

09

## Standard Bank Group

Peter Wharton-Hood, Deputy Chief Executive

UBS Global Financial Services Conference

12 & 13 May 2009



### Overview

- One of the four big full-service South African banks
  - 146 year history in South Africa
- Operates in a range of banking and related financial services
  - 17 countries in Africa
  - 16 countries outside Africa with an emerging markets focus
- The Industrial and Commercial Bank of China, the world's largest bank, is a 20% shareholder
- Largest African banking group ranked by assets, earnings and market cap
  - Total assets of nearly R1 509bn (approx \$168bn)
  - Headline earning of R14.1bn (approx \$1.6bn)
  - Market capitalisation of R127bn (approx \$14bn)
  - Employs more than 50 000 people
  - Tier 1 capital adequacy ratio 10.7%

2



## Our vision

We are committed to making a real difference to financial services in South Africa and other emerging markets.

We will ensure long-term sustainability by harmonising the needs of our customers, our people and our shareholders and by being relevant to the societies in which we operate.

We will only succeed if we are able to attract, retain, develop and deploy teams of people with energy, passion and skills.

- Develop a leading domestic business in chosen markets
- Capitalise on cross-border flows between emerging market countries
- Delivering Africa and accessing China are key differentiators

3



## Strategy reaffirmed through the crisis

- Emerging markets focus
  - No exposure to toxic or sub-prime assets
- SA relatively shielded from initial crisis impact
  - Product set with emerging market characteristics
    - Vanilla loan books
    - Limited exotic gearing
    - Domestically concentrated through exchange control
  - High quality regulatory and risk management practices
    - Risk-based regulatory approach based on both principles and rules
    - Counterparty risks and netting reviewed via central bank circular 4 years ago
    - Relatively fast and robust implementation of Basel II

4



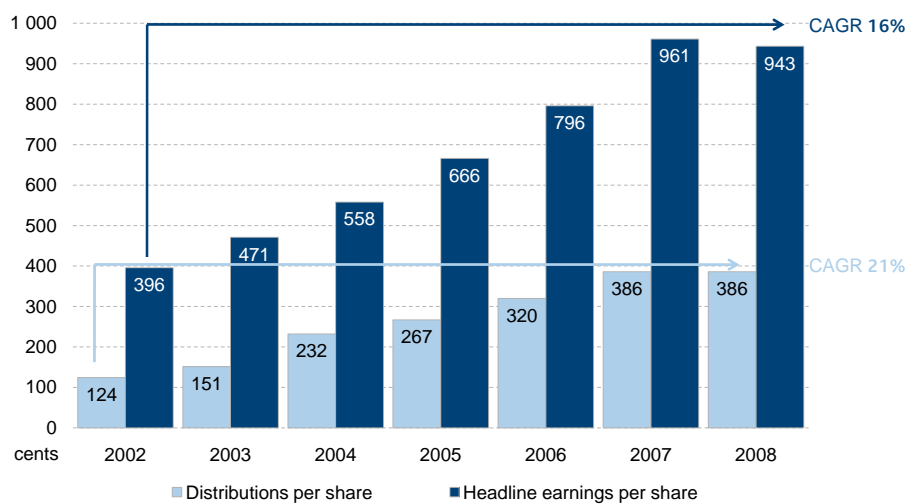
## Resilient group results and growth story

- Excellent organic revenue growth
- Positive contribution from recent acquisitions
- Absorbed substantial credit impairments
- Strong capital and liquidity position
- 146 year old franchise
  - Strong retail and corporate deposit base
- With hindsight, could have tightened credit criteria earlier in retail banking in South Africa
  - Didn't anticipate the severity and speed of the cyclical downturn
- Currently writing good quality business

5



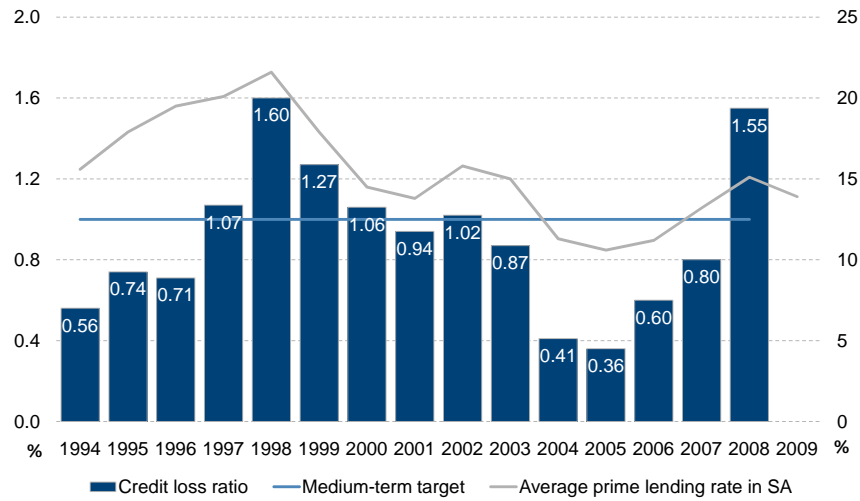
## Good track record in earnings growth



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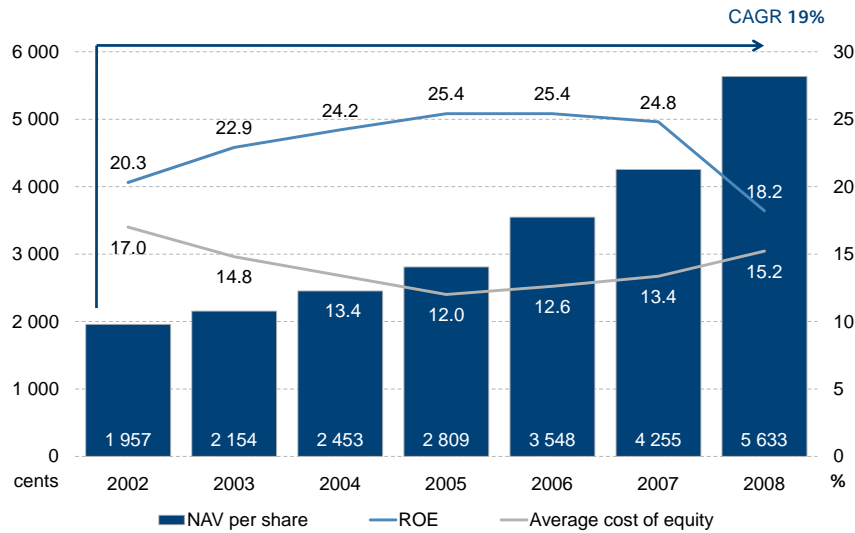
## Cyclical credit impairment charges



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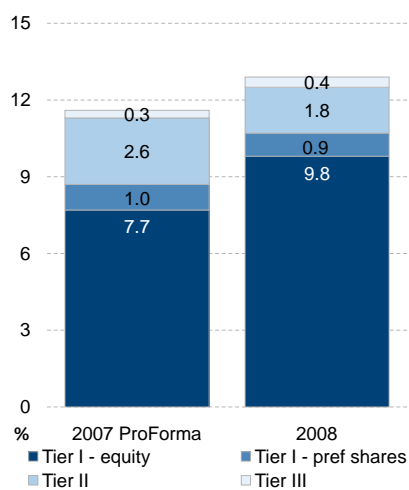
## Returns dampened by increased capital



8



## Strong capital adequacy ratios



|                        | Tier I % | Total % |
|------------------------|----------|---------|
| <b>SBSA</b>            |          |         |
| Capital adequacy ratio | 9.3      | 12.2    |
| Regulatory minimum     | 7.00     | 9.75    |
| Target                 | 9        | 11 - 12 |
| <b>Group</b>           |          |         |
| Capital adequacy ratio | 10.7     | 12.9    |
| Regulatory minimum     | 7.00     | 9.75    |
| Target                 | 9        | 11 - 12 |

9



## Business unit snapshot of group earnings

|                                | Headline earnings Rm | Headline earnings growth % | Headline earnings mix % | ROE %       |
|--------------------------------|----------------------|----------------------------|-------------------------|-------------|
| <b>2008</b>                    |                      |                            |                         |             |
| Personal & Business Banking    | 4 784                | (16)                       | 34                      | 19.9        |
| Corporate & Investment Banking | 7 967                | 19                         | 56                      | 22.2        |
| Central and other              | 758                  | >100                       | 5                       |             |
| <b>Banking activities</b>      | <b>13 509</b>        | <b>11</b>                  | <b>95</b>               | <b>18.6</b> |
| Liberty                        | 641                  | (34)                       | 5                       | 12.8        |
| <b>Standard Bank Group</b>     | <b>14 150</b>        | <b>8</b>                   | <b>100</b>              | <b>18.2</b> |

10



## Geographic snapshot of group earnings

| 2008                              | Headline earnings<br>Rm | Headline earnings growth<br>% | Headline earnings mix<br>% | ROE<br>%    |
|-----------------------------------|-------------------------|-------------------------------|----------------------------|-------------|
| South Africa (Banking activities) | 10 275                  | 5                             | 72                         | 26.9        |
| South Africa (Liberty)            | 641                     | (34)                          | 5                          | 12.8        |
| <b>South Africa</b>               | <b>10 916</b>           | <b>1</b>                      | <b>77</b>                  | <b>25.2</b> |
| Rest of Africa                    | 1 862                   | 46                            | 13                         | 16.2        |
| Outside Africa                    | 1 378                   | 12                            | 10                         | 8.4         |
| <b>Outside South Africa</b>       | <b>3 240</b>            | <b>29</b>                     | <b>23</b>                  | <b>11.6</b> |
| Central funding                   | (6)                     |                               |                            |             |
| <b>Standard Bank Group</b>        | <b>14 150</b>           | <b>8</b>                      | <b>100</b>                 | <b>18.2</b> |

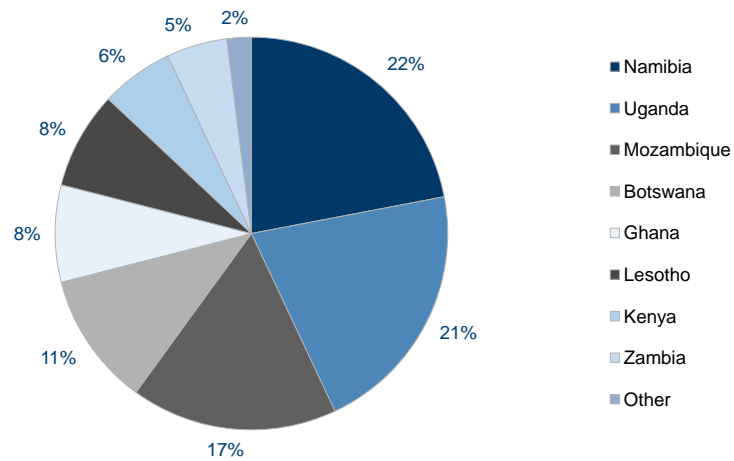
11



Africa is our calling card



## Rest of Africa portfolio Headline earnings contribution for 2008



Graph excludes Nigeria contribution for 2008

13



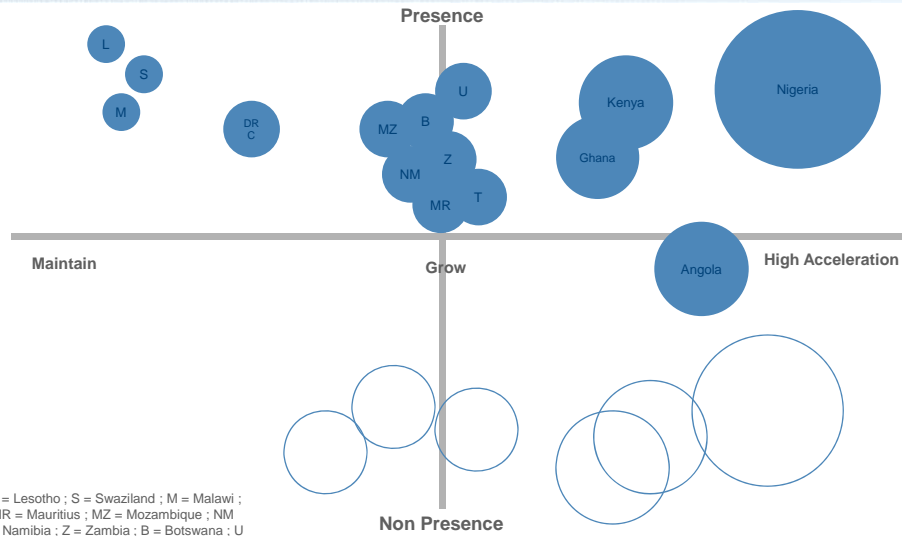
## Rest of Africa portfolio Estimated market shares

| Country    | 2000 % | 2008 % |
|------------|--------|--------|
| Nigeria    | 0      | 1*     |
| Namibia    | 25     | 28     |
| Uganda     | 0      | 26     |
| Mozambique | 1      | 17     |
| Botswana   | 1      | 6      |
| Ghana      | 0      | 4*     |
| Lesotho    | 40     | 62     |
| Kenya      | 0      | 5*     |
| Zambia     | 1      | 7      |
| Malawi     | 0      | 25     |
| Swaziland  | 38     | 33     |
| Tanzania   | 0      | 11     |
| Zimbabwe   | 20     | 20     |

\* High growth potential



## Optimising opportunities on the continent



## Who are our competitors?

### We compete against multi-national and large local banks

#### Multi-national banks

- StanChart, Barclays and Citi
- Focus on multi-national corporates, governments, top local corporates, high end retail and business banking
- All have slightly different core capabilities but focus on treasury, trade and transactional banking
- Increasingly concentrating on big ticket investment banking
- Africa may not be considered to be core to their global strategy
- Nigeria is a noteworthy exception where all have expressed an intention to grow their presence





## Who are our competitors?

### Large local banks

- Ecobank, Zenith, UBA, Community Rural Development Bank, Kenya Commercial Bank, Zenaco
- Becoming regional players and expanding footprint
- Well capitalised with significant market shares
- Provide significant competition by virtue of their
  - Low cost of funds, expansive distribution networks, good government relationships, strong ties with top local corporates and increasing product sophistication
- Less competitive in
  - Treasury, Debt Capital Markets, Project Finance and Structured Trade



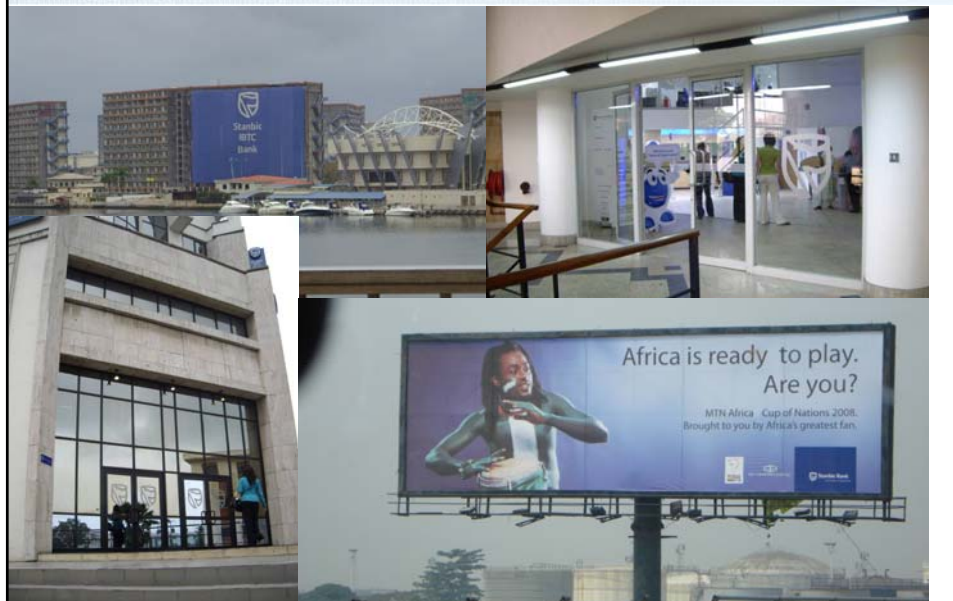
**Stanbic Bank**  
A member of Standard Bank Group

### Africa is in us.

It takes 40 000 employees from 22 countries across Africa to build the leading emerging market bank. That's why we are in Africa. And why Africa is in us.

Inspired. Motivated. Involved.

## Nigeria



## Ghana



## Funding of groundbreaking transactions



## ICBC co-operation agreement

- Strong relationships and good formal co-operation
- Office opened with 32 staff in Beijing
- Good access to top Chinese SOEs and corporates
- Strategic alliances concluded
  - China Africa Development Sovereign Fund
  - Sinosure
- Global Resources Fund yet to be established
- Recently reduced investment and corporate activity by Chinese institutions
  - But long term prospects exciting
- Anticipate meaningful revenues in 2009 from
  - Foundation relationships established in 2008
  - Increased international activity by Chinese institutions, and in particular expanding China/Africa trade and investment links

## Standard Bank and ICBC mandated as joint lead arrangers to finance Botswana power station

- US\$1.6bn transaction to build new power station, driven by Botswana Power Corporation (BPC)
  - China National Electric Equipment Corporation awarded US\$1 billion contract to supply and build a significant portion of the power station
    - One of ICBC's top corporate clients
- Standard Bank and ICBC submitted a single proposal to BPC to finance the transaction
- Standard Bank and ICBC have been mandated to arrange
  - US\$ 825m loan for 20 years
    - Backed by a Botswana Ministry of Finance guarantee
  - US\$ 140m bridge finance facility
  - Currency and interest rate hedging solutions

23



## Standard Bank and ICBC mandated as joint lead arrangers to finance Botswana power station

- Why we won the mandate
  - ICBC finely priced long term funding
  - Standard Bank project finance expertise in Johannesburg
  - Standard Bank global markets expertise in London
  - Standard Bank existing footprint in Botswana
- First major transaction involving Standard Bank and ICBC
- The partnership with ICBC opened a unique financial services gateway between Africa and China
  - this project is the first of many that are in the pipeline

24



**The world sees one Africa.  
We see so much more.**

No two countries are the same. Every country in Africa has a different culture, a different economy, a different way of doing things. We understand this. With an established presence in 18 African countries, we not only know the dynamics of each local market, its specialist sectors and its communities; we're also committed to every one of them. So when it comes to doing business in Africa, you'll know you're dealing with the bank that truly celebrates unity in diversity.

[www.standardbank.com](http://www.standardbank.com)

Inspired. Motivated. Involved.

**Standard Bank**  
Also trading as Standard Bank

**世界只看到非洲的外观  
而我们能带你登堂入室**

没有两个国家是完全一样的，非洲的每个国家都有其文化、经济和做事的方法。我们深知它们的不同。通过在18个国家设立的分机构，我们不仅了解各个区域市场的动态，他们特有的资源和他们的风俗，并且在每个国家都提供最佳服务。如果您将在非洲进行商业活动，您将体会到，我们的银行是深谙“差异中的联合”之道的出色金融伙伴。

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**Standard Bank**  
Also trading as Standard Bank

## Russia

- Recently announced a strategic partnership with Troika Dialog Group
  - The most established and largest independent investment bank in Russia
- Standard Bank will become a 33% shareholder in Troika Dialog
  - Subject to regulatory approvals
- We have been operating in Russia for more than 10 years
- Russian companies are increasingly looking to Africa
- Direct 'South-South' flows between major developing economies are expected to continue to grow
- Together with ICBC we are uniquely positioned to capture the major flows between China, Africa and Russia

## Challenges for Standard Bank in Africa

- Infrastructure
  - Physical
  - Technical
- Attracting the right local skills
- Managing complexity
  - Remoteness of operations
  - Regulatory compliance in host countries as well as home
  - Minority shareholders
  - Listed companies
  - Need to be locally relevant and also operate within group policies
- Sophisticated and rigorous competition

27



## Opportunities for Standard Bank in Africa

- Geographic presence substantially complete
- Utilise infrastructure that we have built over the years
- Business model is working
  - Able to provide universal banking solutions
- Increasing demand from emerging consumers
- Appropriate risk appetites have been established
- Redeploy SA experience and skills where relevant
- Unique opportunity to
  - Provide access to Africa for Chinese companies
  - Provide access to China for African companies
  - Capitalise on cross border flows within Africa and between other emerging markets

28



## Outlook for 2009



### Macro environment in SA in 2009

- GDP growth
  - Flat to slightly negative in 2009
- Inflation
  - Now around 8% from 14% high
  - Expected to stabilise around 5-6% prospectively
- Interest rates
  - Already seen 350bp in cuts, prime lending rate now at 12%
  - Expect 2 \* 50bp cut in each of May and June
  - Flat for remainder of year and first half of 2010
- Employment
  - Up to 500k job cuts anticipated vs 2 million created in last 5 years
- House prices to decline 5-8% in 2009



## Personal & Business Banking market environment in 2009

- The year ahead will be difficult
- Sustained economic downturn and local unemployment risks may lead to declining asset prices
- Reduced interest rates and lower inflation unlikely to provide much credit relief this year but will affect margins immediately
- Cost saving initiatives will yield immediate results
- Unsecured lending environment should improve by year end
- Secured lending environment likely to remain under pressure
- Modest asset growth
- Still open for business

31



## Personal & Business Banking outlook

- Focus on customer debt management
- Further consolidate and improve service levels
- Deliver further sensible cost containment initiatives whilst still investing in infrastructure and future growth
- Extract additional operational efficiencies
- Accelerate the bancassurance opportunities with Liberty
- Extract growth from operations outside of South Africa

32





## Corporate & Investment Banking market environment in 2009

- Global economic crisis assumed to continue through
  - Fragility of financial sector
  - Volatile market environment
  - Corporate defaults expected to increase
- Changing regulatory landscape
- Increased capital, particularly Tier I requirements
- Protectionism concerns
- More demanding liquidity framework

33



## Corporate & Investment Banking outlook

- Reaffirmed CIB strategy with more defined execution in key focus areas
  - Integrated CIB business model with a narrower focus
  - Tighter definition of target markets, segments and products
  - Delivering value to core customers in this challenging environment
- Remain cautious in execution
  - Ongoing capital, liquidity and credit risk management practices
  - Management of asset growth
  - Careful consideration of how best to deploy our balance sheet
  - Ensure lending margins appropriately priced
  - Appropriate levels of market risk
  - Strong operational risk management focus

34



## Liberty outlook

- Bancassurance relationship progressing well
- Branch network is a significant contributor to Liberty sales
- The Standard Bank Group's wealth pillar taking shape around Liberty's published strategy
- High net worth/private banking initiatives jointly decided
- Africa outlook consistent with Standard Bank's ambitions

35



## Group prospects

- Global financial turmoil set to continue
- SA to slow down markedly
- Financial objectives not published for 2009
  - Due to prevailing volatility in financial markets
- Achieving similar results in 2009 to 2008 would be considered a good outcome
- Continuing search for acquisitions
- Pursuing our focused strategy from a position of strength

36



## Conclusion

- Our niche strategy is proving to be sustainably competitive
- Our African calling card and presence will deliver superior rates of growth
- Our proven South African skills will continue to be appropriately deployed in Africa
- Our ICBC business co-operation showing strong signs of significant traction
- Our wealth business will start showing strong growth in Africa