

# Korea

**David Edwards**  
CEO & President  
Korea

Standard  
Chartered 



# Agenda

- Economic overview

Suktae Oh

- Korea strategy

David Edwards

- Financial review

Richard Hill

- Consumer Banking

Y.I. Kim

- Wholesale Banking

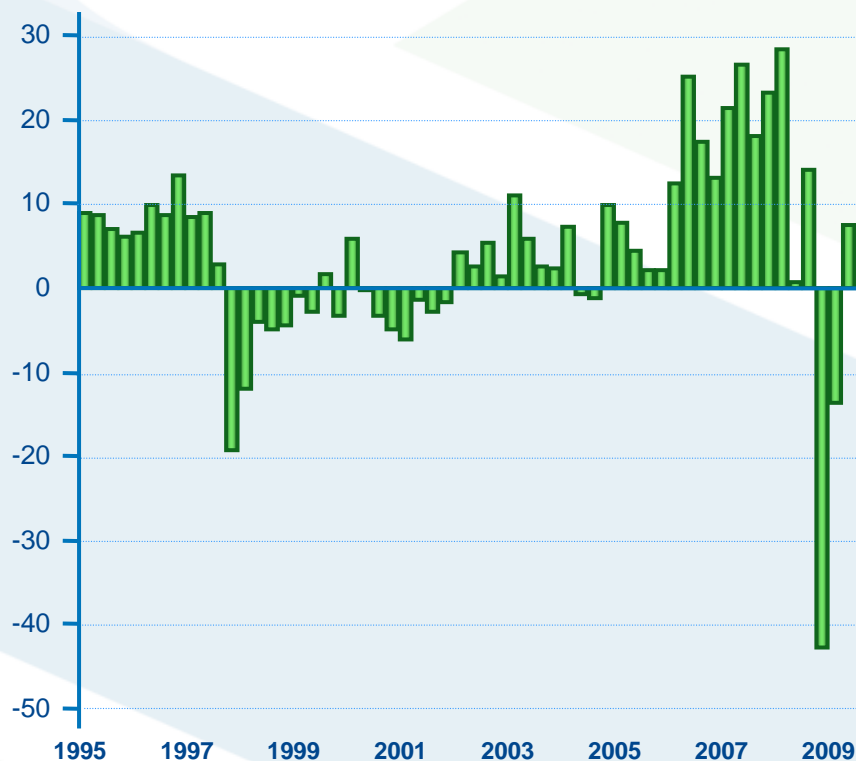
Charles Ahn/Gene Kim

# Korean economy

**Suktae Oh**  
Senior Economist

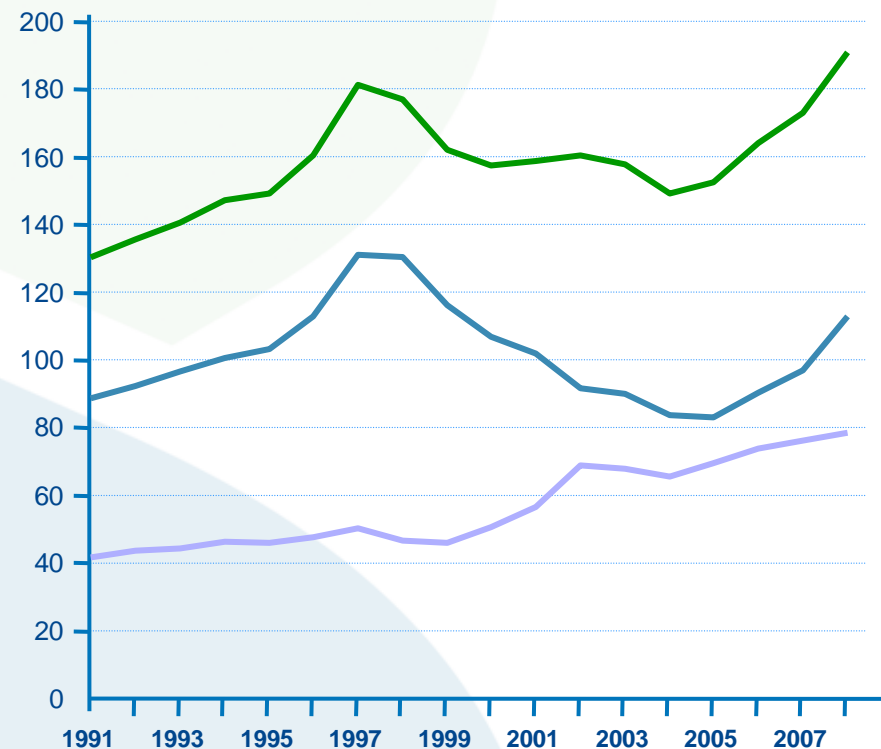
# A tale of two crises: 1997 and 2008

## Changes in private sector external debt



■ Changes in private sector external debt (US\$bn)

## Ratio of private sector debt to GDP (%)



— Total — Household — Corporate

# What's different between the two crises?

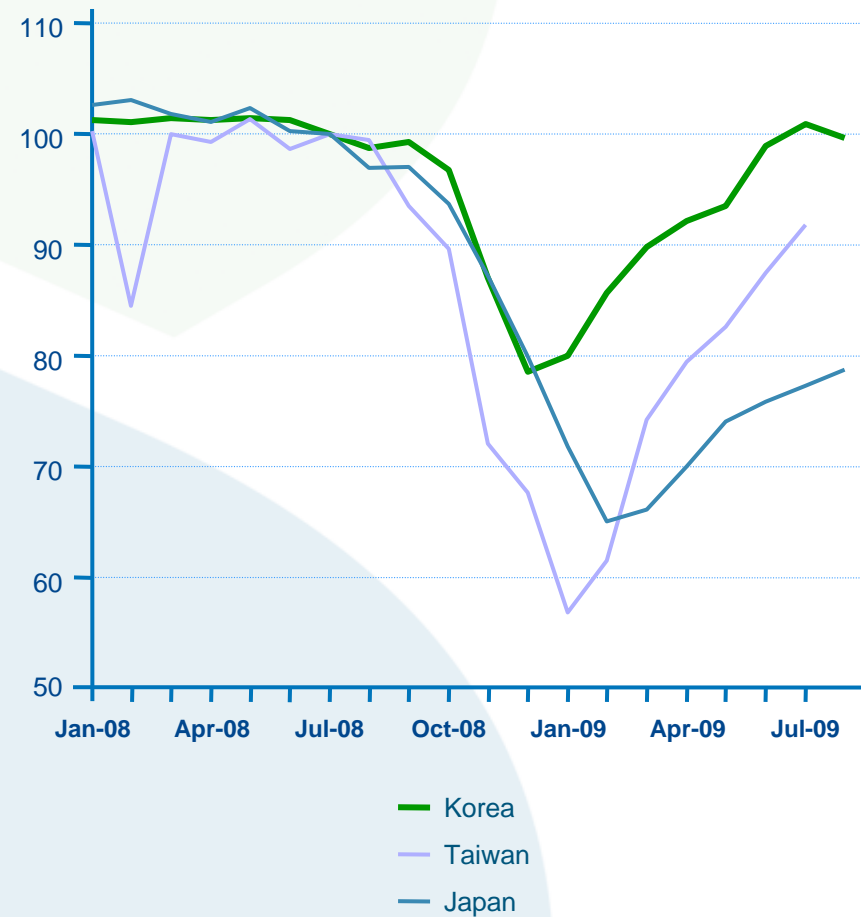
- Regional (Asian) crisis vs. global crisis
- Korean authorities were better prepared in 2008
  - Large FX reserves, bilateral swap with major countries
- The deficit in balance of payments
  - Current account deficit in 1995-97
  - Equity capital outflow in 2006-08

# Impressive recovery in 2009

Key activity indicators (July 2008=100)



Industrial production, Asian countries



# Factors behind strong recovery

- Export competitiveness
  - Not just an exchange rate story
- Effective policies
  - Monetary and fiscal stimulus
  - Emergency FX liquidity supports, roll-over of SME loan
- Resilient private sector
  - Impressive strength of consumer and business sentiment

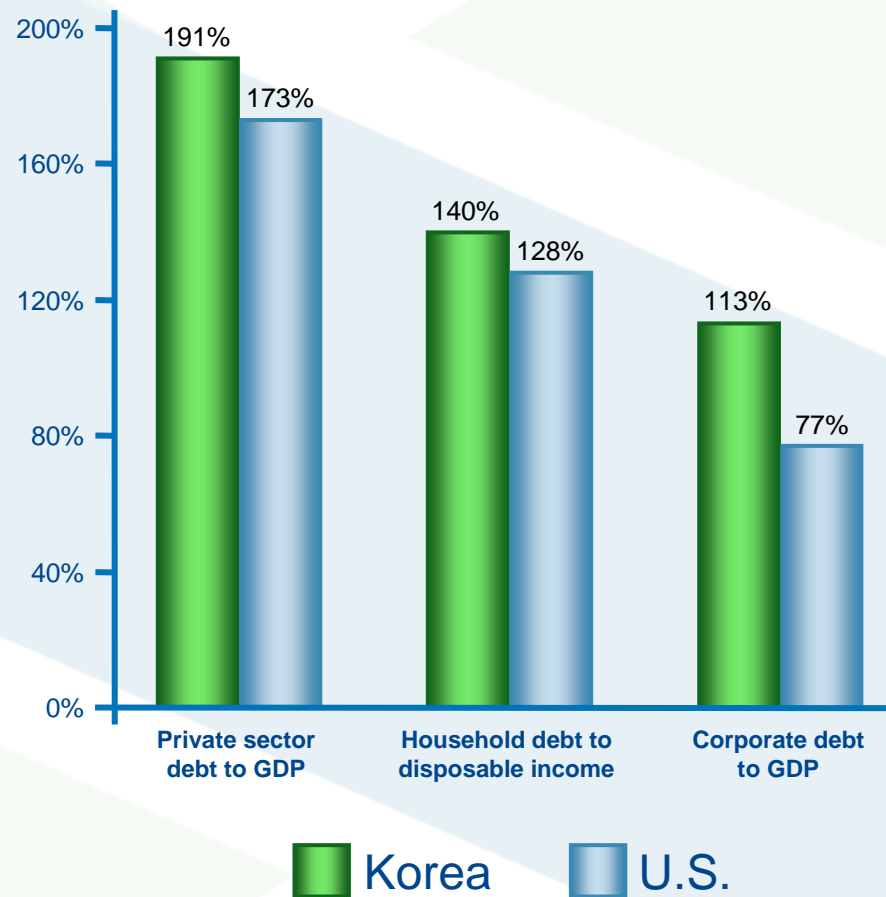
# Three key assumptions for 2010

- Recovery in developed economies
- Cautious exit strategies
- Mild deleveraging of private sector

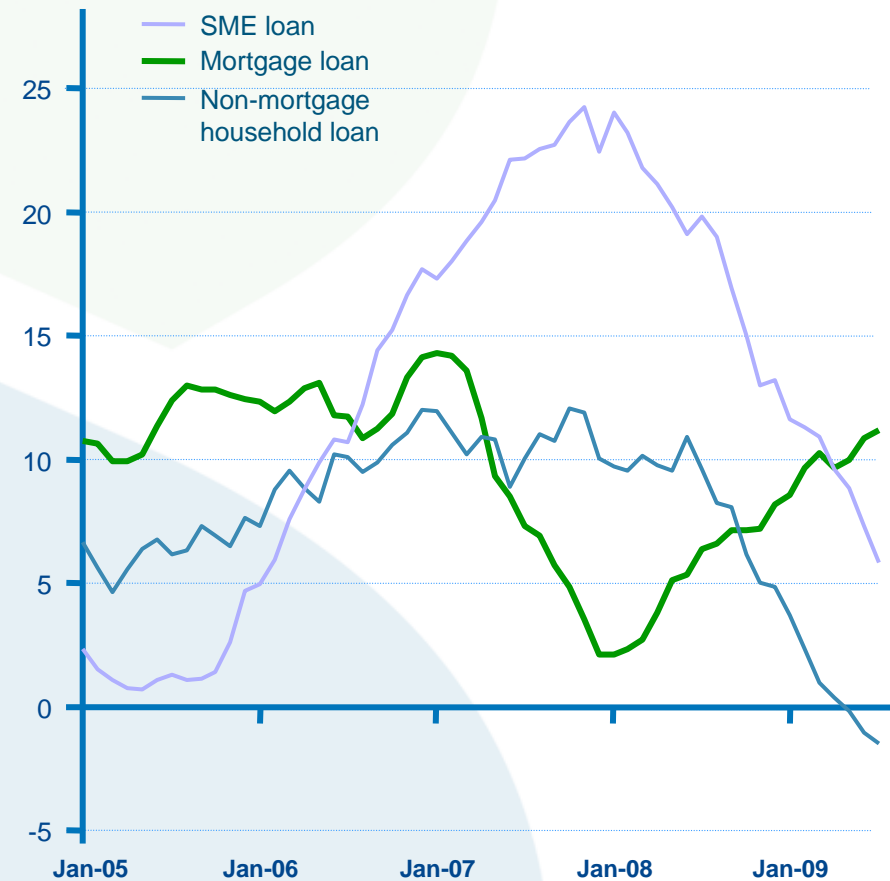


# Key risk: high leverage of private sector

Indicators on leverage, Korea and U.S.



Bank loan growth by sector (YoY %)



# Forecast summary

	2008A	2Q09	3Q09	2009F	2010F
<b>Real GDP growth (%)</b>	2.2%	-2.2%	0.6%	0.1%	4.8%
<b>Inflation rate (%)</b>	4.7%	2.8%	2.0%	2.8%	2.5%
<b>Current account (% to GDP)</b>	-0.7%	6.4%	N/A	4.5%	2.0%
<b>Interest rate (%)*</b>					
- Target rate (7-day repo rate)	3.00%	2.00%	2.00%	2.00%	3.00%
- 3M CD rate	3.93%	2.41%	2.75%	2.90%	3.50%
- 3Y Government bond	3.41%	4.16%	4.47%	4.55%	5.30%

Source: SCB estimates

\*as of Q4 2009 for 2009F

# Korea

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# Key questions to be answered

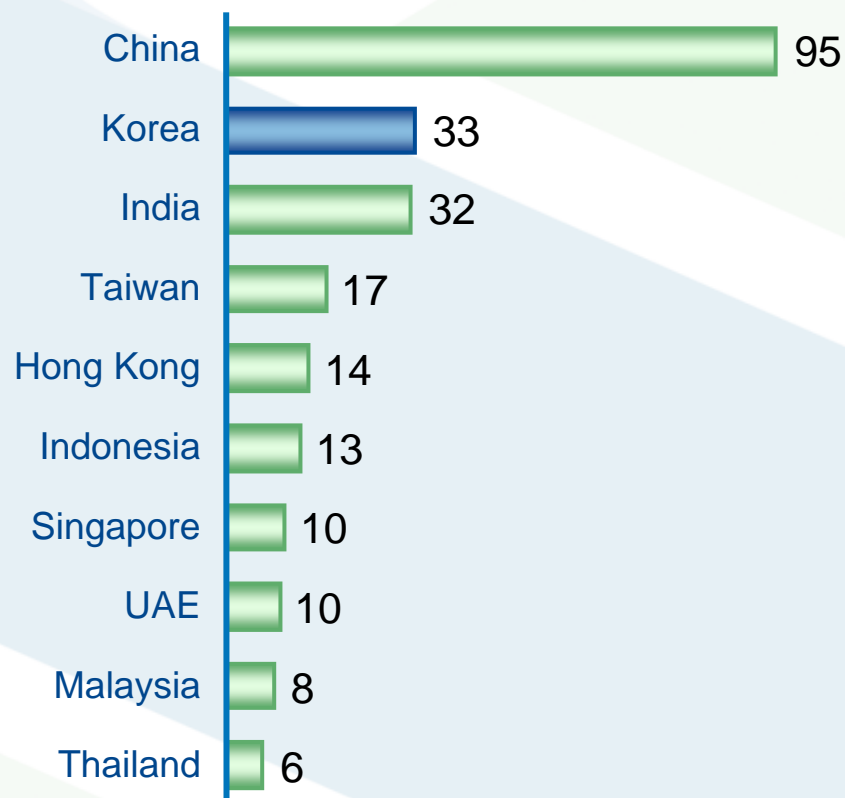
- What excites us about Korea?
- How well are we performing since the acquisition?
- How will we deliver stronger performance?



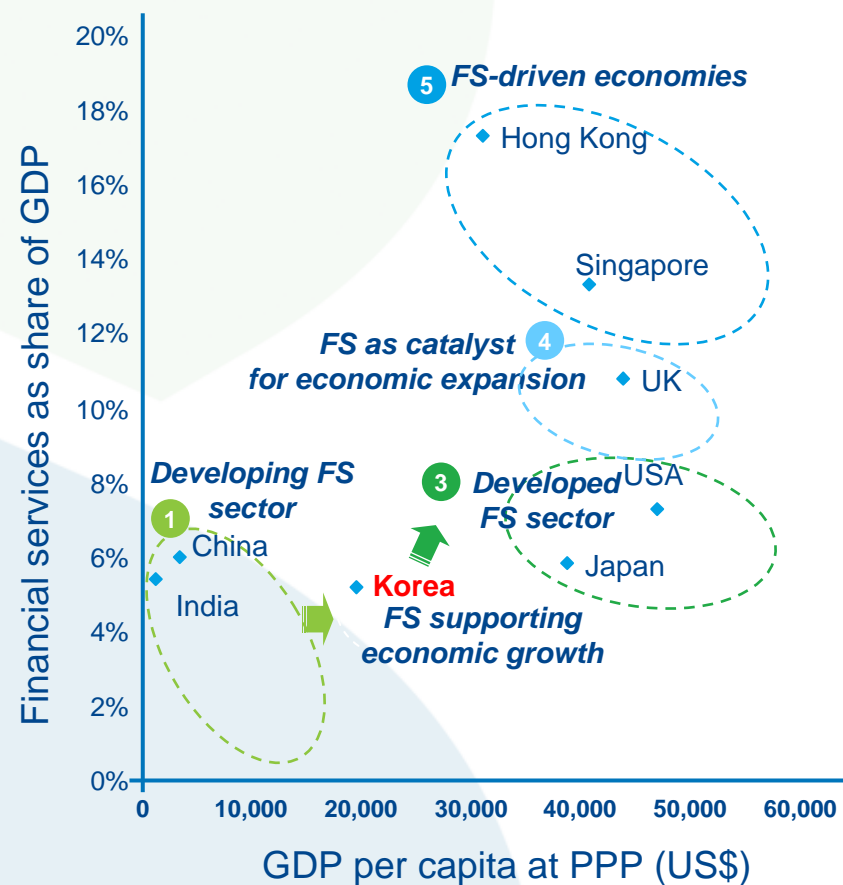
# Large and growing financial sector

## Asia's 2<sup>nd</sup> largest retail banking market

Retail banking revenue pool ex-Japan (US\$bn)



## Financial services sector expected to grow



Source: McKinsey; Standard Chartered analysis as of 2008

Note: Pre-crisis, excludes revenues from insurance industry and FS sector infrastructure

Sources: Oliver Wyman analysis, IMF, National statistics

- Important country/strong economy
  - OECD – 13th largest
  - International leadership
  - Strong recovery
- Good regulatory framework
  - Improving supervisory framework
  - International standards – IFRS
  - Deregulation
- Improving competitive landscape
  - Financial holding companies
  - Expected consolidation
  - Regional hub aspirations

# Franchise positioned for growth

- 7th largest branch network

- 370 branches,  
5 PB branches and  
6 corporate branches

- Consumer Banking

- >4m customers
- >1.0m Internet Banking

- Wholesale Banking

- Growing number of  
corporate relationships
- Largest dealing  
room in Korea

\* Only SC First Bank branches as of Q2 2009;  
does not include other Standard Chartered Korea subsidiaries





# Key questions to be answered

- What excites us about Korea?
- How well are we performing since the acquisition?
- How will we deliver stronger performance?





# Reflections on the acquisition

- Strategically right acquisition at the right time
- A challenging integration
- Investment critical

# Distinct phases of growth

2005

2006

2007

2009

**Acquisition/  
consolidation**

**Integration**

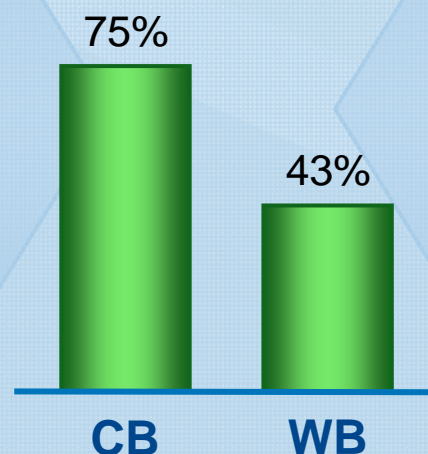
**Investment**

**Growth**

## Consumer Banking

- Commitment to investment
- Returns on investments
  - Customer acquisitions
  - CASA/Mortgage growth
  - Cross sell ratios
- Expect more robust performance from H2 2009

## Cost income ratio H1 2009\*



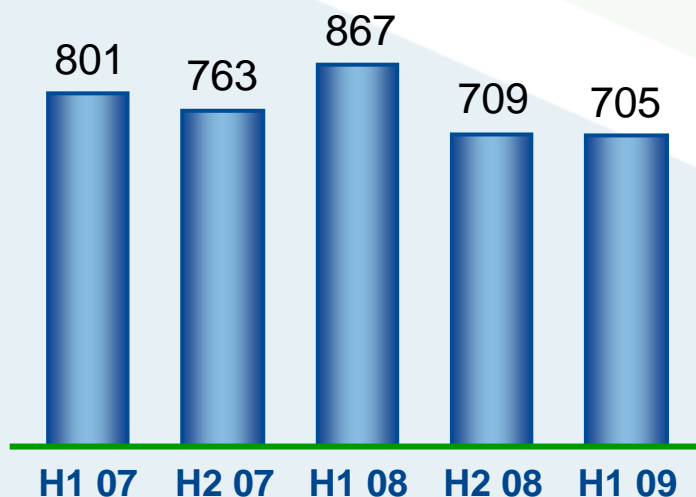
## Wholesale Banking

- Outstanding growth
  - On-shore
  - Off-shore
- Strong platform
- Strategy to deepen client relationships

\* Based on IFRS

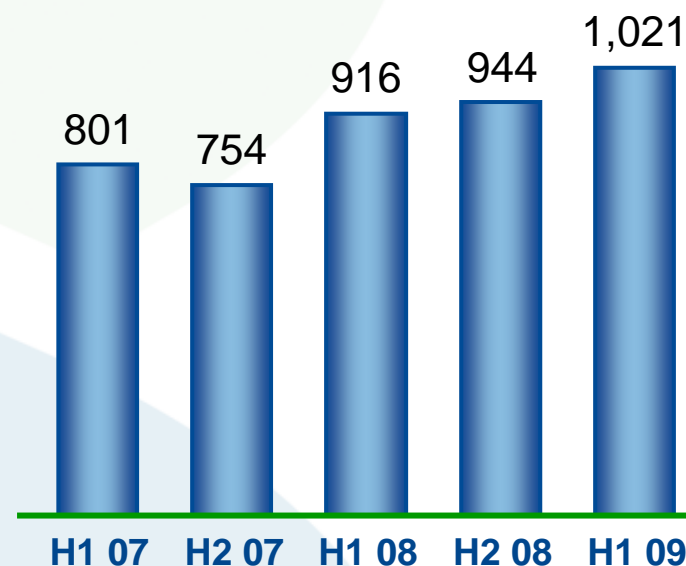
# Constant currency income growth

**Total income growth  
US\$m**



CAGR: -6.2%

**Constant currency basis\*  
US\$m**



CAGR: 12.8%

\* Applied exchange rate: 933.7 KRW/US\$

# External factors improving

- Recovery of KRW
- Increasing interest rates
- Loan impairments bottoming out

# Key questions to be answered

- What excites us about Korea?
- How well are we performing since the acquisition?
- How will we deliver stronger performance?



# 2013 vision and 12 strategic initiatives



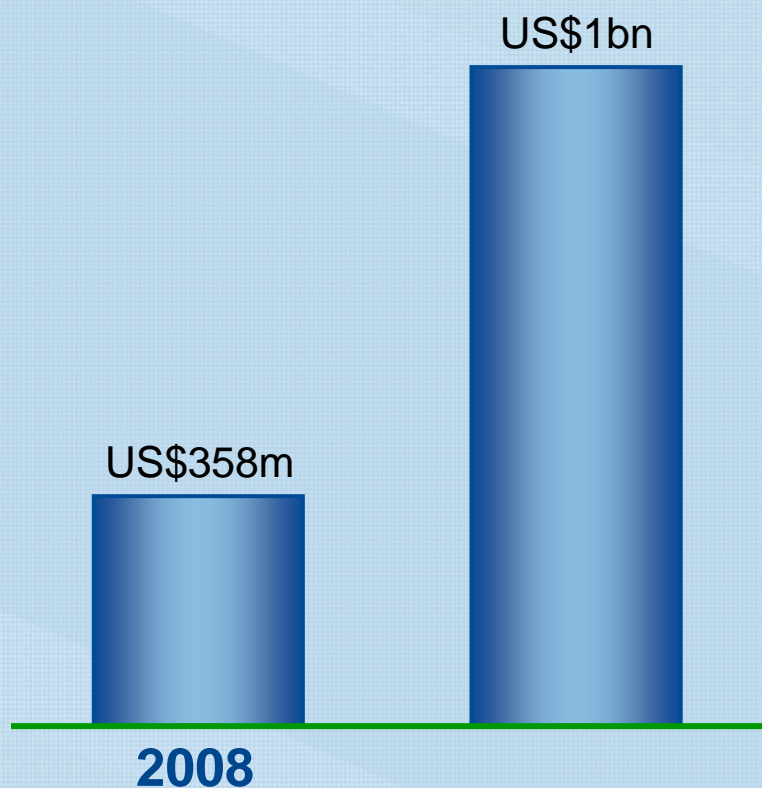
# Our business in Korea is changing...

Index	Dec. 2007	H1 2009
Profits	# 7	# 4
CIR	# 7	# 5
NIM	# 7	# 4
ROA	# 7	# 2
NPL%	# 7	# 3
BIS	# 7	# 7





## Operating profit aspiration\*



\* Based on IFRS, \$358 million operating profit as of 2008

## Key enablers

- WB
  - Momentum
  - Leverage global network
- CB
  - Returns from investments
  - Attacker strategy
- New business areas
  - Securities
  - Consumer finance

## Q & A

# Financial performance

**Richard Hill**

CFO and Head of Strategy

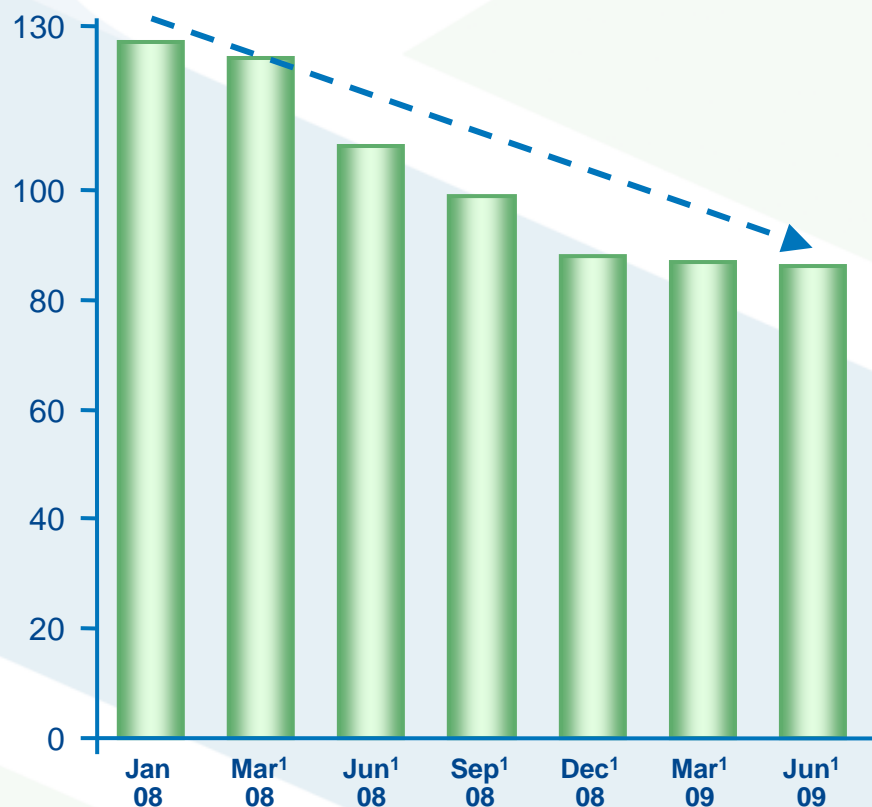
# Creating the platform for growth

- Stronger and more liquid balance sheet
- Tight cost control
- Disciplined re-investment
- Performance momentum building

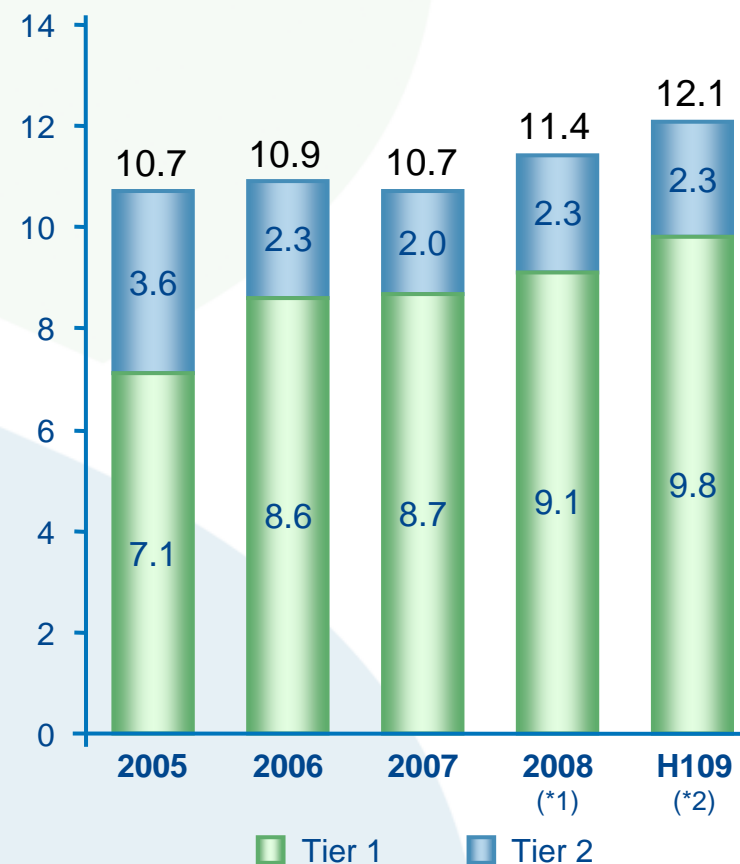
# Strong liquidity & capital

## Customer advance to deposit ratio

Continuous improvement since Jan 2008



## Capital adequacy 2005 to 2009 (%)



\* Customer Advance to Deposit ratio based on KRW-denominated assets/deposits under KGAAP (excl. securitised retail mortgage portfolios and incl. certificate of deposits)

<sup>1</sup> Quarterly average

(\*1) The ratio under BASEL 2\_SA

(\*2) The ratio under BASEL 2\_AIRB

# Balance sheet highlights in US\$

US\$m	H1 2008	H2 2008	H1 2009	H1 09 vs H1 08 %	
Customer loans	37,905	33,093	33,637	(11)	↓
Other assets	26,596	30,977	26,610	0	
<b>Total assets</b>	<b>64,501</b>	<b>64,070</b>	<b>60,247</b>	<b>(7)</b>	↓
Customer deposits*	31,078	33,592	34,684	4	↑
Other liabilities	28,882	26,424	21,422	(19)	↓
<b>Total liabilities</b>	<b>59,960</b>	<b>60,016</b>	<b>56,106</b>	<b>(6)</b>	↓
Shareholder's equity	4,541	4,054	4,142	(9)	↓
<b>Total liabilities and shareholder's equity</b>	<b>64,501</b>	<b>64,070</b>	<b>60,247</b>	<b>(7)</b>	↓

NOTE: SCFB balance sheet based on IFRS results

\* Customer deposits including customer CDs

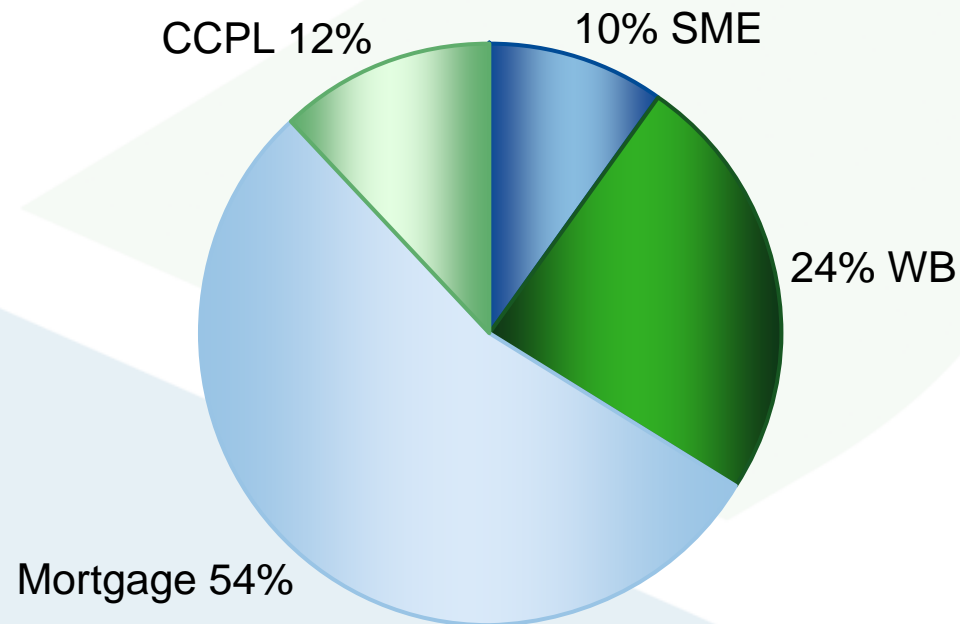
# Balance sheet highlights in KRW

KRW bn	H1 2008	H2 2008	H1 2009	H1 09 vs H1 08 %	
Customer loans	39,647	41,695	42,857	8	↑
Other assets	27,818	39,028	33,904	22	↑
<b>Total assets</b>	<b>67,466</b>	<b>80,723</b>	<b>76,760</b>	<b>14</b>	↑
Customer deposits*	34,941	42,323	44,190	26	↑
Other liabilities	27,775	33,292	27,293	(2)	↓
<b>Total liabilities</b>	<b>62,716</b>	<b>75,615</b>	<b>71,484</b>	<b>14</b>	↑
Shareholder's equity	4,750	5,108	5,277	11	↑
<b>Total liabilities and shareholder's equity</b>	<b>67,466</b>	<b>80,723</b>	<b>76,760</b>	<b>14</b>	↑

NOTE: SCFB balance sheet based on IFRS results

\* Customer deposits including customer CDs

# Assets portfolio has low risk profile



- Large proportion of high quality mortgage loans
- <50% loan to value
- Debt to income cap
- Market leading approach to risk



# Loss rate trends

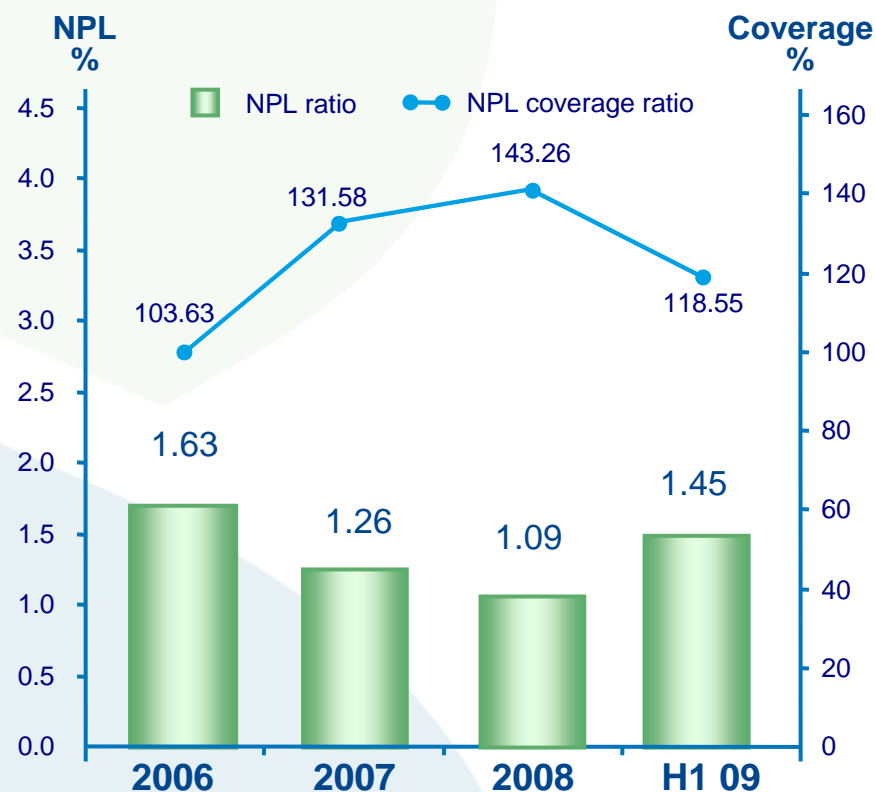
## Loss rates\*

	2006	2007	2008	Q109	Q209
Mortgage	0.02	0.01	0.01	0.02	0.07
CC & PL	1.81	1.22	1.79	3.53	3.31
SME	0.44	0.72	1.77	3.13	2.63
Wholesale Banking	0.03	(0.01)	0.33	0.16	0.71
<b>Total customer assets</b>	<b>0.16</b>	<b>0.13</b>	<b>0.40</b>	<b>0.44</b>	<b>0.70</b>

- Loss rate (%):  
Loan impairment divided by total customer assets

\* Loss rates based on IFRS  
\*\*Q309 based on forecast

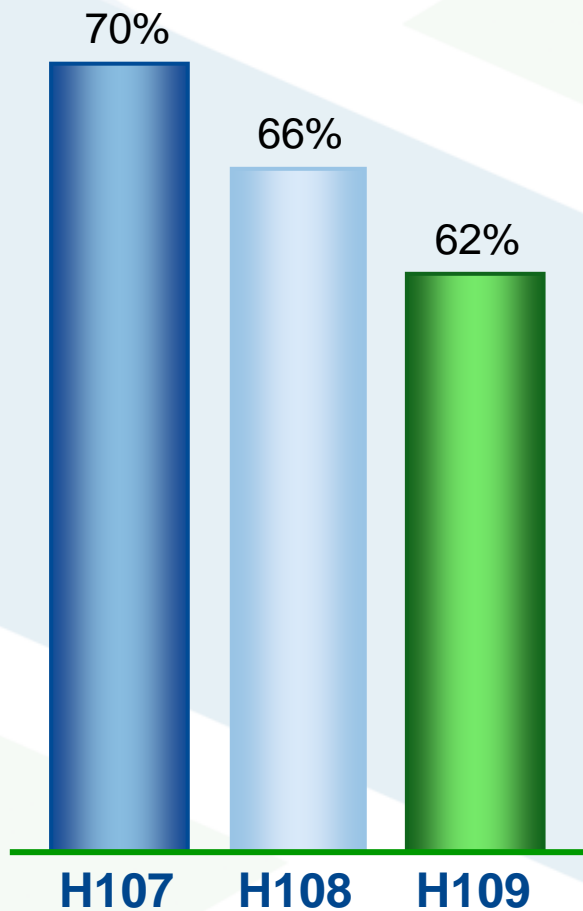
## NPL and coverage ratios\*\*



- NPL ratio:  
% NPL to total customer assets
- NPL coverage ratio:  
Loan loss reserve divided by NPL

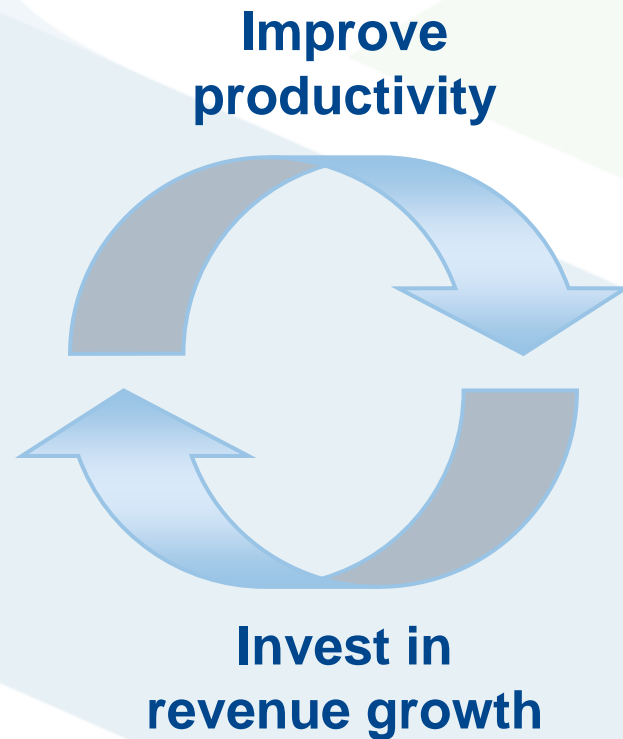
\*\* NPL & coverage ratios based on FSS guideline

## Cost income ratio: 2007 to 2009



- Optimising HQ size by relocation of 621 HQ staff members
- Reduction of staff cost base by 5%
- On-going re-engineering project
- Funding investment in revenue

# Recycling our cost base for investment



## ■ Key investment programmes:

- Branch network development
- Sales capacity
- Increased advertising presence
- New securities company
- Financial holding company
- Finance/risk data warehouse

# Profit and loss account

US\$m	H1 08	H1 09	YOY %
Income	867	705	(19)
Expense	(568)	(439)	(23)
Working profit	299	266	(11)
Loan impairment	(90)	(185)	106
<b>Operating profit</b>	<b>209</b>	<b>81</b>	<b>(61)</b>
Cost : income ratio	66%	62%	(4%p)
FX Rate (KRW/US\$)	986.6	1,352	37

# Profit and loss account

US\$m	H1 08	H1 09	YOY %	YOY% constant currency
Income	867	705	(19)	10
Expense	(568)	(439)	(23)	5
Working profit	299	266	(11)	19
Loan impairment	(90)	(185)	106	182
<b>Operating profit</b>	<b>209</b>	<b>81</b>	<b>(61)</b>	<b>(49)</b>
Cost : income ratio	66%	62%	(4%)	
FX Rate (KRW/US\$)	986.6	1,352	37	

# FX rate fluctuation

## FX rate trends

KRW/US\$



# The US\$ impact of temporary headwinds in H1 09



# Summary

- Stronger and more liquid balance sheet
- Tight cost control
- Disciplined re-investment
- Performance momentum building





## Q & A

# Consumer Banking

YI Kim

Head of Consumer Banking



- CB income improving despite strong headwinds
- An attractive market with a large income pool and improving economic outlook
- Transformation underway with clear strategic focus
  - Back to basics
  - Participation model - 'Universal model' to become a main bank
  - Customer centricity

# Consumer Banking performance

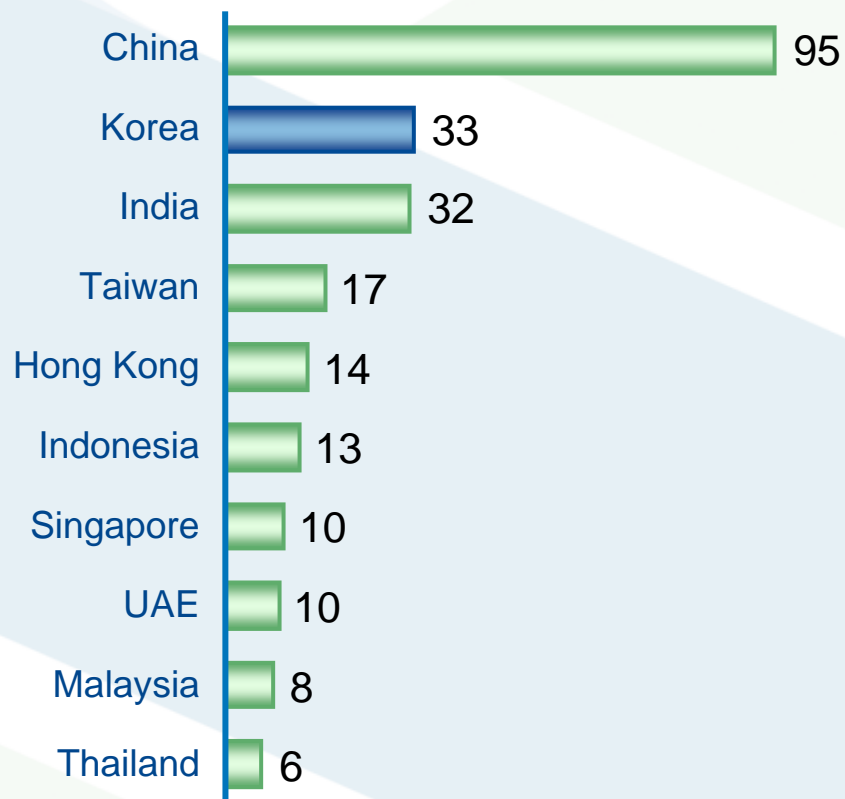
US\$m	H1 08	H2 08	H1 09	YOY%	YOY% constant currency
Income	605	412	423	(30)	(5)
Expense	(437)	(289)	(318)	(27)	0
Working profit	168	123	105	(38)	(18)
Loan impairment	(81)	(80)	(116)	43	96
<b>Operating profit</b>	<b>87</b>	<b>43</b>	<b>(11)</b>	<b>(113)</b>	<b>(116)</b>

H1 income down only by 5% on constant currency basis despite strong headwinds (e.g., weak Wealth, SME and Personal Loan, aggravated NIM% due to BoK benchmark rate cut of 300 bps between Oct. 08 and Feb. 09)  
Loan impairment step up driven by a government-led personal debt relief program and deteriorated SME credit quality

# An attractive market recovering fast

## Asia's 2<sup>nd</sup> largest retail banking market

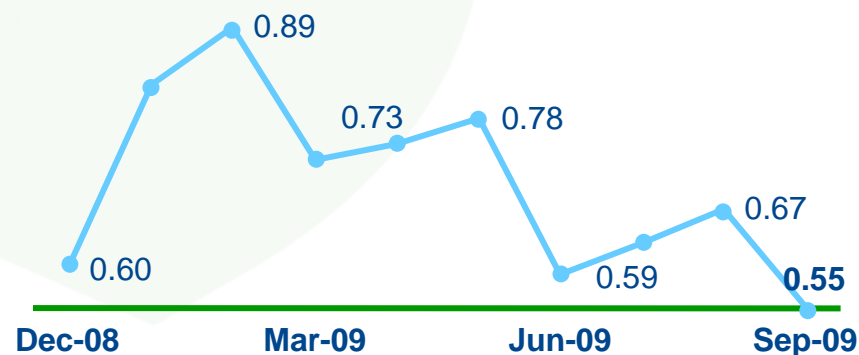
Retail banking revenue pool ex-Japan (US\$bn)



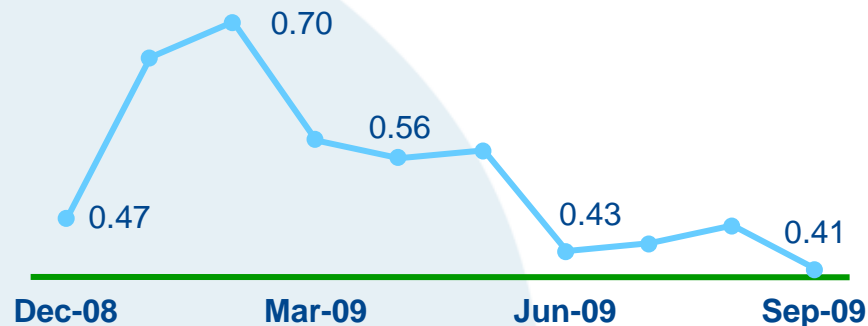
Source: McKinsey; Standard Chartered analysis as of 2008

## Economy stabilising fast

### Retail delinquency ratio trend (%)

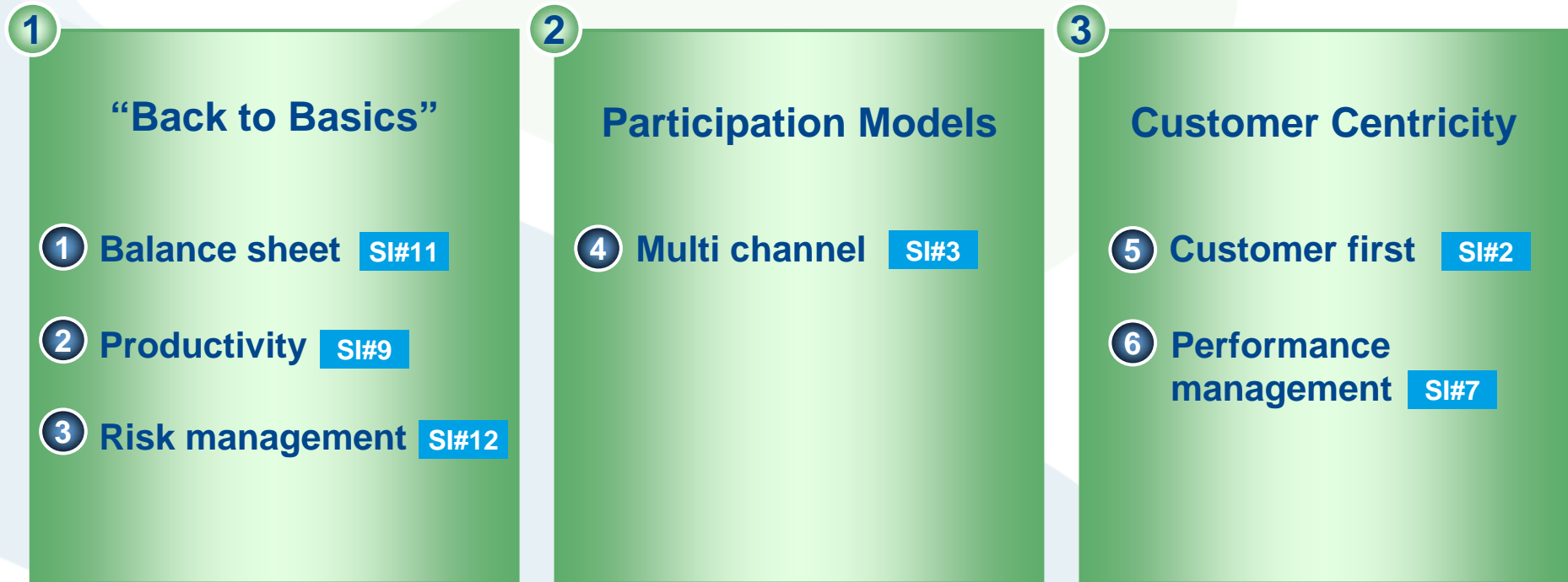


### Retail mortgage delinquency ratio trend (%)



Source: Financial Supervisory Services Korea

# Key strategic initiatives for CB transformation

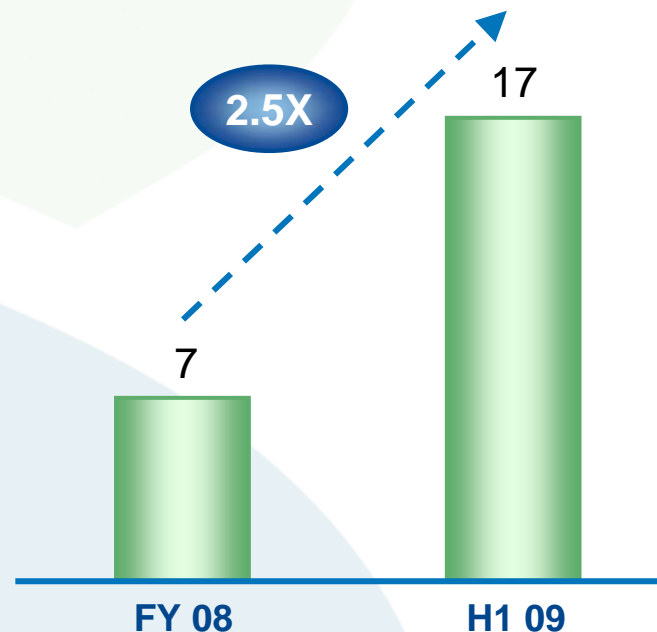
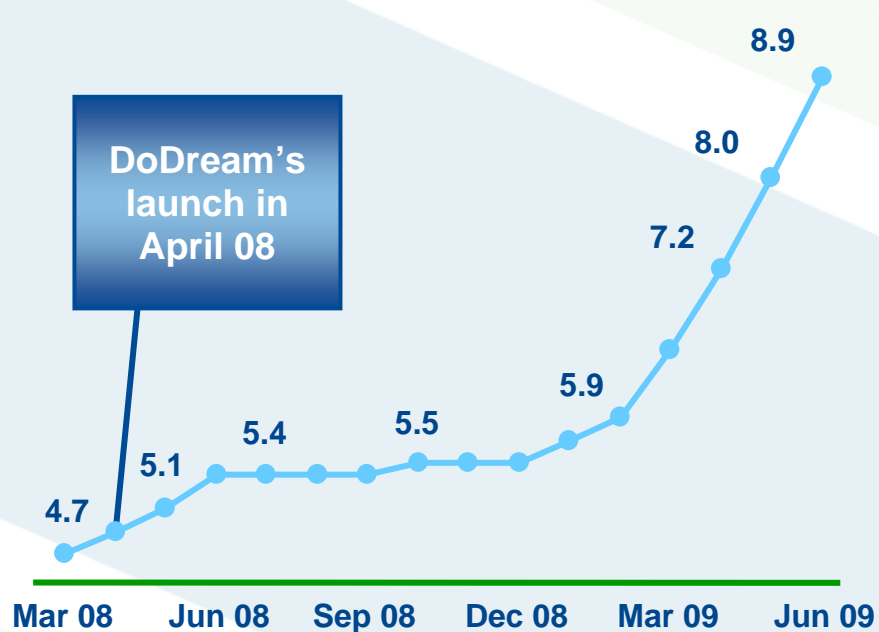


# Strong balance sheet growth

Back to basics - ① Balance sheet [SI#11]

Individual savings market share (%)

Mortgage new sales market share (%)



Source: SC First Bank analysis as of end July 2009

## Back to basics - ② Productivity [SI#9]

H1 08 vs. H1 09

Total cost:

0%

Branch investment:

23X

\* Constant currency basis

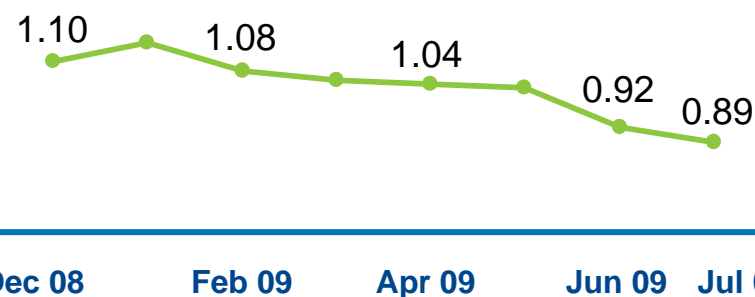


## Back to basics - ③ Risk management [SI#12]

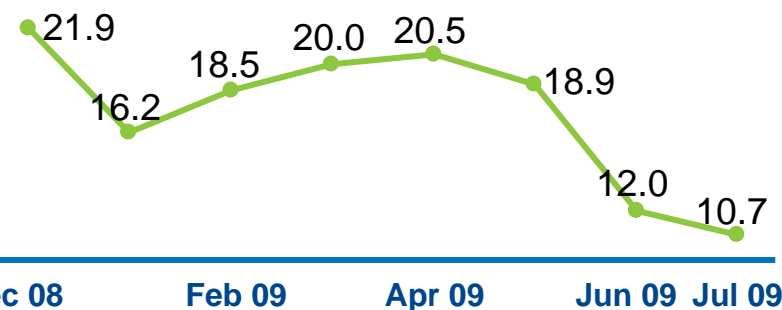
### Actions taken

- **Formed the SME early warning SWAT team in Oct. '08**
  - Formed a 24 member team
  - Recovered 350 accounts and 11 million dollars until July '09
- **Increased collection resources by 60% (59 in Dec. '08 → 95 in Jul. '09)**
- **Applied de-risking actions to our loan portfolio**
- **Sold bad personal loan assets at US\$12m**

### 30+ DPD delinquency rate (%)



### LI amount (US\$m)



NOTE: July 09 exchange rate at 1228.7

# Footprint optimisation underway..

## Participation model - ④ Multi channel [SI#3]

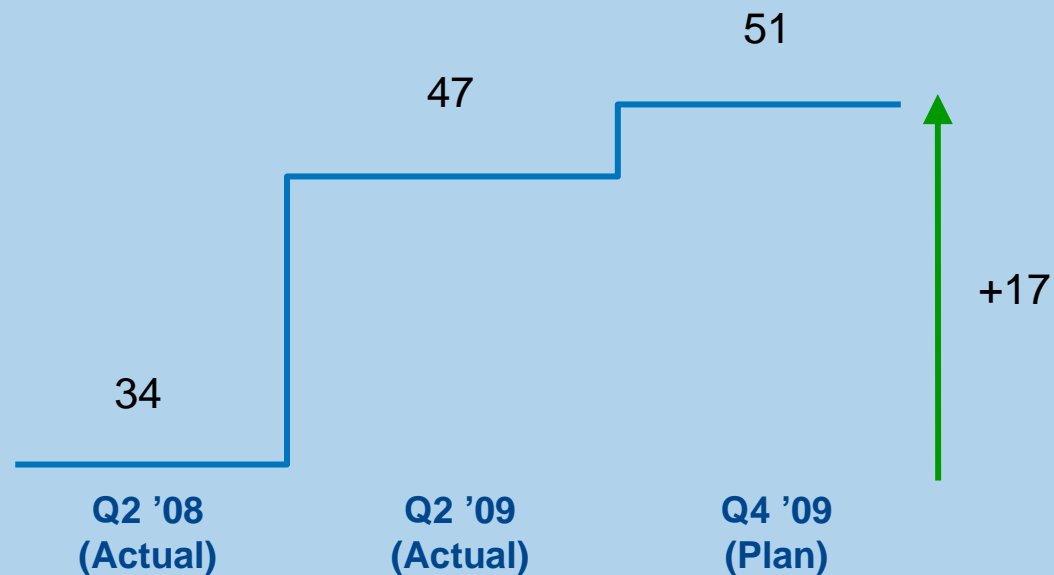
	Before Q2 08	Current Q2 09	By YE December 09
<b>Branch</b> (% in high mkt. strength*)	358 (28%)	370 (34%)	390 (40%)
<b>ATM</b> (No. of white- label ATMs)	1,700 ("0")	2,676 (1,000)	2,815 (1,100)
<b>CB employees</b> (HO employees)	4,283 (497)	4,280 (338)	4,500+ (333)

\* Market strength grade evaluated based on residential factors, commercial factors and business factors.

**..to increase our branch  
share in target markets..**

Participation model - ④ Multi channel [SI#3]

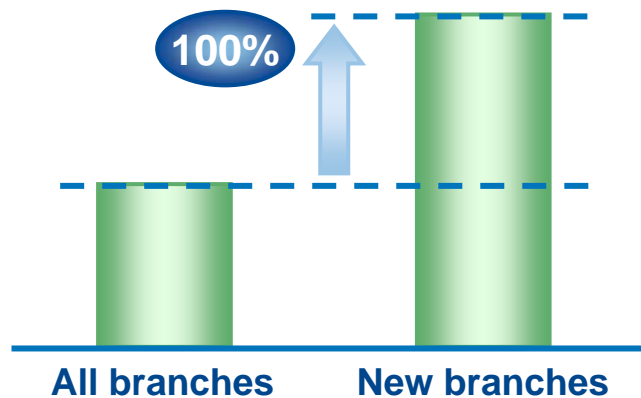
**Number of branches in Kangnam / Seocho**



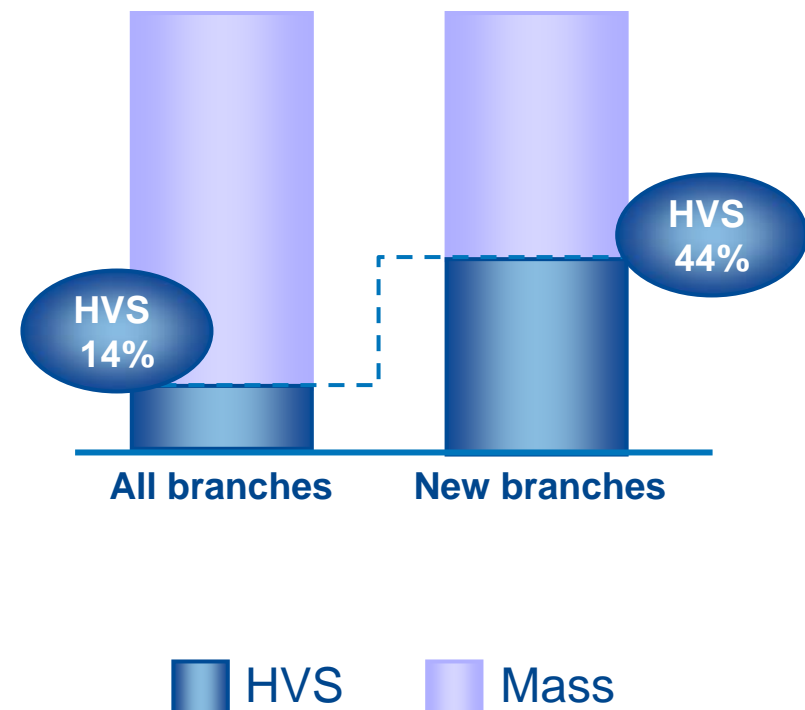
## .. and pick up early wins

### Participation model - ④ Multi channel [SI#3]

#### Revenue per customer (US\$)



#### Customer mix (%)



Source: SC First Bank analysis / \* Jun. '09 YTD Performance of 14 new branches open since 2008 2H & @ 3+ MOB.

# 'Customer centricity' drives ways of working

## Customer centricity - ⑤ Customer first [SI#2]

**Customer  
First**

**Build customer-centric CB organisation**

**Set up segment-driven value proposition**

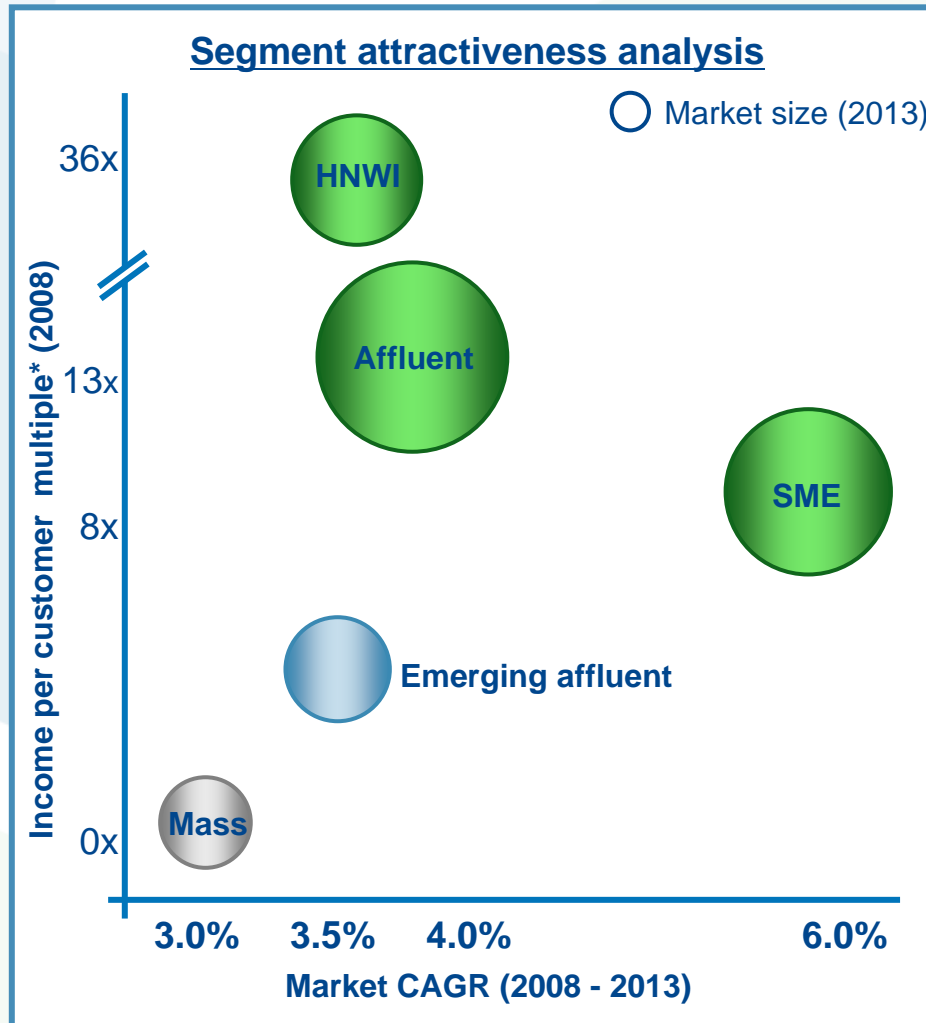
**Develop & support branch sales toolkit**

**Mobilise frontline for enhanced sales capability**

**Enhance customer service level**

# Sharpened segment focus..

## Participation model - ⑤ Customer first [SI#2]



### Deep segment insight

- Segment specialist teams

### Stronger customer proposition

- Customer lifecycle-needs based bundles
- Sales aids supporting cross-sell

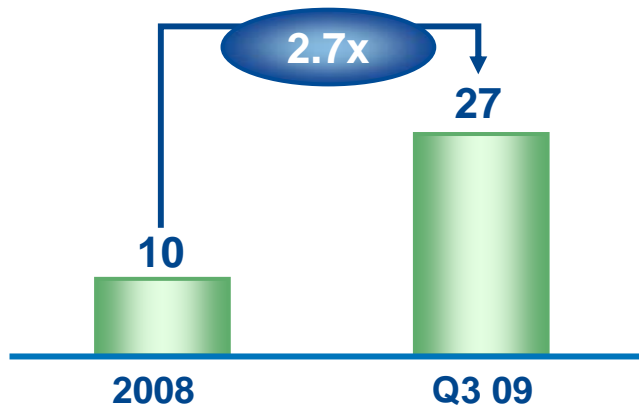
### Dedicated relationship managers

- Customer-driven job roles for quality service

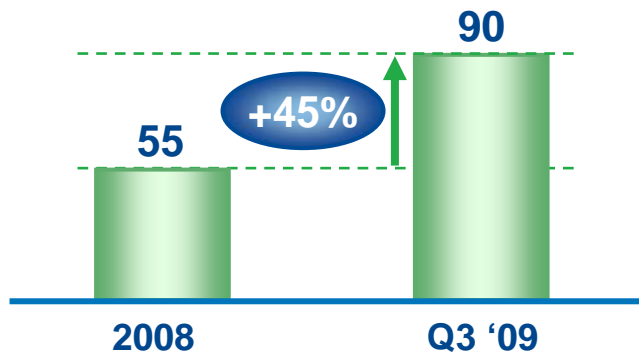
Source: McKinsey, Standard Chartered analysis / \* The multiple of the average mass-market customer income

## Customer centricity - ⑤ Customer first [SI#2]

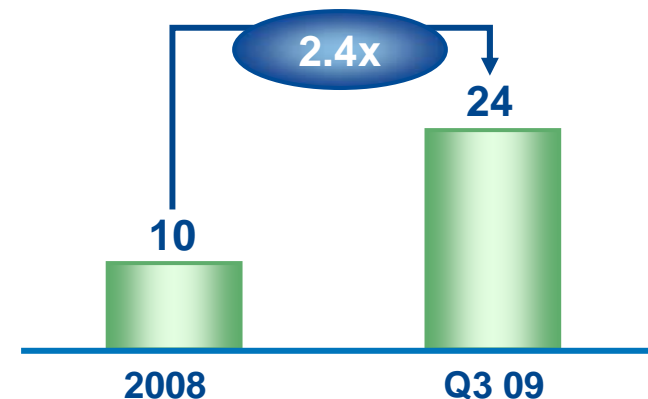
### Retail net promoter score



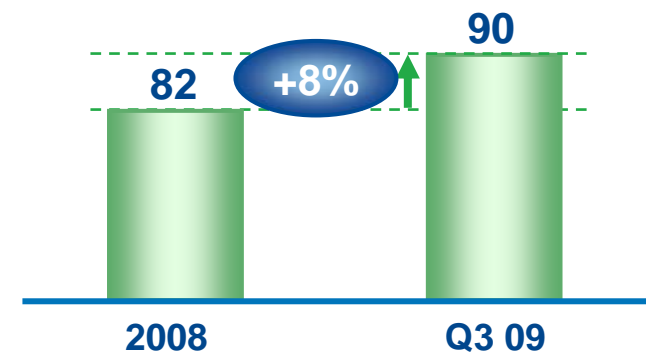
### % of satisfied w/ Private & Priority Banking RM



### SME net promoter score

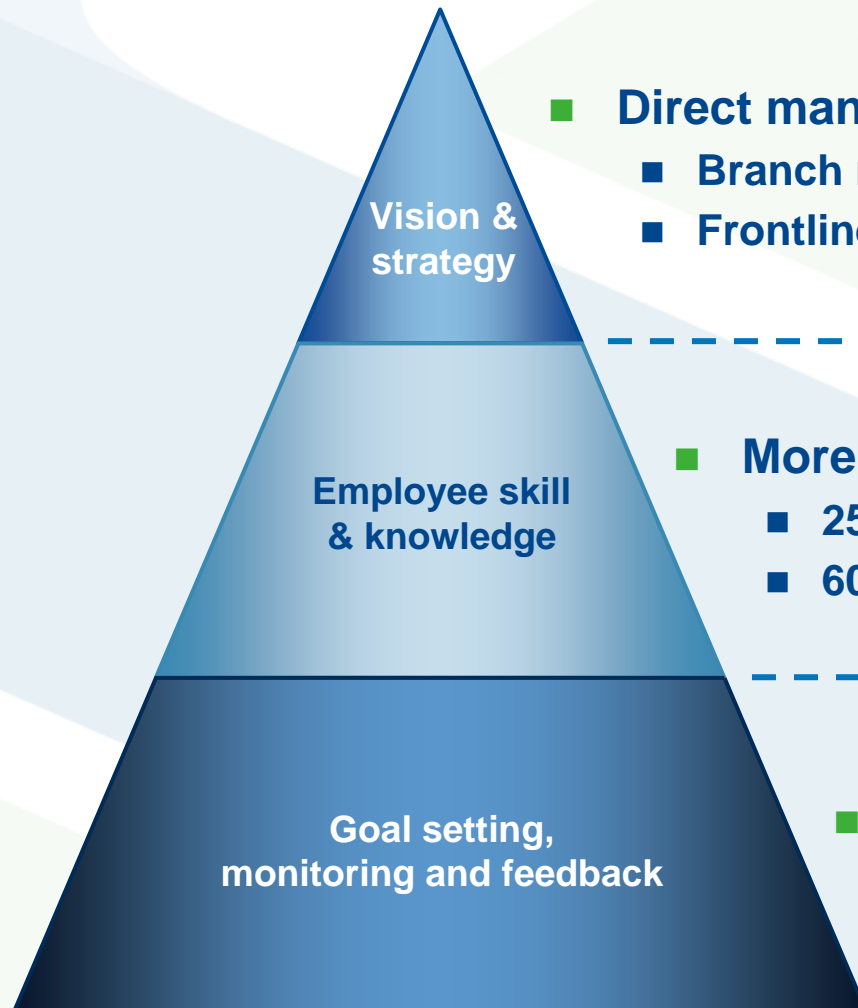


### % of satisfied w/ SME RM



# We fully engage our employees

## Customer centricity - ⑥ Performance management [SI#7]



### ■ Direct management communications

- Branch manager workshop (400 participants)
- Frontline townhall (3,500+ participants)

### ■ More sales skill development

- 250 hours p.a. of training per staff
- 600+ investment seminars

### ■ Tighter performance management

- Individual scorecard (Q1 '09)



# We are leading the way with innovation

• Plus-alpha passbook

수표에 이자가 붙었다!  
수표에 3%p 이자를 더해주는  
플러스알파통장

국내최초 수표위대통장 SC계입은행 플러스알파통장

• 플러스알파통장 4대장

Standard Chartered

Newly revamped  
internet banking

DoDream Account

자유입출금 높은 금리

자유입출금과 높은 금리는  
떨레야 떨 수 없다  
두드림통장은 3.6%  
두드림신용카드와 사용 시 6.0%

자유입출금통장의 새로운 가능성을 뽐낸 두드림통장  
기간별 연 최고 6.0%의 높은 금리로 단연 앞서갑니다

Standard Chartered  
SC 채널은행

DoDream  
Credit card

First Signature card

Female  
Branch

여성 전용 금융 서비스  
Lady Palace

Standard Chartered

• Online portal  
account  
opening  
service

• PRIORITY Banking



에게 가장 중요한 것?

may  
on  
ay  
o

Standard Chartered  
SC 채널은행

Mosaic Banking  
(for expats)



4 Awards  
from major dailies

두드림통장

현재 2009.03 기준 최고 연 3.6% (세전)  
전국 모든 은행 자동화기기 (CD/ATM)  
이동통신에 연결하는 기기에 전화 다중선 서비스를 신청  
당첨번호가 발행된 고객님은 바로 신규 가능합니다

# We will overcome challenges for the remainder of 2009 with preemptive actions..

## Challenges

- **Mortgage:**  
Government strengthening DTI & LTV rules
- **CASA:**  
deteriorating margins and strong competition
- **WM:**  
investment appetite not fully restored

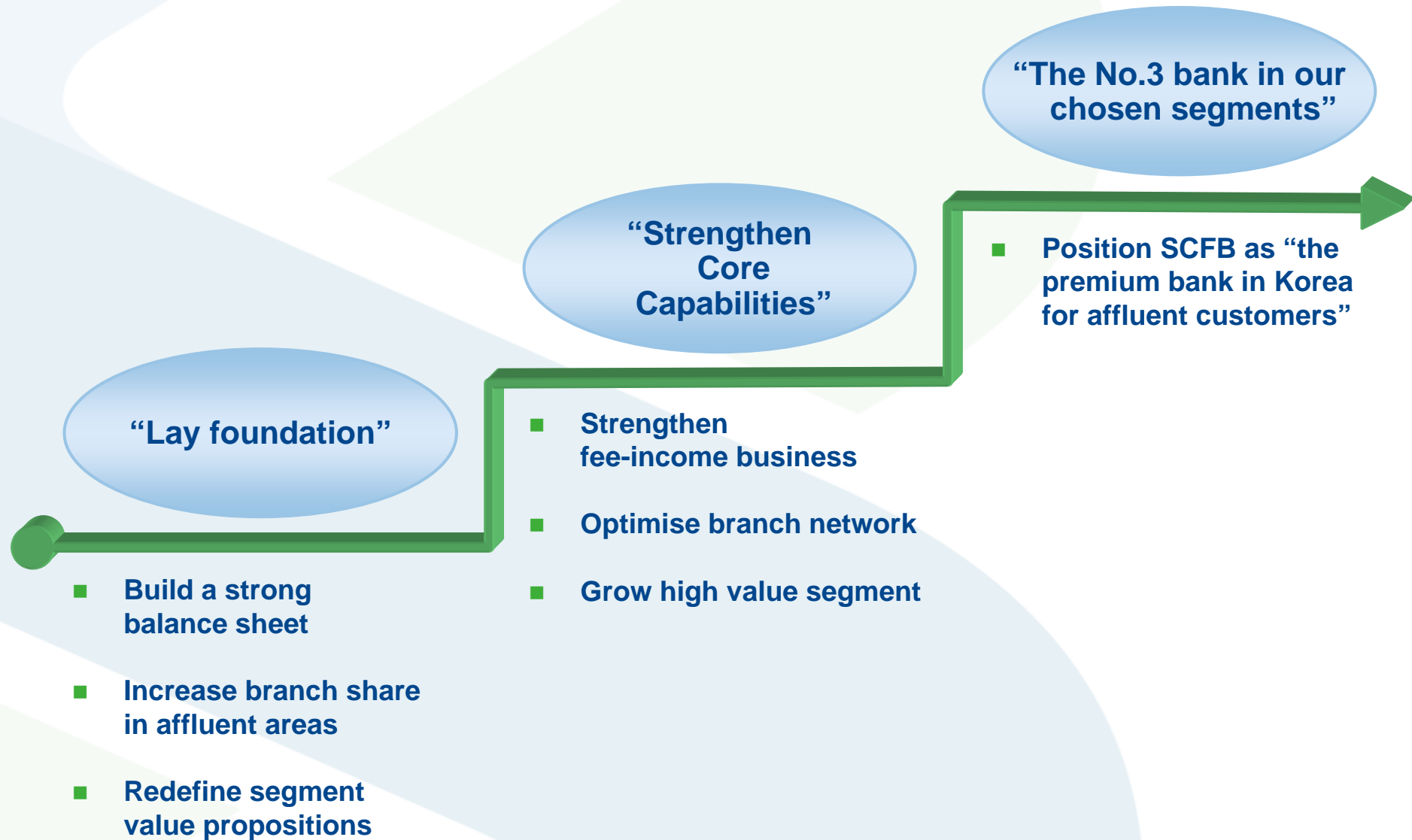
## Direction for remainder of 2009

- ① Continue with drawing up liquidity
- ② Balance unsecured / secured lending
- ③ Pick up pace with wealth

## Opportunities

- **Personal loan:**  
new products
- **LI starting to settle down**
- **Create investment capacity through productivity**

# .. and continue to pursue our long-term strategy to deliver our promise



## Q & A

# Wholesale Banking

**Charles Ahn, Gene Kim**  
Wholesale Banking



# Key messages

- A key growth engine for the bank
  - Strong financial performance
  - Broad capabilities and strengths
  - Global network for client coverage
  - Dedicated professionals and leadership with a meritocracy culture
- Clear vision and strategies
- Growth opportunities
  - Leverage securities company
  - Moving up the product value chain
  - Expanding segments and product capabilities
  - Strengthening off-shore client coverage

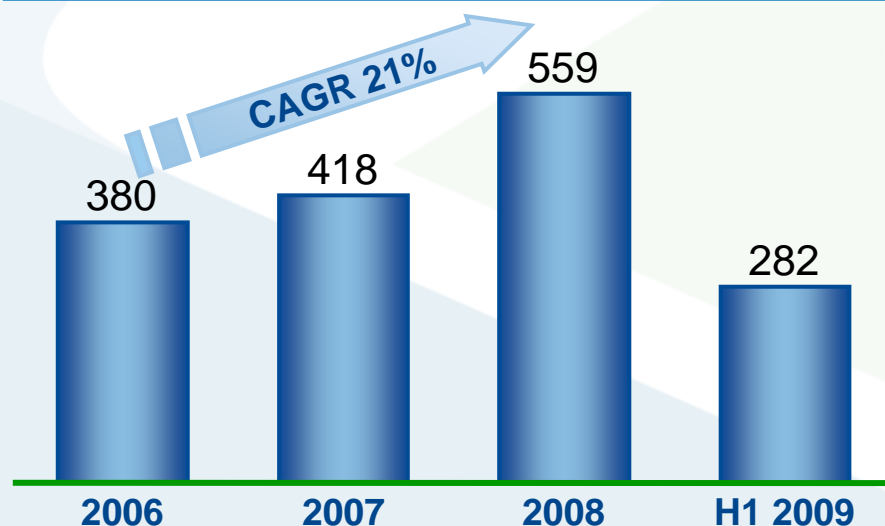


# Wholesale Banking performance in Korea

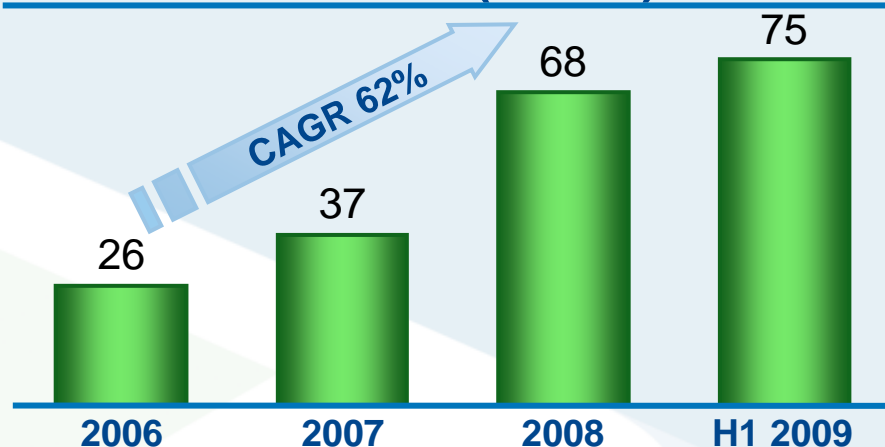
(US\$m)	FY 08	H1 08	H1 09	YOY %	YOY% (constant currency)
Income	559	262	282	8	45
Expense	(229)	(131)	(121)	(8)	24
Working profit	330	131	161	23	67
Loan impairment	(102)	(9)	(69)	667	981
Operating profit	228	122	92	(25)	2

# Pre-eminent growth in on- and off-shore revenue

## On-shore revenue (US\$m)



## Off-shore revenue (US\$m)



- Strong and sustained revenue momentum
- Breadth/depth of growth across client segments
- Deeper penetration into key corporate clients through cross-selling
- Pre-eminent cross-border capabilities by leveraging global network across 70 countries



# We have capabilities and strengths to excel



One of the top 3 corporate banks in Korea

Effective execution

- People, processes, technology

*Local  
strengths*

**'Local bank'  
coverage**

+

**International  
footprint**

*International  
strengths*

**Network**

**Local / sector  
expertise**

+

**Sophistication,  
scale**

**Product**

**Personal,  
responsive**

+

**Senior,  
knowledgeable**

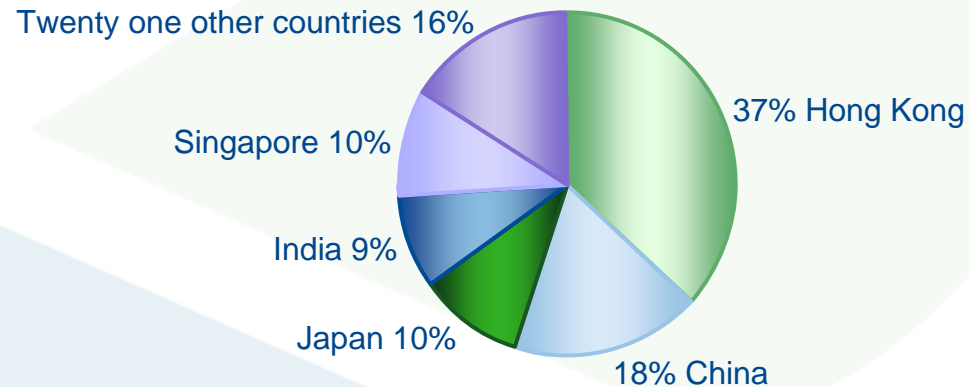
**RM / brand  
perception**

**Beat  
internationals**

**Beat  
locals**

# We play a critical role

## H1 09 off-shore revenue by country



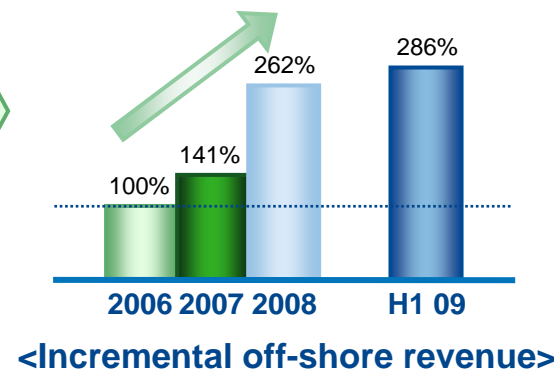
### For clients

- Provide a platform for local corporates to expand their business globally and gain access to global capital markets
- Offer our local banking services and products to multi-national corporates

Standard  
Chartered

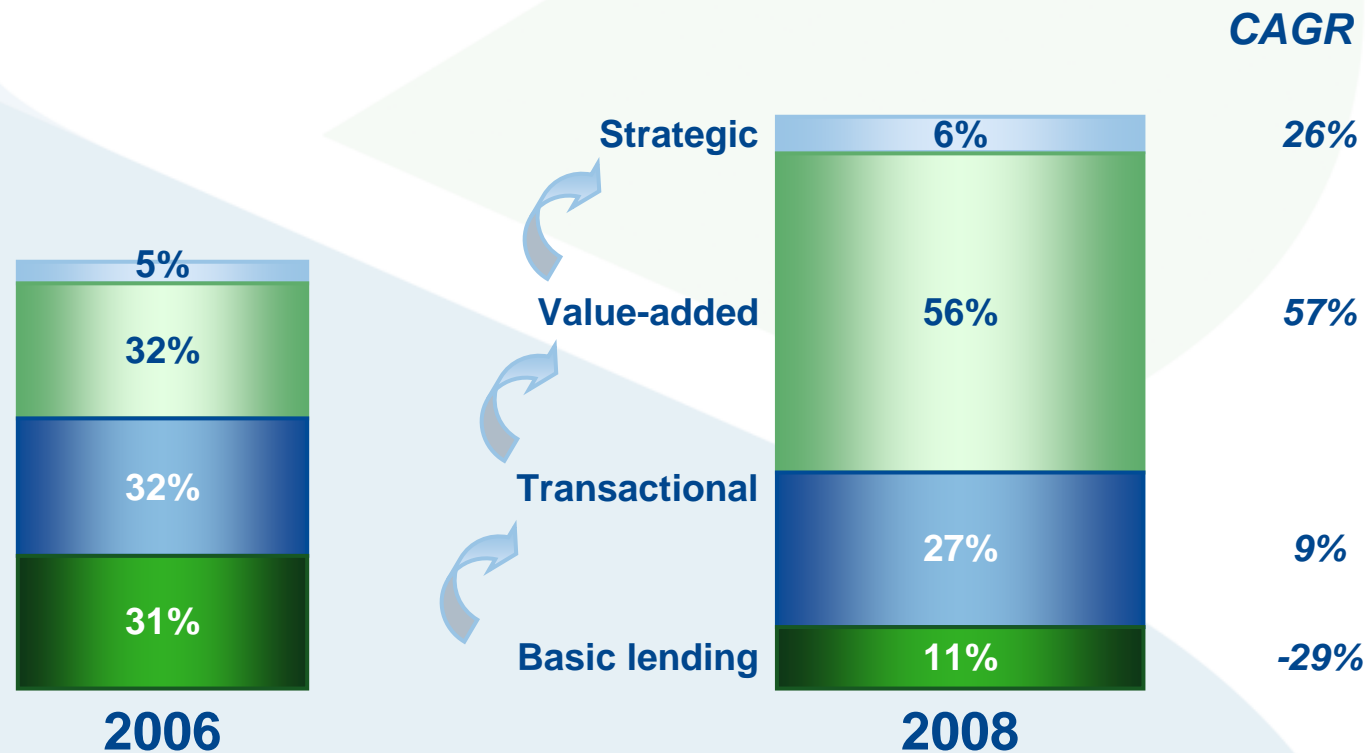
### For the group

- Generate revenue through cross-border opportunities



# Move further up the product value chain

## Revenue by product



### Implications for banking relationship

Share vision with our clients to become their strategic partner



Gateway to become the core bank

We have been scaling hierarchy of client needs and successfully executing clear strategies through a combination of our strengths in client relationships, products and geographies

# Remarkable changes in people & coverage

People		2006	2009	Change	
People	# of people total	250	379	+129	↑
Educational background	Local	228	325	+97	↑
	Global	22	54	+32	
Band / grade	Band 2-4	7	24	+17	↑
	Grade 5 or below	243	355	+112	
Talent classification	High potential	16	36	+20	↑
	Critical resources	39	112	+73	
RM coverage					
On-shore	# of cities	5	15	+10	↑
	# of RMs	41	68	+27	
Off-shore	# of cities	6	10	+4	↑
	# of RMs	8	12	+4	
# of clients		2,569	4,506	+1,937	

# Our vision and aspiration is to be ...

One of the top 3 corporate banks in Korea

## Strategic priorities

1

Deepen  
client  
relationships

2

Further  
expand  
product  
capabilities

3

Maximise  
financial  
holding  
company  
synergies

4

Improve  
capital  
efficiency  
and liquidity

5

Focus on  
people,  
value, and  
culture

... Continue to deliver growth aspiration

**Establishment:** July 25, 2008

**Initial capital:** KRW 300bn

**Business scope:** Fixed Income, Capital Markets and Corporate Advisory

Deepen client relationships

- To move up the product pyramid and to gain access to CEO/CFO relationships

Build strong local franchise and leverage our network

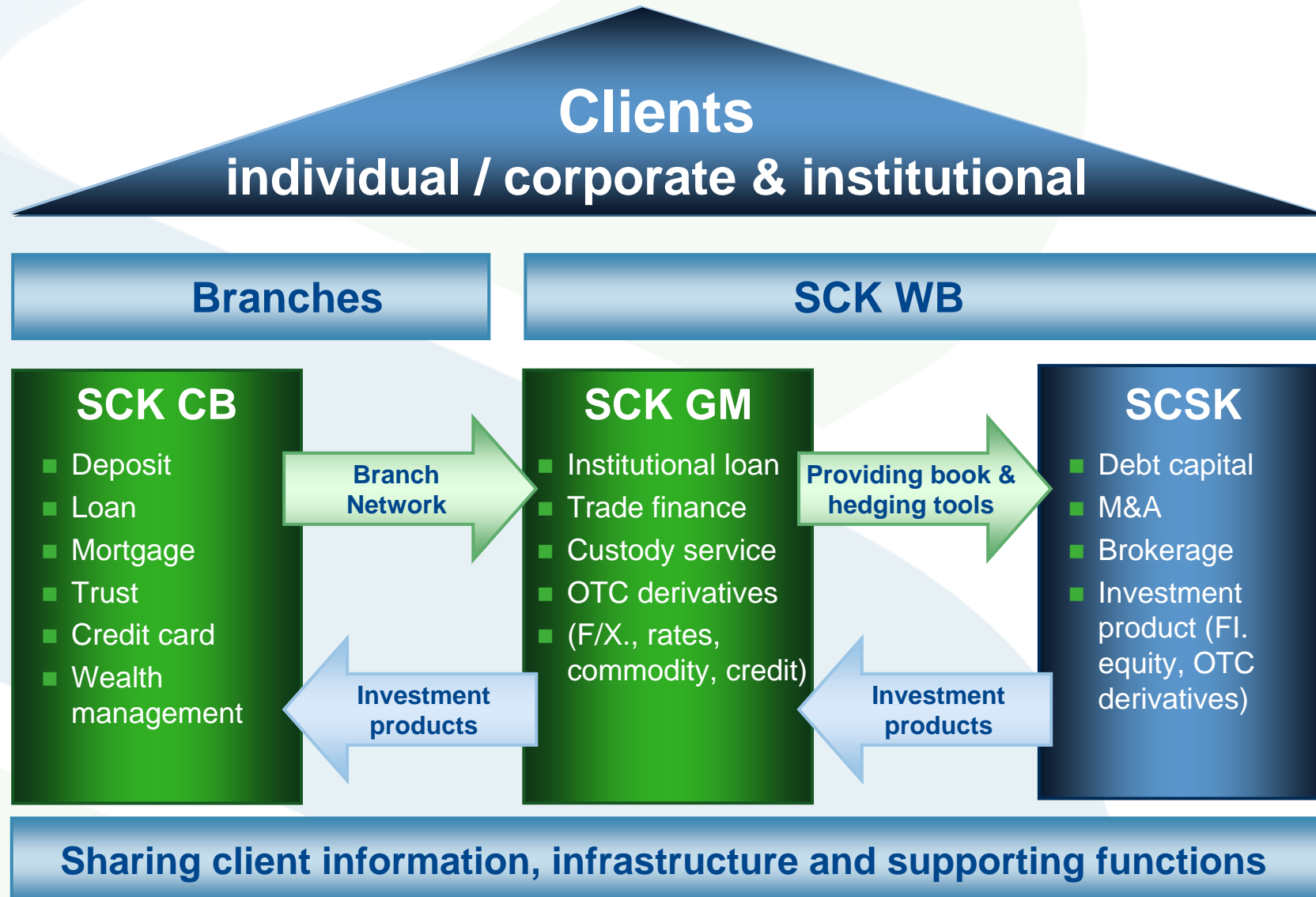
- To build local scale and achieve ~10% local market share

Expand product capabilities

- Develop total DCM solution for Local Corporates
- Further develop equity capabilities leveraging Cazenove acquisition

**“Be a leader in selective markets (2012 - 2013)”**

# Collaboration helps maximise synergy



# Korea desk - present



■ Korea desk    ● SCB market



# Major deals won and closed

Company	Description
<b>STX</b>	Structured Variable Rate Bond for STX Norway, the first Korean offshore corporate deal in 2009
<b>Samsung C&amp;T</b>	Financial advisor and arranger for acquisition of palm oil plantations in Indonesia
<b>Hyundai Steel</b>	Biggest Multi-ECA Financing deal in Korea in the last decade
<b>DongYang E&amp;C</b>	Asia's largest photovoltaic power plant project - Sole Mandated Lead Arranger
<b>National Federation of Fisheries Cooperatives</b>	Joint Lead arranger for Euro MTN Issuance
<b>Korea National Oil Company</b>	First FRN deal with Korea national oil company

# Strong track record of success

2007 - 2009



- Best Transaction bank (3 cons. yrs)
- Best sub-custodian (3 cons. yrs)
- Best Custody service (3 yrs)
- Best Cash mgmt service (2 yrs)
- Best TB service (2 yrs)
- Asia's best payment & receivables service

2009

Asia**Risk**

Corporate End User Survey

- #1 for Currency Products in Asia
- #1 for Interest Rate / Currency Derivatives in Asia
- #1 for Yield Enhancement in Currency Derivatives for KRW

2009

Asia**Risk**

Institutional End User Survey

- #1 for Currency Derivatives in Asia
- #1 for Currency Swap in KRW

2008



- **Korea's Best** Innovative FX products and structured Ideas
- **Top 3** for Best Foreign Cash Management Bank in Korea

2007 - 2008

EUROMONEY  
**ProjectFinance**



Deal of the Year

2007 - 2008



GLOBAL  
FINANCE

- Best corporate internet banking in Korea
- Asia's best web design

- Great performance from 2006 to 2008
  - On-Shore: CAGR of 21%
  - Off-Shore: CAGR of 62%
  - For H1 2009, achieved 110% of 2008 total off-shore revenue
- Key focus going forward
  - Client relationship deepening
  - Product capabilities expansion
  - Financial holding company synergy maximisation
  - Capital efficiency and liquidity improvement
  - People, value, and culture
- Aspiration
  - Be one of the top 3 Corporate Banks in Korea

## Q & A