ▶ 10<sup>th</sup> largest port in the world; top U.S. port in foreign tonnage; 2<sup>nd</sup> in total tonnage
- ▶ Largest medical center in the world
- ▶ Home of NASA's Johnson Space Center
- ▶ Energy Capital of the World

# San Antonio Area

- ▶ Home to 5 of the FORTUNE 500 companies
- ▶ 7<sup>th</sup> largest city in the U.S.
- ▶ \$13.7 billion healthcare and bioscience industry
- ▶ Tourism generates 21 million visitors and \$7.2 billion in economic impact annually
- ▶ Consistently among the nation's fastest growing large cities, with an estimated 15% population increase between 2000 and 2006



# Dallas/Fort Worth Area

- ▶ Home to 23 of the FORTUNE 500 companies
- ▶ 3<sup>rd</sup> largest MSA in the U.S.
- ▶ Eighth largest number of consular offices
- ▶ More than 136,000 businesses (over 1,500 regional & corporate headquarters)
- ▶ Diverse economy, reporting between 3 and 22 percent of the workforce in each of the major industrial sectors
- ▶ Distribution center of the Southwest

# Texas Banking Scene

(deposits)

Market Share*	Houston	San Antonio	Dallas/Fort Worth
Large out of state banks	78%	46%	71%
Local publicly traded banks	7%	25%	8%
Local community banks	13%	27%	20%
<b>Sterling Bank</b>	<b>&lt;3%</b>	<b>&lt;2%</b>	<b>&lt;1%</b>

\* excludes credit union and non-retail branch deposits such as USAA and Countrywide

Source: SNL Financial as of 6/30/07

# Strategic Intent

***“We differentiate ourselves from other banks within our markets by being focused on providing competitive products and services to all constituencies within the small to medium-sized business segment with annual sales of less than \$50 million.”***

***World Class Banking. Deep Texas Roots.®***

# Sterling's Competitive Advantage

- ▶ The ability to create lasting **relationships** by meeting all the business and personal banking needs of business owners, their employees, and their families and friends.
- ▶ Therefore, our **advantage** is realized through:
  - **Our bankers**
  - **Our values**
  - **Our focus on our market segment in metro areas**

# Why Small & Medium-Sized Businesses?

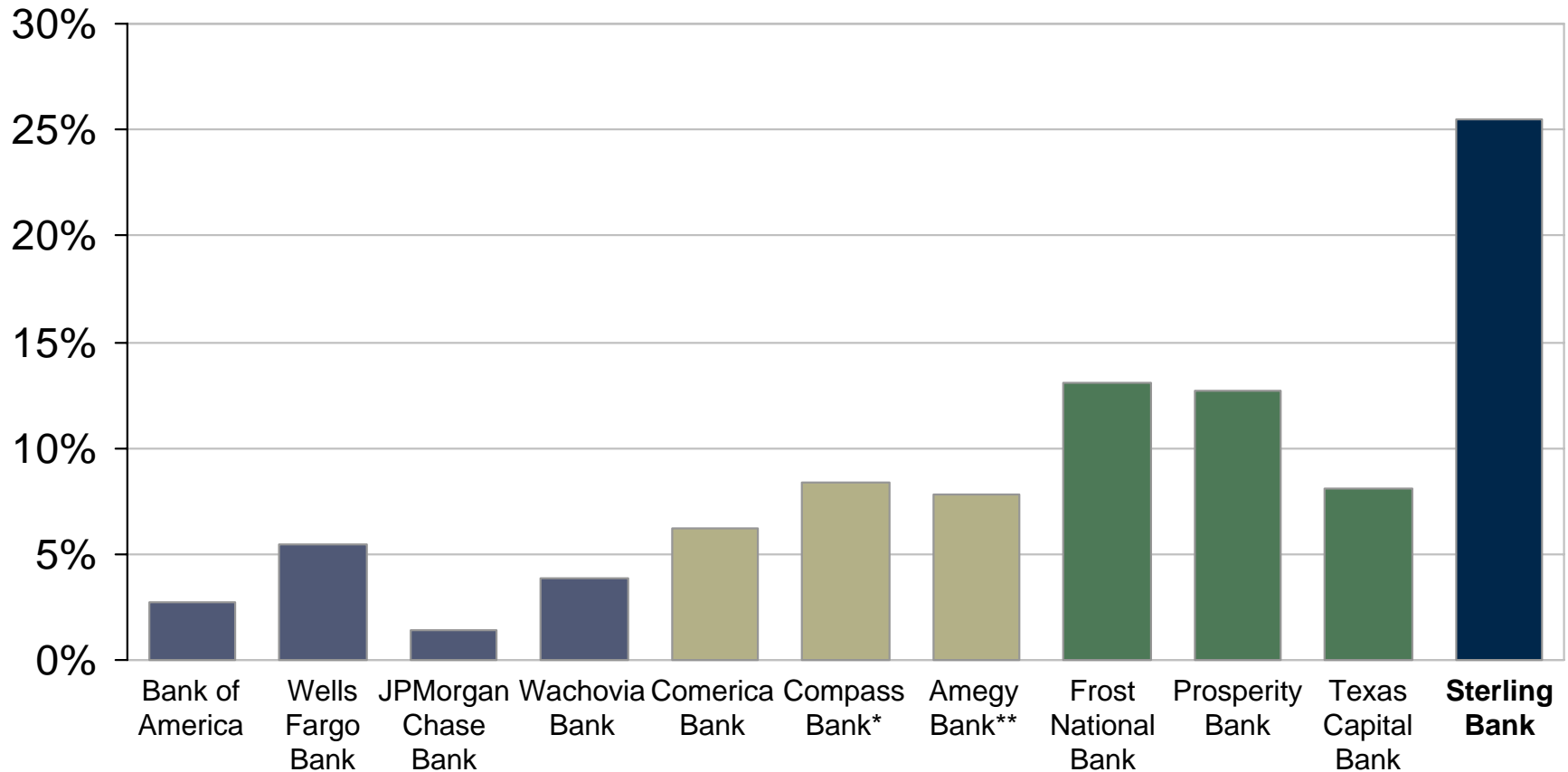
- ▶ Small businesses\* in the United States:
  - Employ approximately 50% of the private work force
  - Create more than 50% of private GDP
  - Represent 97% of all identified exporters
  - Generated 60 to 80 percent of net new jobs annually over the last decade
  - Make up 99.7% of all employers
  - Totaled over 26.8 million in 2006

\*Defined by the SBA as independent businesses with less than 500 employees

Source: U.S. Small Business Administration

# Focused on Owner-operated Businesses

## Business loans under one million dollars as a % of assets



\*acquired by BBVA

\*\*acquired by Zions

Source: **FDIC** as of 6/30/07

# Business Model

## Trade-offs

- ▶ Owner-operated businesses generate:
  - High diversification within the loan portfolio
  - High percentage of non-interest bearing accounts
  - High net interest margin
  - Less fee income relative to interest income
  - Higher efficiency ratio
  - Higher growth rates

# Sterling Delivers

- ▶ Solid financial performance
  - Consistently high loan and deposit growth
  - Fifteen consecutive increases in annual dividend
- ▶ One of the highest net interest margins among our peers
- ▶ Experienced leadership
- ▶ Culture that supports our Shared Vision of  
**“World Class Banking. Deep Texas Roots.®”**



# Internal Growth

- ▶ Attracting lenders who focus on our market segment
- ▶ Generating new lenders within Sterling
- ▶ Producing new relationships from our existing lenders
- ▶ Expanding existing customer relationships
- ▶ Small and medium-sized business relationships lead to a high percentage of demand deposits

# Internal Growth: Opening New Locations

## Strategy:

- ▶ Concentration of owner-operated businesses
- ▶ Key banker from the area
- ▶ Near a branch of an out-of-state bank
- ▶ Absence of a strong local bank
- ▶ High growth areas

# Strategic Bank Acquisitions

## Mergers/acquisitions since 1999

Bank Acquired	Year	Assets (in millions)	Locations
First Horizon Branches (DFW)*	2008	\$69	10
Partners Bank of Texas (Hou)	2007	\$191	4
Bank of the Hills (SA)	2006	\$328	5
Oaks Bank & Trust (Dal)	2005	\$128	5
Plaza Bank (SA)	2003	\$83	3
Eagle National (Dal)	2002	\$71	1
Community (Hou)	2001	\$118	1
Lone Star (Hou)	2001	\$165	3
Camino Real (SA)	2001	\$284	8
Houston Commerce (Hou)	1999	\$115	3

\* Not whole bank acquisition (branch purchase)

# Potential acquisitions

Market	# of Banks	Deposits (in billions)	Loans (in billions)
Dallas/Fort Worth	20	\$14.6	\$13.2
Houston	16	\$7.3	\$5.2
San Antonio	5	\$2.6	\$1.8
Austin	4	\$1.0	\$0.6

*\*As defined by an internal study (as of 6/30/07)*

# Business Lines that Support Core Growth

- ▶ Treasury Management
- ▶ Private Client Services (Wealth Management)
- ▶ International Banking
- ▶ SBA
- ▶ Capital Markets
- ▶ Energy
- ▶ Auto Dealer Group
- ▶ Factoring
- ▶ Leasing

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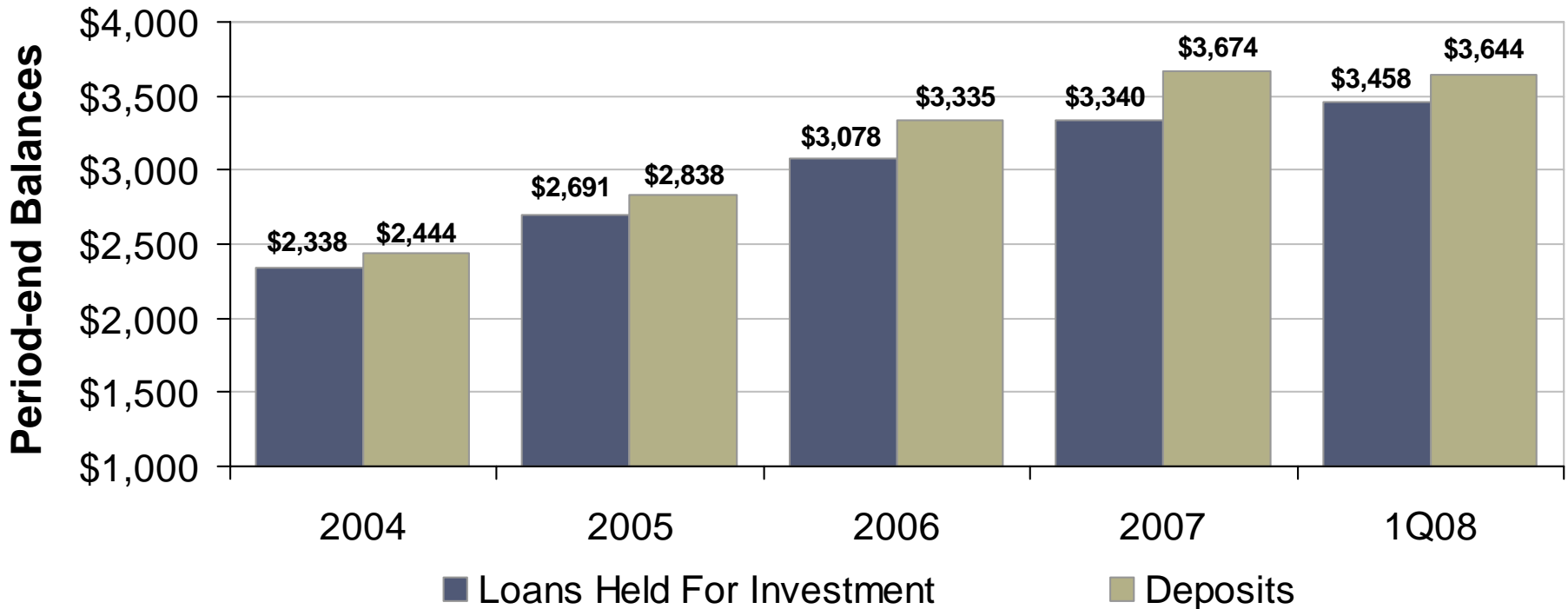
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## Financial Performance

# Loans Held For Investment & Deposits

(\$ amounts in millions)

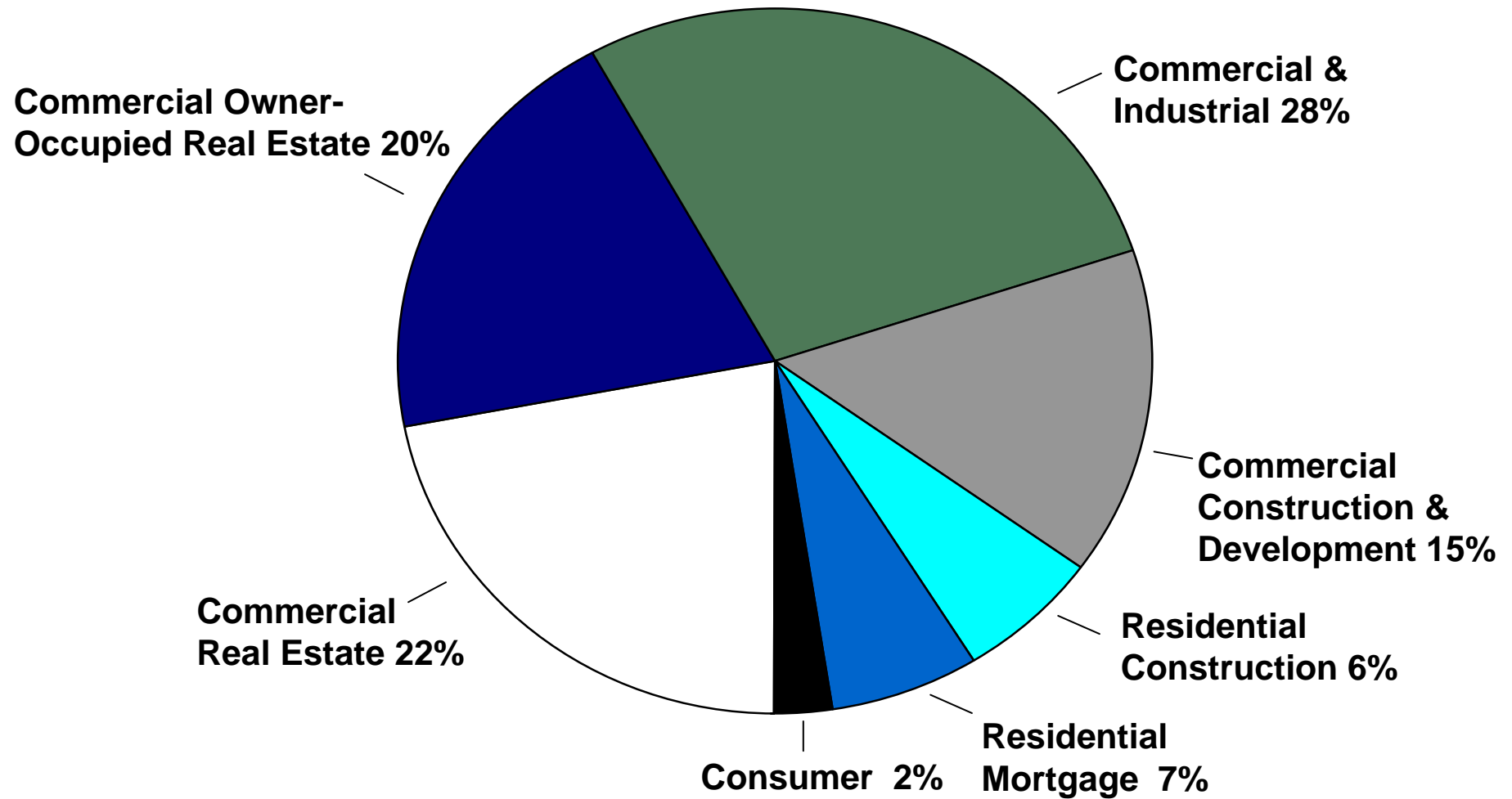


Loans HFI as a % of Deposits	96%	95%	92%	91%	95%
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# Loan Mix

1Q 2008 Period-End\*

Variable rate loans = 59% (effectively 49% with interest rate hedge)



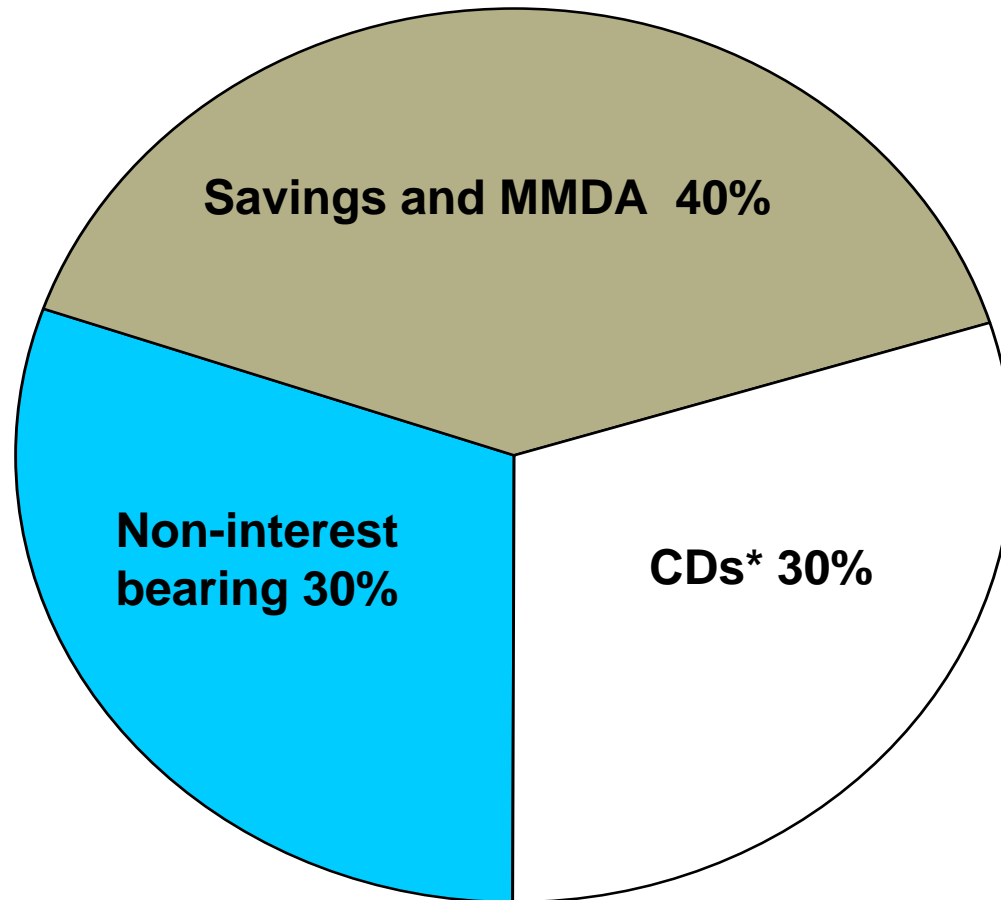
\*Loans Held For Investment



# Deposit Mix

## 1Q 2008 Period-End

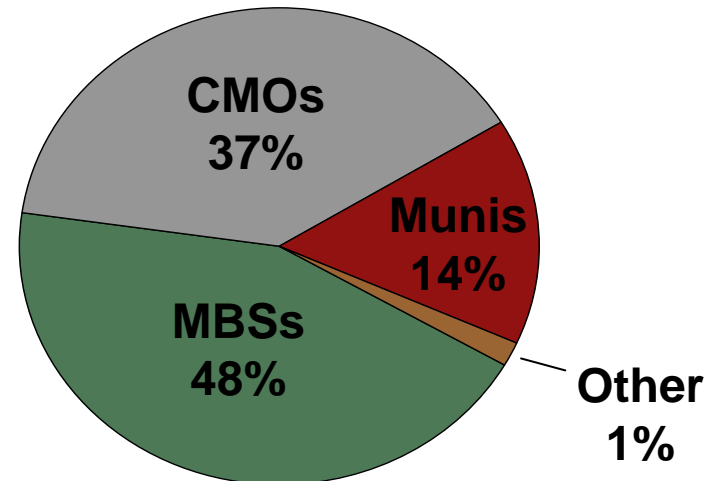
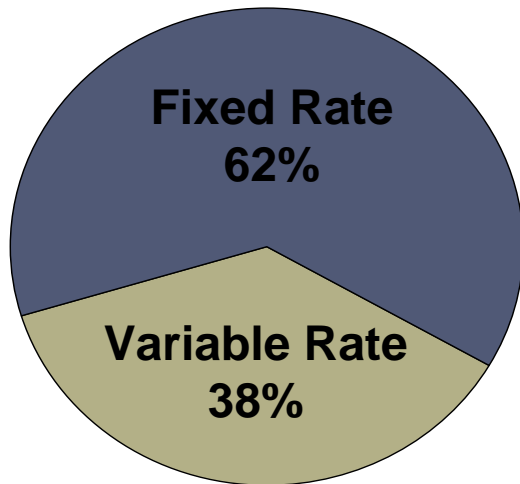
Average cost of deposits: 1.96%



\* Includes \$92 million in brokered CDs

# Investment Portfolio Mix

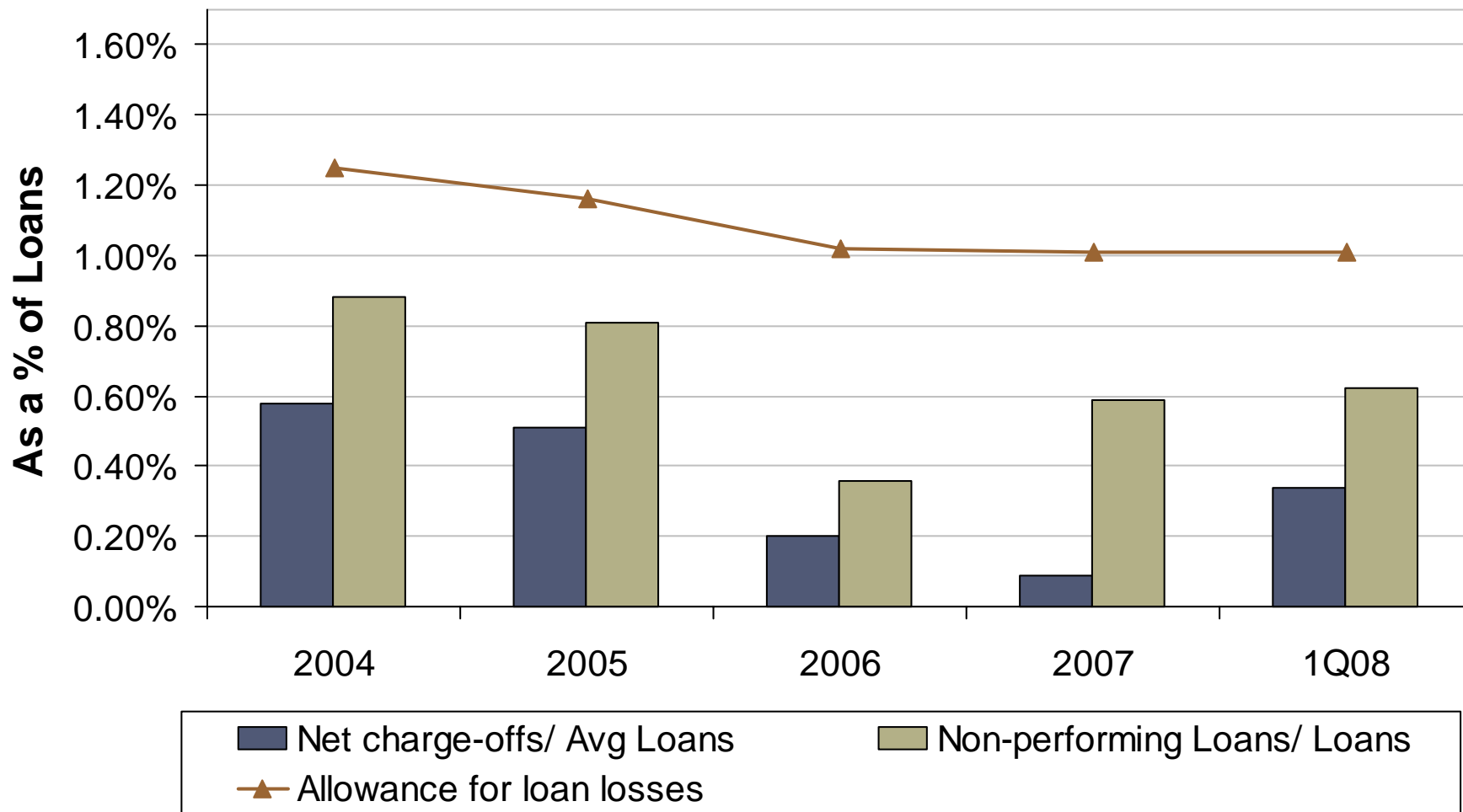
1Q 2008 Period-End



<b>Investment Portfolio (AFS &amp; HTM)</b>	<b>As of 3/31/08</b>
Tax Equivalent Yield	4.90%
Weighted Average Life	4.3 years
Modified Duration	3.6 years
Total Amount	\$708 Million

\*CMOs and MBSs are all “AAA” rated

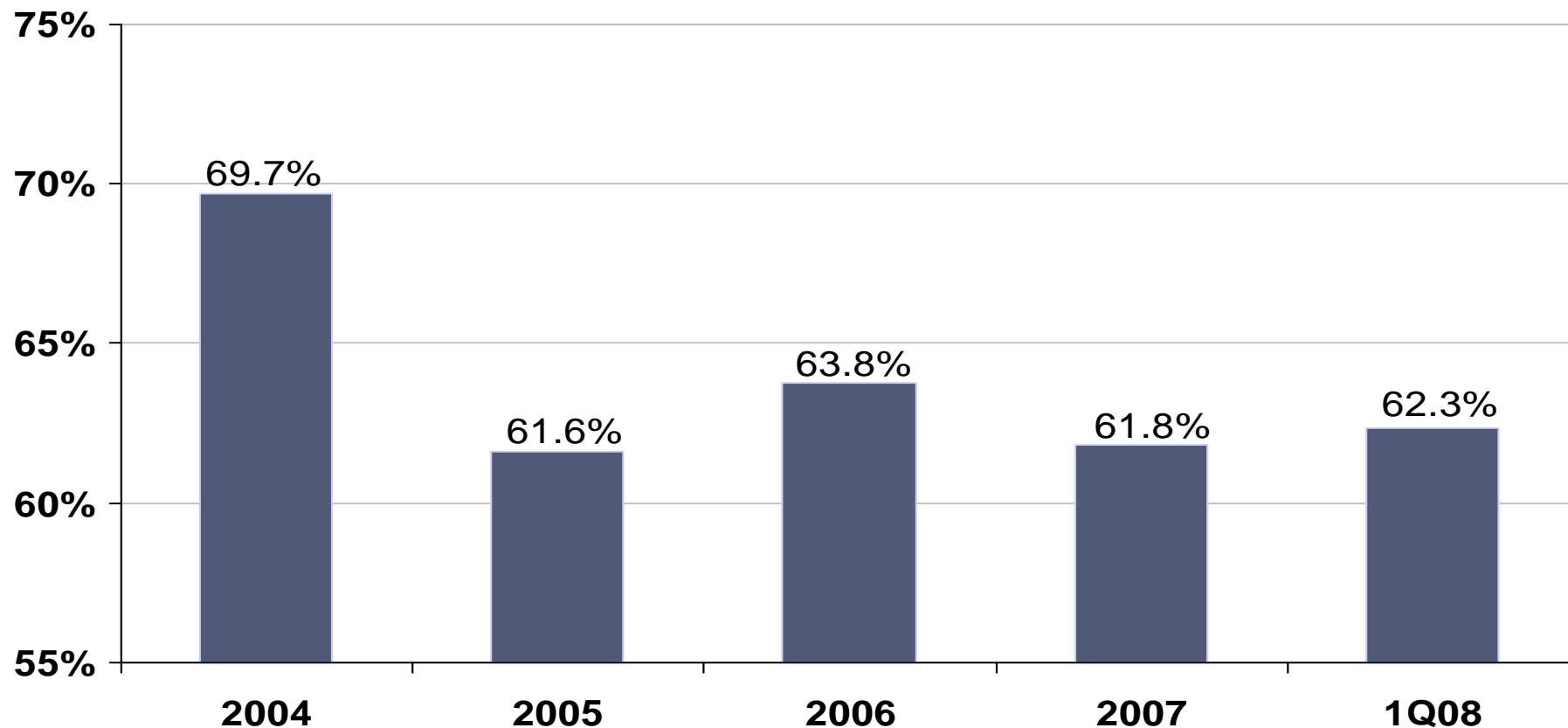
# Asset Quality



# Efficiency Ratio\*

(Unaudited)

\*Normalized & Taxable-equivalent basis

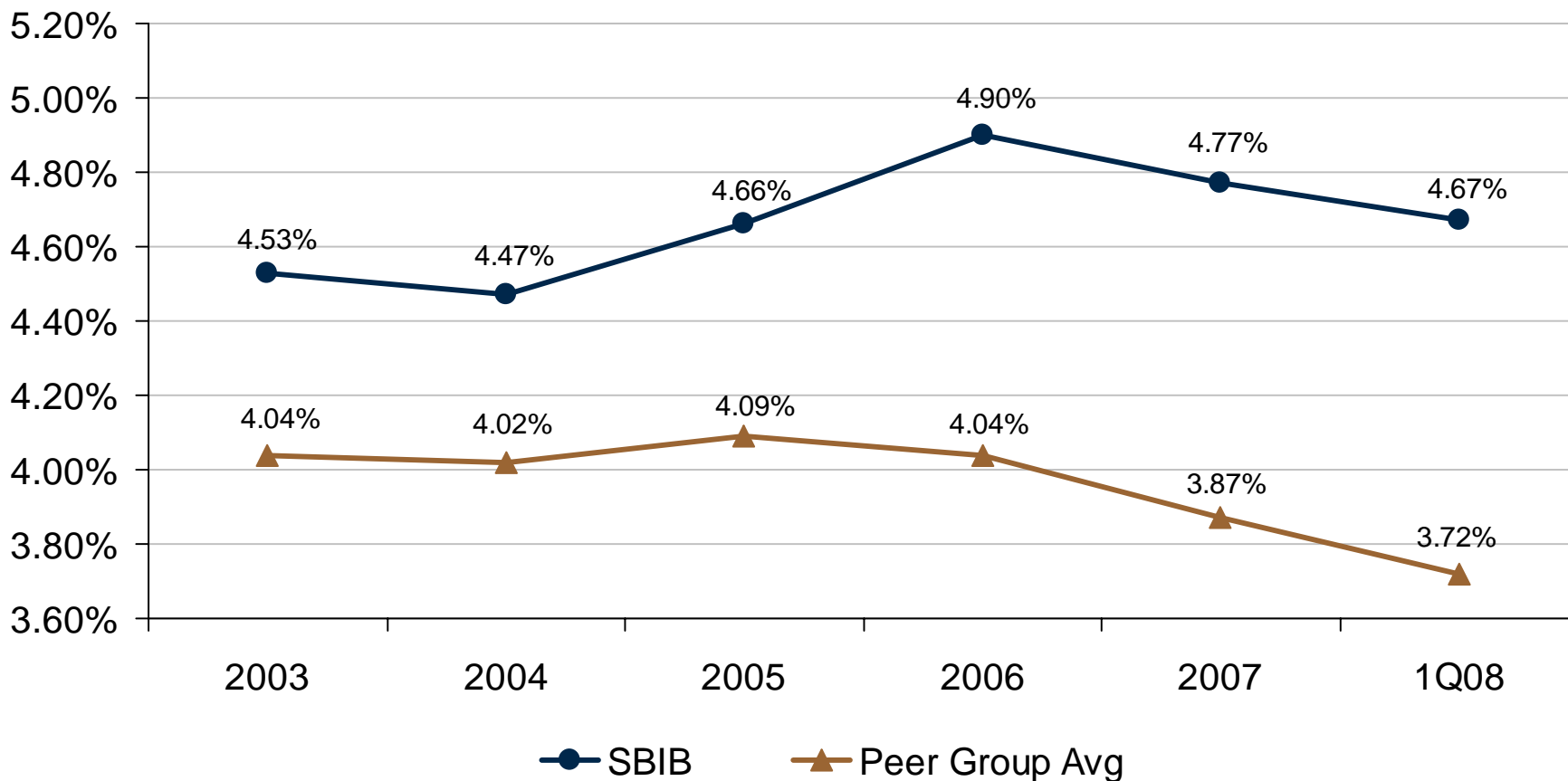


FTEs	961	1,014	1,074	1,042	1,103
Banking Centers	36	40	45	49	59

# Net Interest Margin\*

(Unaudited)

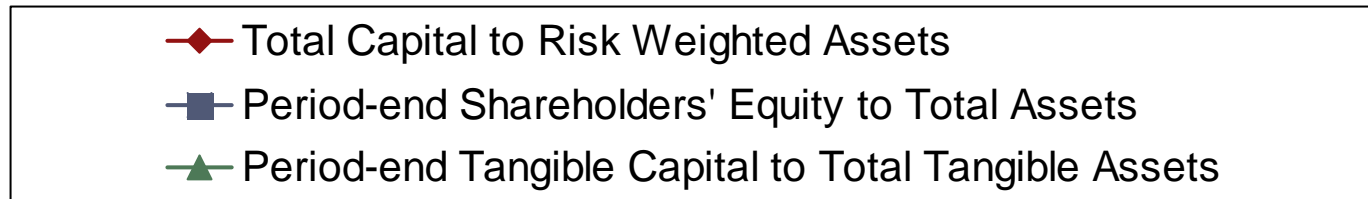
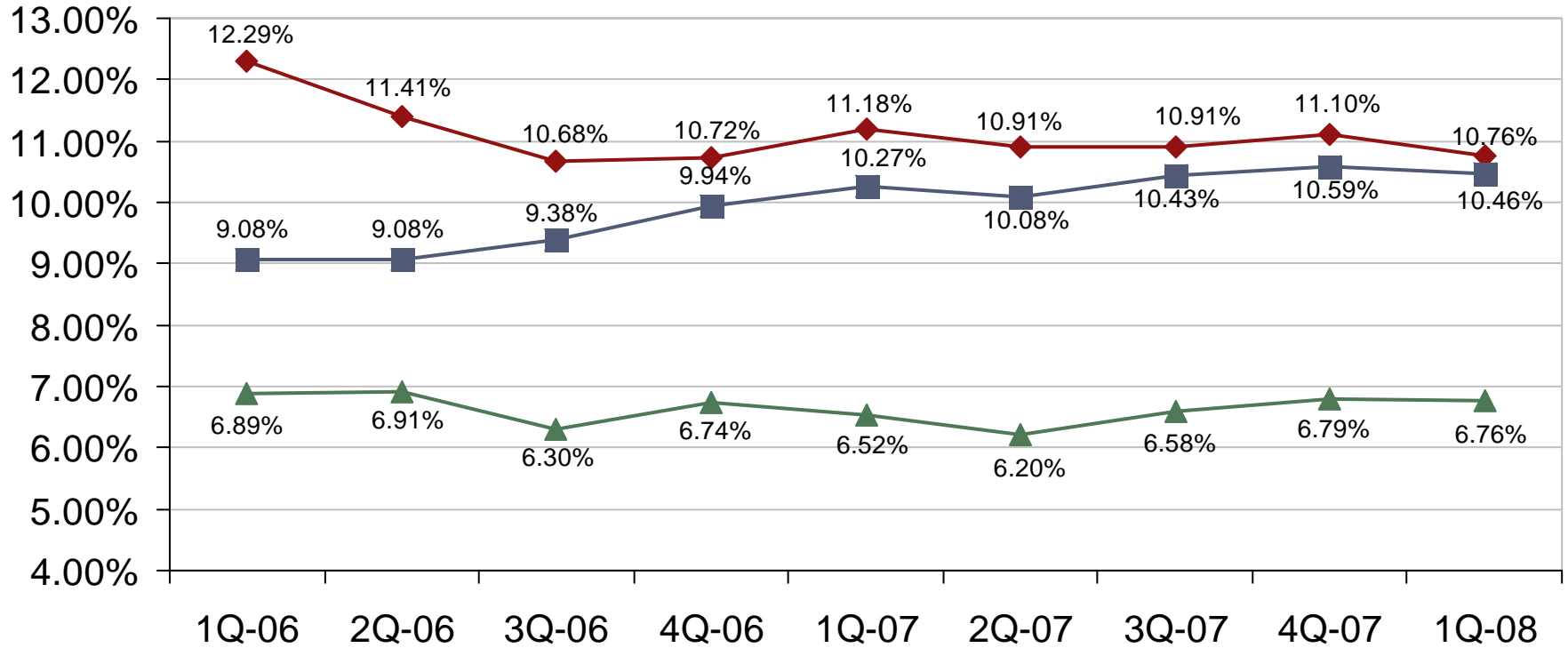
\*Taxable-equivalent basis



\*Peer Group consists of 91 publicly traded banks with assets of \$1 Billion to \$10 Billion

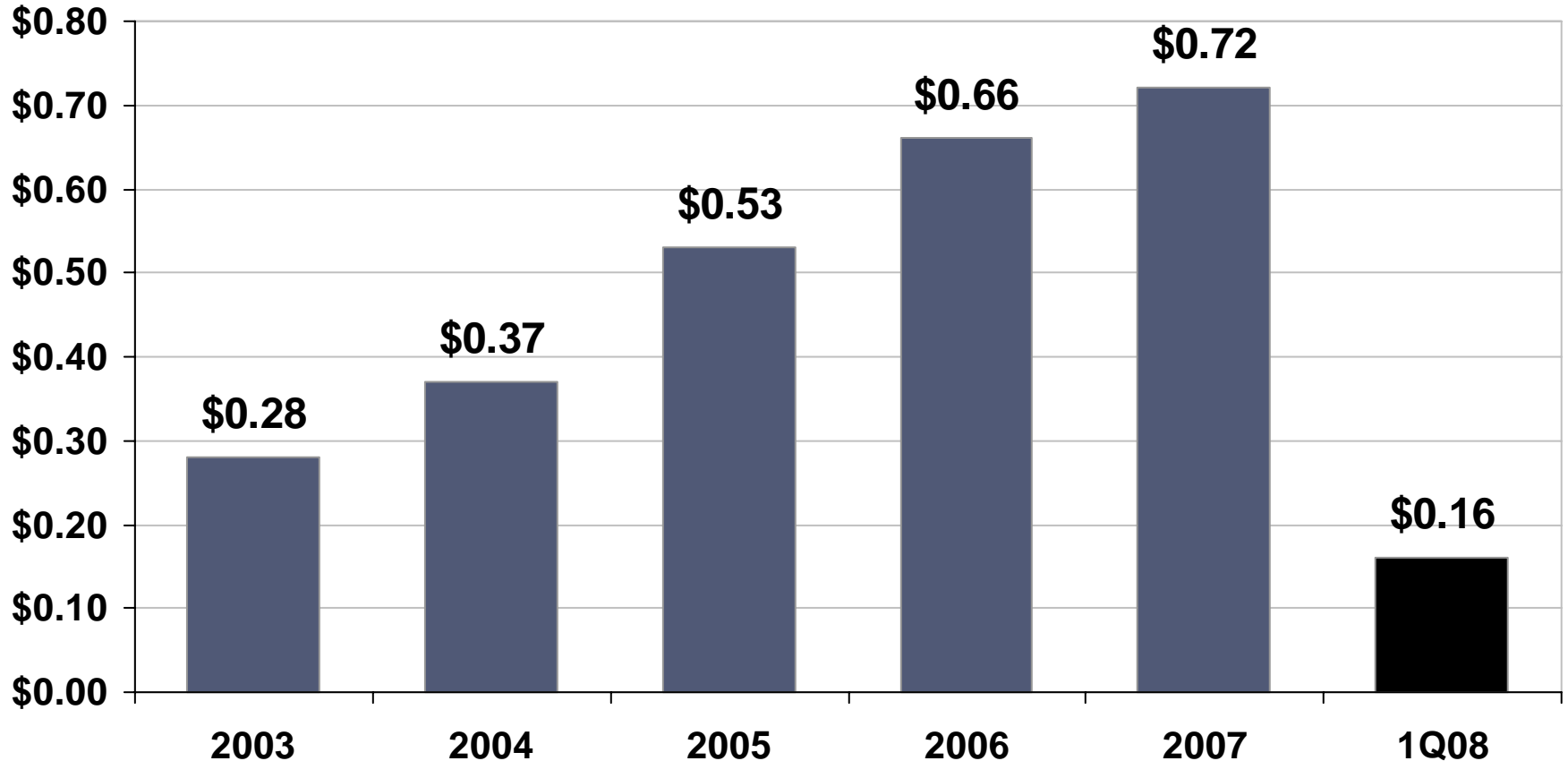
Source: SNL Financial

# Capital (Unaudited)



# Earnings Per Share

(Diluted)



Note: EPS for 2003 represents continuing operations only (mortgage company sold 9/30/03)

# Summary

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- ▶ Committed to our target market
- ▶ Outstanding growth opportunities within our Texas markets
- ▶ Experienced bank management team
- ▶ Focused on core competencies
- ▶ Core funded franchise and
- ▶ A strong capital position to support growth...equals

**An attractive investor opportunity**



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