Standard Bank Group

"Navigating the downcycle"
Simon Ridley
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Standard Bank

Navigating the "downcycle"

- Which downcycle?
- We are broadly addressing 2 downcycles in this presentation
  - Global credit and liquidity crisis
  - Consumer banking in SA

What has happened in the US

- Bear Sterns bail out which meant everyone thought no counterparty risk when dealing with banks in the interbank market
- Lehmans was allowed to fail and that resulted in the interbank term market shutting down
- Merrill Lynch sold themselves to Bank of America the same weekend as Lehman failure in order to secure their own future as it became clear that the broker dealer model has failed
- WaMu CEO fired, new CEO appointed and 2 weeks later game over
- Wachovia deal done with Citi and FDIC then Wells Fargo counter bid
- And a number of smaller bank failures with 112 banks on the FDIC watch list
- $700bn bail out plan approved

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What has happened in the UK

- Northern Rock nationalised
- A&L sold to Santander
- Bradford and Bingley nationalised with Santander taking the deposit base
- Lloyds taking over HBOS
- RBS, Lloyds and HBOS all likely to take capital injection from government amounting to £37bn
- Barclays to raise £6.6bn capital

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What has happened in Europe

- Hypo Real Estate bail out by government - 70% dilution to shareholders
- Icelandic Banks nationalised
- Irish Bank deposits guaranteed
- Fortis carved up and nationalised / sold to BNP Paribas
- Dexia part nationalised
- Italian bank deposits guarantee
- Spanish bail out fund of €30bn plus government guarantee of debt / funding
- Portugal €20bn banking finance guarantee
- German bail out plan underway

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Loan to deposit ratios

Loan to deposit

	2007	2008	2009
Western Europe Banks	125.5%	125.8%	126.1%
UK Banks	109.0%	109.4%	108.3%
European Banks	133.7%	134.1%	134.9%
United States Banks	131.7%	134.2%	136.7%
Global Emerging Banks	92.1%	84.4%	86.1%
Asia Banks (excl Japan)	82.7%	72.1%	72.5%
CEEMEA Banks	95.4%	99.6%	103.2%
Central Europe & Austria Banks	95.7%	103.3%	110.1%
Latin America Banks	125.6%	132.0%	138.2%
Australian and NZ Banks	140.2%	138.9%	141.3%
South Africa	98.7%	94.7%	94.1%

Aggregation based on market cap, except SA where we added up balance sheets for the big 4 (Fsr FY08 incl with 2007)

Source: Citi

Gearing ratios

Total assets divided by Tangible equity

	2007	2008	2009
Western Europe Banks	36.0	34.6	32.6
UK Banks	37.8	36.4	34.0
European Banks	32.6	31.4	30.0
United States Banks	18.0	18.2	17.8
Global Emerging Banks	15.0	14.9	14.9
Latin America Banks	11.6	12.3	12.4
Asia Banks (excl Japan)	15.4	15.3	15.3
CEEMEA Banks	9.9	9.8	10.0
Central Europe & Austria Banks	21.1	19.3	18.9
Australian and NZ Banks	27.3	27.0	27.0
South Africa	19.1	16.9	16.1

Aggregation based on market cap, except SA where we added up balance sheets for the big 4 (Fsr FY08 incl with 2007)

Source: Citi

Why SA has been partly insulated

- Product set with emerging market characteristics
  - Vanilla loan books e.g. mortgages
  - Limited exotic gearing
  - Domestically concentrated through exchange control
- And high quality regulatory/risk management practices
  - Risk-based regulatory approach based on both principles and rules – embraced and embedded
  - Derecognition of assets tightly controlled e.g. securitisation
  - Counterparty risks and netting reviewed via SARB circular 4 years ago
  - Ambitious pace of implementing Basel II

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What has happened in emerging markets

- Equity markets price moves since 1 Jan 2008
  - Russia RTS index ↓ 64%
  - Brazil BOVESPA index ↓ 43%
  - China CSI300 index ↓ 63%
  - Nigeria Share index ↓ 21%
  - South Africa ALSI Top 40 ↓ 27%
- 5 year CDS sovereign spreads since 2008 low
  - Russia 83bp to 485bp ↑ 484%
  - Brazil 85bp to 400bp ↑ 370%
  - China 40bp to 130bp ↑ 225%
  - South Africa 78bp to 418bp ↑ 436%

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What has happened in emerging markets

- Currency volatility
- Resource and commodity concerns
- Bank specific
  - Increased cost of long term funding
  - Pure investment banking model in doubt
  - Securitisation moribund
  - Extreme caution in relation to international counterparties
  - Liquidity top priority
  - Pricing dynamics changed dramatically
  - Deposit gathering franchises highly valued

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Consumer banking in SA
What has happened

- Pent up consumer demand for credit
- Emerging middle class
- Increased employment
- Then
  - Inflation increased faster than anticipated
  - Interest rates increased faster than anticipated

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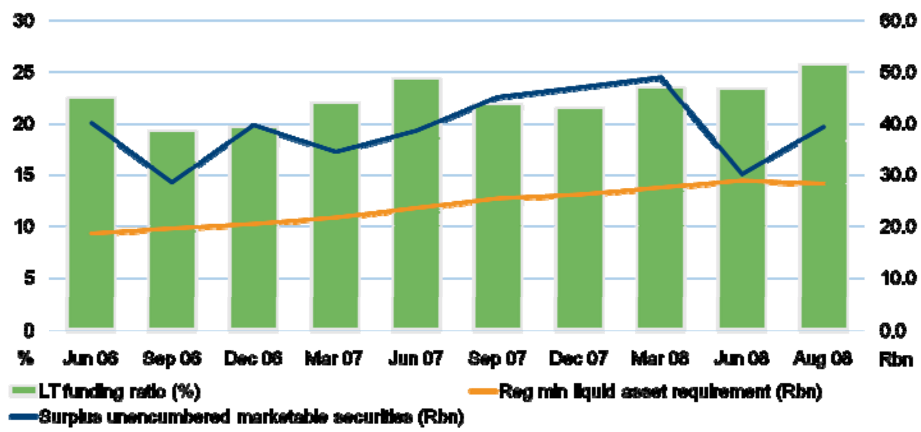
Consumer banking at Standard Bank What has happened

- Significant market share gains from 2002
  - Particularly in home loans and credit cards
- Deliberate pull back from mid-2007
  - coinciding with a deterioration in macro conditions
- Higher inflation and interest rates resulted in
  - Increased delinquencies across the portfolios
  - Slow down in business volumes and asset growth
- Business model still sound
  - Stresses cyclical rather than structural

We prepared as best we could for these downcycles by

- Improving our liquidity profile
- Managing capital pro-actively
- Broadening our sources of revenue
- Closely managing the gap between revenues and costs
- Actively managing retail credit risk in SA
- Improving risk management practices

Improving our liquidity profile



- Stress testing performed for on and off balance sheet cash flows for bank and systemic stress scenarios

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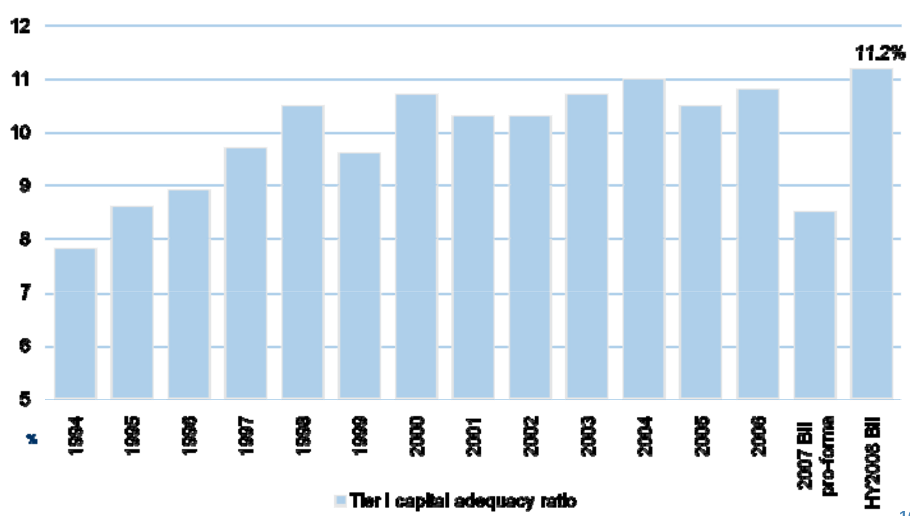
Managing capital pro-actively



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Managing capital pro-actively

- Capital injection from ICBC of R16bn in March 2008, of which approximately R7bn remains as surplus Tier 1 capital
  - Significant and supportive shareholder in ICBC
- Internal quantification of risk (Ecap) of R36.5bn at H108 still substantially lower than available financial resources (mainly Tier 1) of R81bn
- Selected global banks Tier 1 ratios as per Financial Times on 9 Oct

– Barclays	9.1%
– Deutsche	8.6%
– Standard Chartered	8.5%
– HSBC	8.8%
– RBS	8.6%
– Lloyds TSB	8.6%

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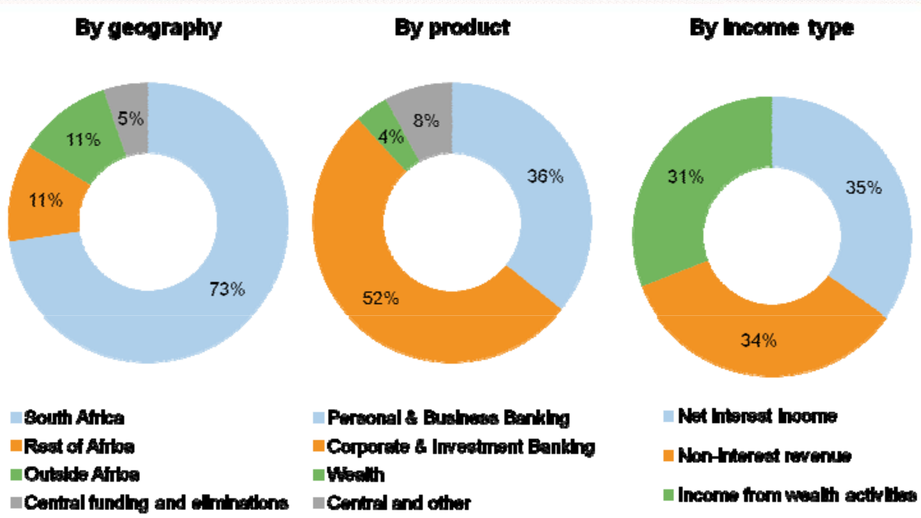
Broadening our sources of revenue



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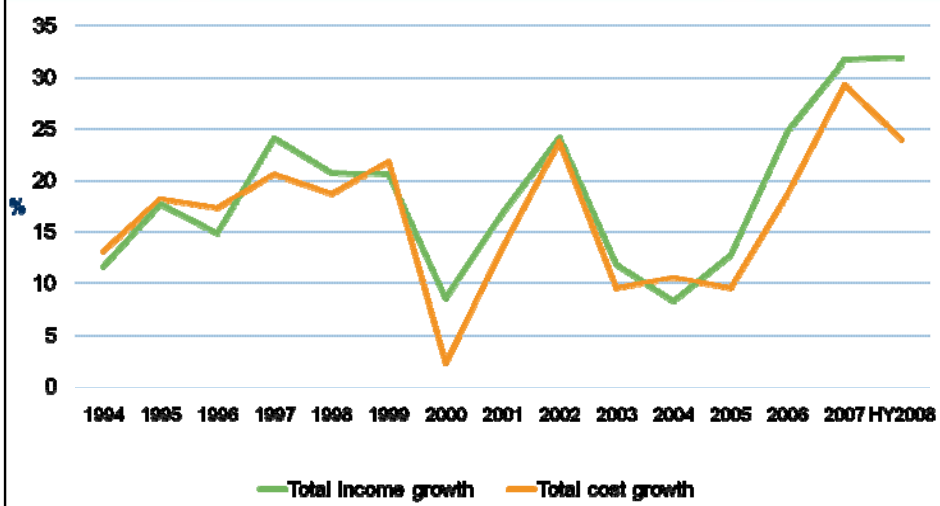
Closely managing the gap between revenues and costs



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Actively managing retail credit risk in SA

- Significant focus on collections across the businesses
  - 44% increase in headcount to almost 2 000, since June 2007
  - 19% increase in efficiency
- Proactive rehabilitation policies and processes
- Appropriate risk appetite for current cycle
- Continual re-evaluation of the depth and duration of the downturn
- Sales infrastructure focused on available quality lending and transaction volume growth
- Responsible capacity management in line with current and future volumes
- South African lessons learnt transferred into the Rest of Africa and International

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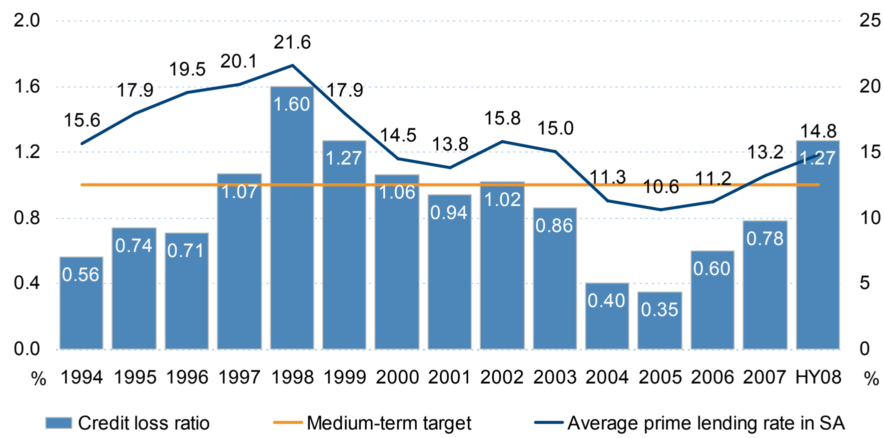
Credit impairment trends



Improving risk management practices

- Better counterparty risk management following lessons learnt in 1998 Russian crisis
- Better trading and risk systems
- Recognised credit was being mispriced globally in 2007
  - Macro hedge put in place
- Currency management as a ZAR reporter
  - Capital base of businesses outside SA diversified into USD, GBP and Euro
- How we handled Lehman's is testimony to robust risk practices

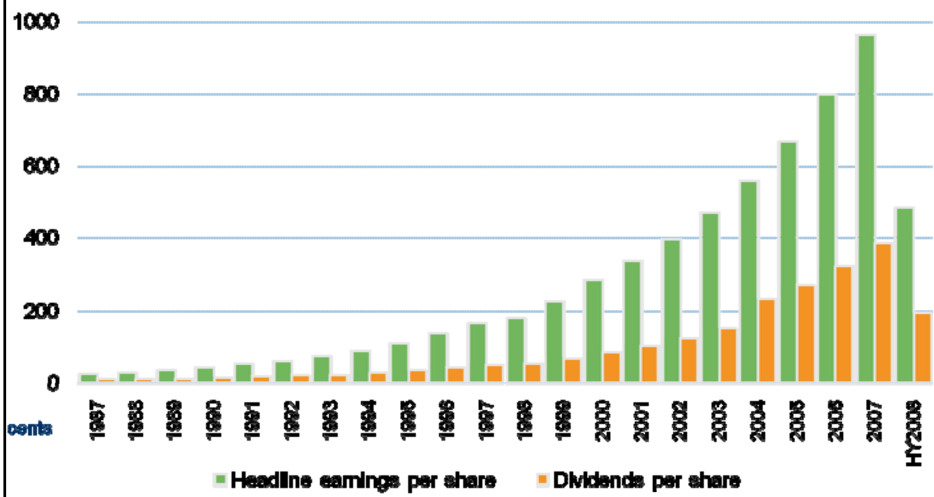
Conclusion

Standard Bank

Short term outlook

- We are not immune to current downcycles
- We have a good long term track record
- We are intensely focused on avoiding costly accidents
- Short term performance has been difficult to predict
- Trading update next week

Long term track record



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Short term tactical response to global credit and liquidity crisis

- Management of capital and liquidity – on a Group and legal entity basis
  - Tight control of transaction pipelines – new business repriced where possible
  - Existing balance sheets re-evaluated across the group – seeking to increase capital and liquidity buffers
- Counterparty risk management
  - Constant review of counterparty risk
  - Move to “safe settlement” where necessary/prudent
  - Close-out, repayment pursued where appropriate and possible
  - Close monitoring and increased levels of collateral
- Client credit monitoring
  - Heightened level of “Watch List” credits based on financial ratios
  - Staying close to client situations

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Longer term implications of global credit and liquidity crisis

- Increased regulatory focus
- Capital and liquidity requirements
- Stable funding base of critical importance
- Cost will be higher
- Accessibility to wholesale funding reduced
- Distribution capacity more limited
- Re-emergence of "universal banking" model – substantial transactional banking franchises are the key to survival

Global growth slowdown

We remain committed to our strategy

Current areas of emphasis

- Develop domestic franchises of sufficient scale in chosen emerging markets
- Acquisitions in other markets remain a possibility but caution has increased, despite reduced prices
- Capitalise on cross border flows into and between emerging market countries
  - Trade
  - Direct investment
  - Investment / financing flows
- Delivering Africa to global clients and accessing China are key differentiators