Capital Management

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Agenda

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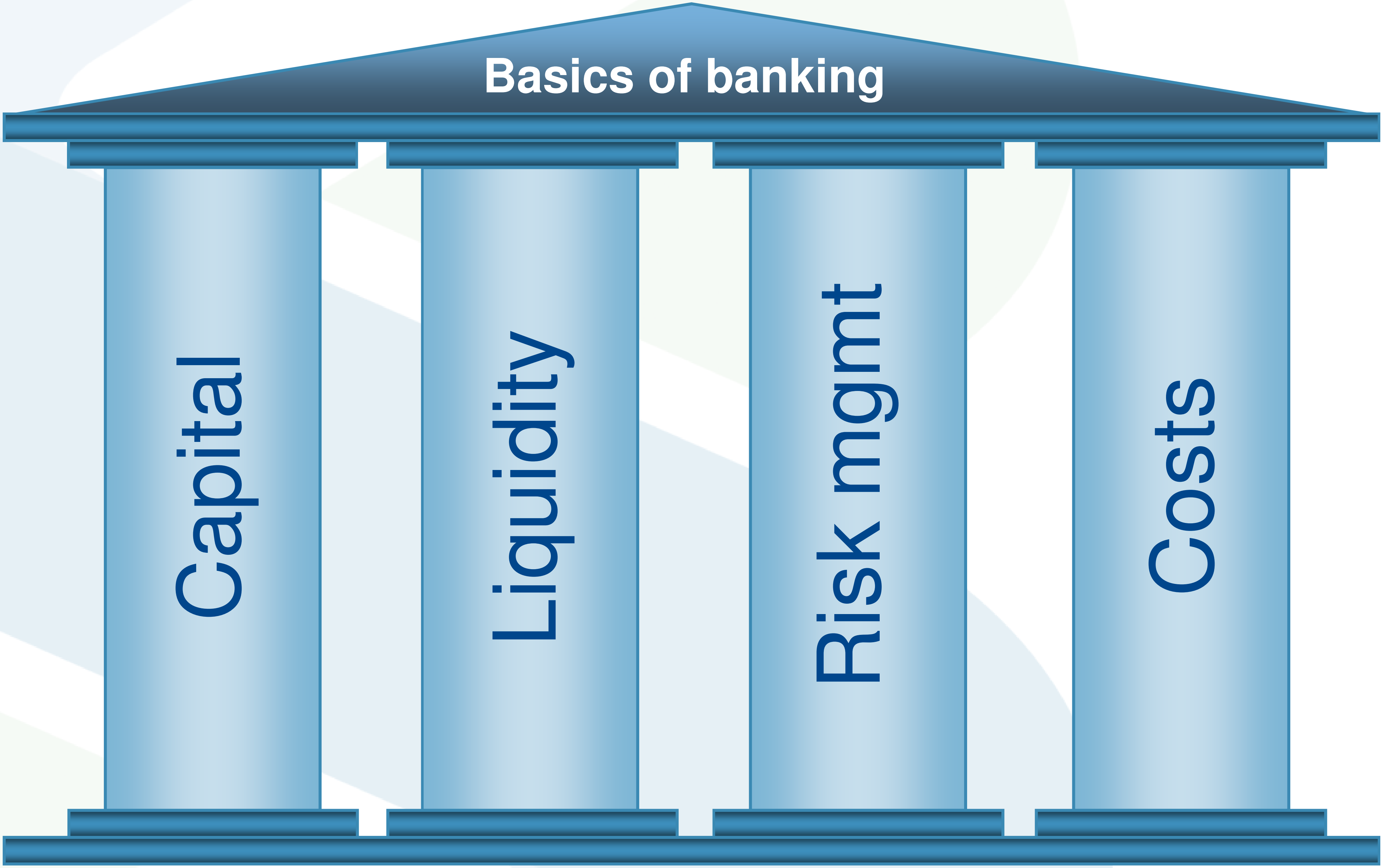
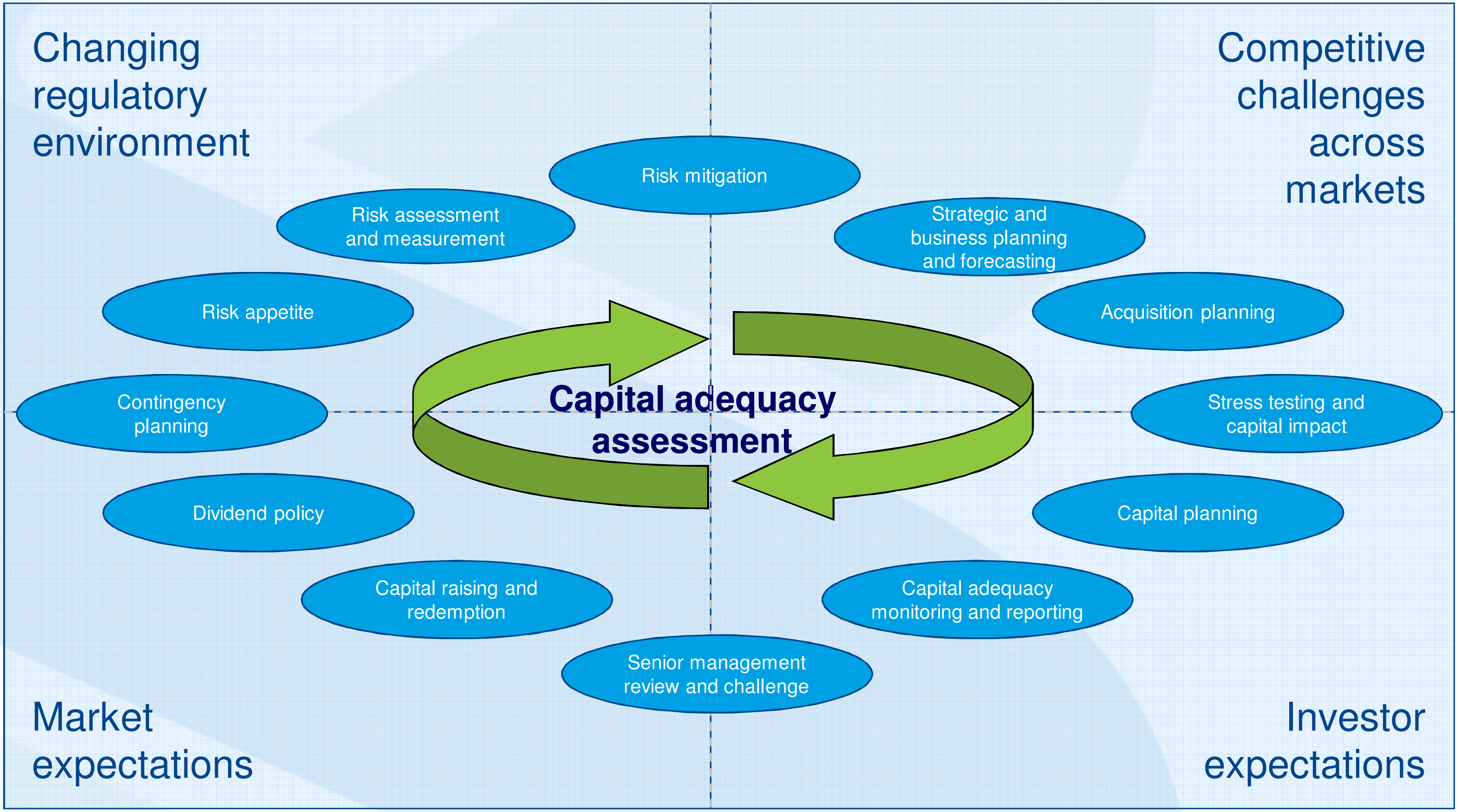
- Introduction
- Governance Structure
- Capital Management
  - Overview of Framework
  - ICAAP
- Basel III
  - The road so far
  - Implication & Challenges
- Q & A

We have never forgotten the basics



Long standing governance structure on capital and liquidity

Our Capital Management framework



What is the purpose of ICAAP?

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ICAAP requires close integration of capital, risk and balance sheet management

ICAAP should give rise to a clear articulation of a firm's approach to risk and capital management, and its assessment of its capital position

Drafting the ICAAP is a team effort: Country + Group, Finance + Risk

An ICAAP submission should form the basis of the dialogue between a firm and its regulator on its capital position

Capital Optimisation

- Capital forecasting
- Mergers & acquisitions
- Structuring and restructuring
- Internal structured products
- Minimum capital buffers
- Promotion of capital efficiency

Capital Management

- Capital raising: Equity and Debt
  - Group
  - Country
- Hedging
- Liaison with credit rating agencies
- Management of debt issuances
- Cash management

Modelling

- Capital forecasting model
  - How is it used?
  - Who uses it?
  - Regulatory links
- Dividend forecasting
  - Profit remittance policy
  - Dividend distribution policy

How do we optimise capital?

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- Capital ratios:
  - Country CAR
  - Minimum capital buffers
  - Structuring and internal restructuring
  - Capital Mix
  - Thinking forward to Basel III
- Return on RWA
- Return on Investment
- Correlation to shareholder value
- Stress test

Examples of recent capital stress tests

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- ICAAP stress – “worse than AFC” deep recession
- Geo-political conflicts
- Prolonged recession affecting export markets
- Over-regulation
- Property devaluation
- Eurozone uncertainty
- US dollar significant depreciation

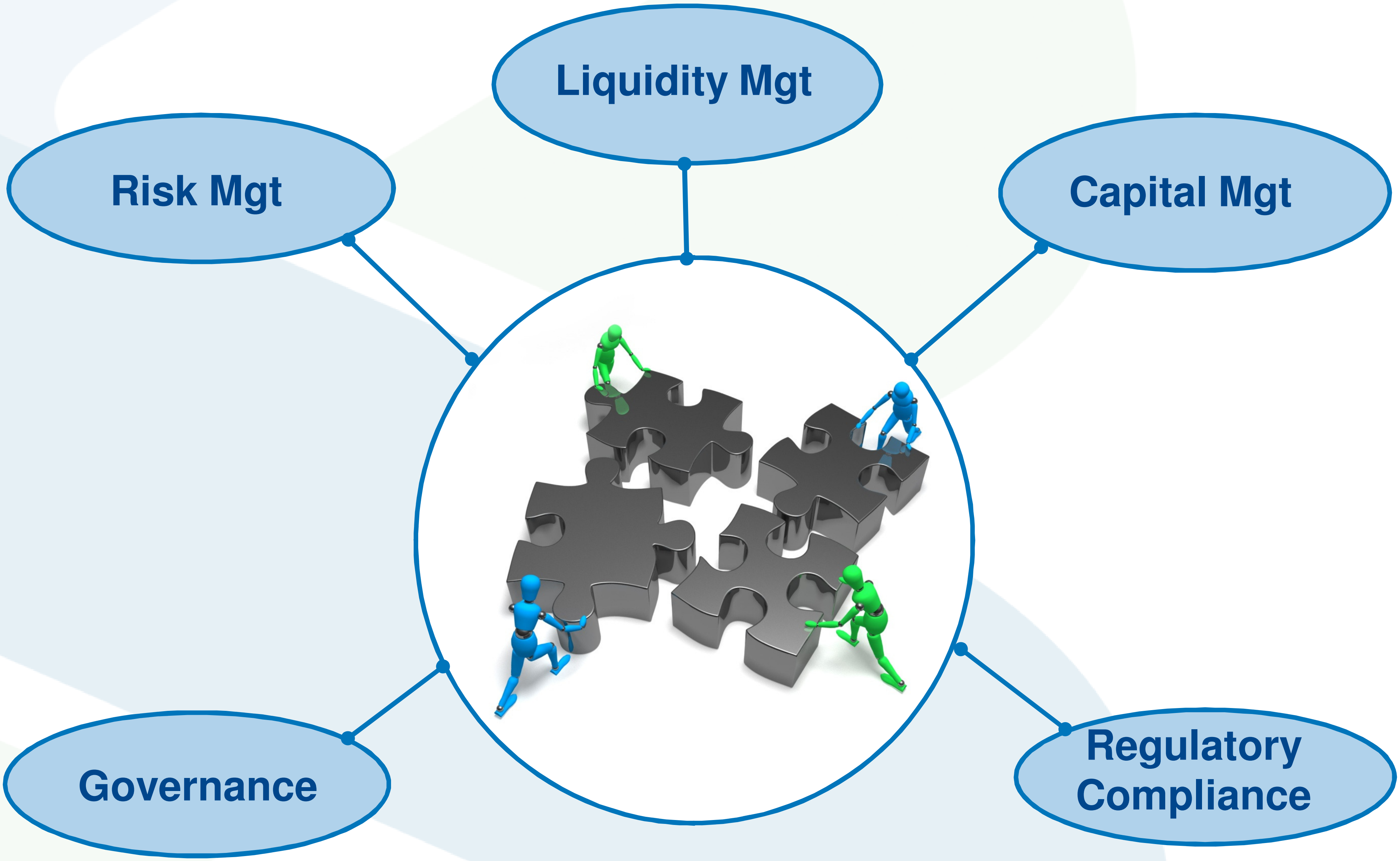
Conclusions of the stress testing analyses performed are:

- **Group adequately capitalised to support all risks even during a significant downturn**
- **Strong governance structure, risk culture and control environment**

In Summary…

- Capital is a scarce resource and fundamental to banking
- Capital Planning
- Stress testing
- Internal Equity Generation
- Thinking ahead

Balance Sheet Management



Basel III - The road so far

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The key elements of the new framework are intended to:

- Increase the quality, consistency and transparency of banks' capital
- Introduce new minima for CT1 & T1, with conservation and countercyclical buffers
- Introduce leverage ratio as a supplementary measure
- Enhance risk coverage
- Increase focus on Liquidity (Liquidity Coverage Ratio, Net Stable Funding Ratio)

What have we done

- Active dialogue with Regulators and peer groups and participation in consultation papers
- Impact assessment on the new capital and liquidity requirements
- Rights issue in 2010 positions us for growth
- Review intra-group flows
- Review corporate structure
- Review Deposit hierarchy
- Focus on building Core T1 ratio - internal equity generation

Implication and Challenges

- Need for international harmonisation
- Transition from Basel II to Basel III
- Role of non-equity capital instruments
- Capital Deductions eg. Material holdings
- Countercyclical Capital Buffers
- SIFIs
- Impact on the economy
- Co-operation of regulatory authorities

Q&A