Signs of Spring……

Media presentation

1 September 2009

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How we think about extending credit

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- Primary obligation is to return depositors' funds
- Need to deliver adequate return to shareholders
- Need to satisfy the needs of our existing customers and then prospective customers
- We have a critical role to play in the economy, given our function of intermediating funds
- We make extensive use of credit scorecards to forecast probabilities of default and loss given default, and expected losses
- The risk appetite of Personal & Business Banking (PBB) is informed by the Standard Bank Group risk appetite and is debated regularly by senior executives in light of anticipated trading conditions
- Credit extension is done within the context of a highly-regulated banking environment, in terms of liquidity, capital and risk constraints, as well as the National Credit Act
- The solvency, liquidity and profitability of PBB is stress-tested regularly to ensure that PBB is within the stated risk appetite under potential adverse trading conditions

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Which comes first ....?

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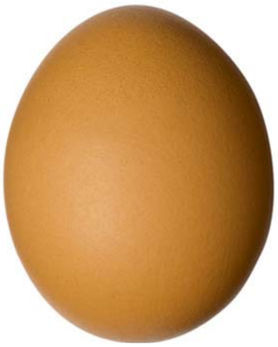

Decreasing consumer and business spending?

Banks tightening credit risk appetite?

or worsening economic conditions?

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Natural deleveraging in the personal market

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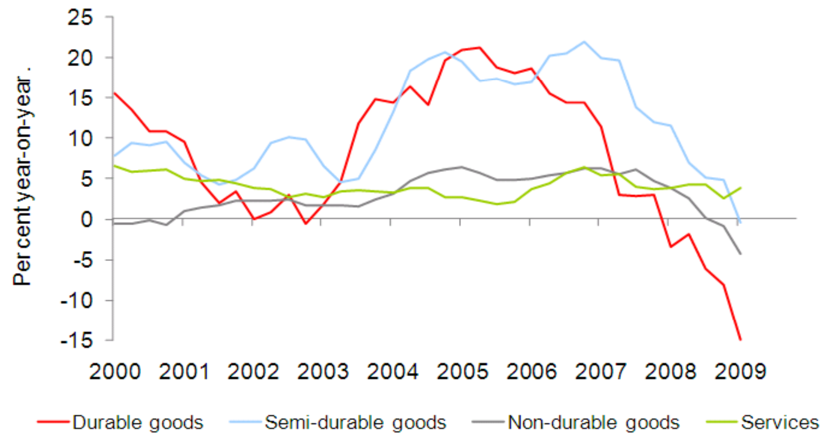

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Natural deleveraging in the business market

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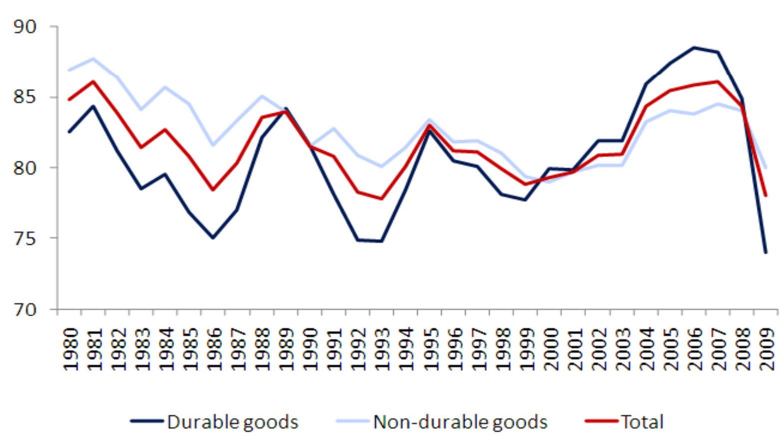

Capacity utilisation shows surplus capacity

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The cost of term funding has increased dramatically

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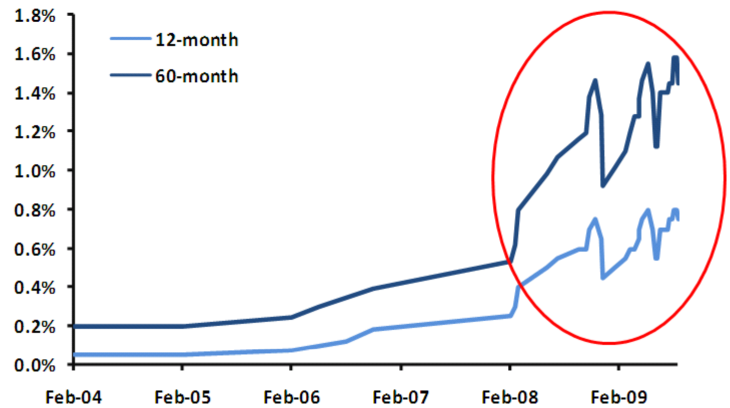

Source: Standard Bank Treasury

Spread over JIBAR offered for term funding in the external market

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Unprecedented macro-economic conditions have substantially reduced demand for new credit

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Personal market

- Natural risk aversion and deleveraging off record high levels of indebtedness
- Exacerbated by increasing unemployment and retrenchments, reduced disposable income and diminished "wealth effect"
- Lower spending on durable goods, semi-durable goods and retail sales
- Propensity to repay existing credit facilities or save
- Resulting in reduced appetite for credit

Business market

- Significant uncertainty about the future and weaker trading conditions
- Surplus production capacity
- Sweating the existing infrastructure and assets, rather than replacing with new assets
- Resulting in reduced need for credit and natural deleveraging

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Moving forward – signs of spring ....

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Although debt levels still at near record levels, affordability is improving

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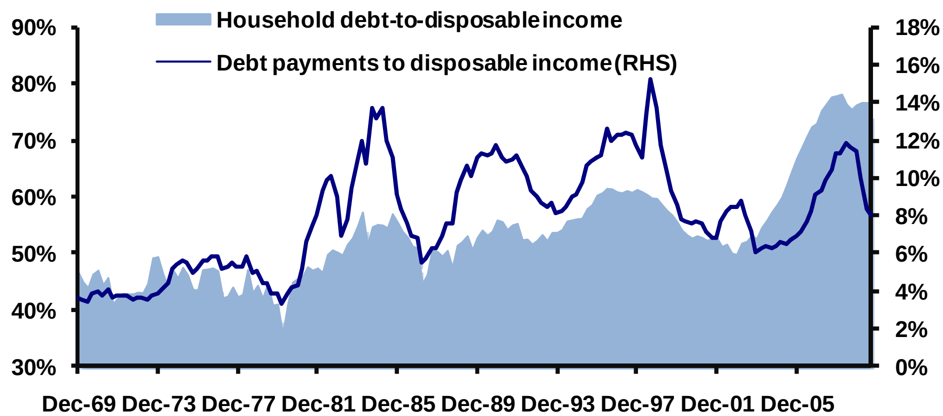

Source: I-Net, Standard Bank estimates

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Improving optimism leading to greater risk appetite

- Improved debt affordability after 500 bps interest rate relief
- Improvements in pre-NPL ratios, signalling improving health of consumers
- Potential increases in real disposable income
- Asset prices appear to be bottoming out
- Ongoing heavy levels of public sector fixed investment

BUT RISKS REMAIN .....

- Further levels of unemployment and/or business closures
- Subsequent increases in inflation, and possibly interest rates
- Prolonged negative or subdued house prices

Standard Bank has increased its risk appetite in home loans

- Accepting non Standard Bank customers
- Upwardly revised our loan-to-values (LTVs) on new home loans. Customers using internal Standard Bank channels with home loans of under R1.5m can now qualify for LTVs of 100% (up from 90-95%). Houses of R1.5m-R2.5m, however, still require a 10% deposit, and home loans >R2.5m still require a 20% deposit
- For affordable housing, Standard Bank is now allowing an LTV of 100% (up from 90-95%)
- Jump Start bonds (first-time home owners) with home loans up to R1m and using this as their primary residence are now able to qualify for a cost-inclusive LTV loan of up to 104%
- To further transformation in the economy, Standard Bank aims to make buying a house easier for customers that fall into the affordable housing category and first-time home owners
- The bad debt ratio in home loans is still increasing, but at a slowing rate: 1.30% in June 2008, 1.49% in December 2008 and 1.55% in June 2009

Standard Bank has increased its risk appetite in Credit card

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- The focus is on the entry-level area of the credit card market
- Raising our “acceptable” probability of default by 3% on new business written in this segment
- The performance and risk appetite of this product will be continually re-assessed
- This is expected to result in greater volumes being processed and approved
- The bad debt ratio in credit cards has started improving, as these bad debts tend to lead the cycle: 9.44% in June 2008, 9.53% in December 2008 and down to 7.24% in June 2009

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Standard Bank is originating new home loans with select mortgage originators

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- In recent reporting periods we have announced significant losses in our home loans division, primarily due to:
  - unexpectedly high credit impairments,
  - high cost of term funding,
  - high origination costs; and
  - in light of the above, home loan interest rates to customers being too low
- In September 2008, Bond Choice were notified that we were not prepared to re-new their contract at commissions of >2%
- At the beginning of 2009, all applications from mortgage originators were not processed
- The outlook for the home loan market, following the 500bps decline in interest rates in the past 9 months has improved substantially
- We re-engaged the mortgage originators and invited them to tender for business with Standard Bank by end-July
- We have accepted the tender proposals of three mortgage originators (BetterBond, Bond Choice and Multinet). The originators commenced submitting home loan applications from 24 August 2009
- We have achieved our objective of signing contracts with the mortgage originators on terms and commission rates that are acceptable to both Standard Bank and the abovementioned originators. We have also included a cap on the commissions paid to the originator
- We have not signed with Ooba (formerly Mortgage SA)
- It remains a top priority to improve the attractiveness and increase the usage of our internal sales channels and infrastructure

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Standard Bank is open for business and extending credit responsibly

- Standard Bank is raising its risk appetite, particularly in PBB:
  - Consumer affordability has improved with lower interest rates
- Market conditions have prompted changes in our risk acceptance criteria:
  - In home loans, we are raising LTV's, particularly in affordable housing and for first-time buyers
  - In credit card, we are raising our acceptable bad debt ratio on specific products
  - We have re-signed with three mortgage originators
- Risks abound in the form of (1) rising unemployment, (2) business liquidations, (3) falling house prices and (4) stubborn inflation. Despite this, Standard Bank is still prepared to increase its risk appetite using a measured approach
- We remain "open for business", but now even more so than earlier in 2009 as the signs point toward conditions improving in 2010

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Questions

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