

STANDARD BANK



- Standard Bank to acquire 33% stake in Troika Dialog
- It will extend a \$200m convertible loan to Troika and merge ZAO Standard Bank into the Russian bank
- Standard Bank says the transaction fits its emerging market expansion strategy

Share price, daily close (cents)



Standard to buy stake in Russian bank

Deal worth R3bn underlines how sound SA's banks have remained

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IN A sign of the relative strength of South African banks over their global counterparts, Standard Bank has bought a 33% stake in Russia's second-largest investment bank, Troika Dialog, in a deal worth about R3bn.

While global banks have reported growing losses and write-downs due to the global financial turmoil, financial results released by South African banks over the past couple of weeks have remained sound, although impairment charges are on the rise.

However, Registrar of Banks Errol Kruger said last week that the rising bad debts at South African banks were due to cyclical factors not the global turmoil.

"I think it is fair to say South African banks have been relatively sheltered and find themselves in a stronger position than many and are able to contemplate (deals)," Rob Leith, CE of global corporate and investment banking at Standard Bank, said on Friday.

Under the terms of the deal, Standard Bank will extend a \$200m convertible loan to Troika. The loan, together with the acquisition by Troika of Standard Bank's operation in Russia (ZAO Standard Bank), is convertible into a 33% equity stake in the merged entity. The deal is subject to approval by regulators in SA, Russia and the UK, under whose jurisdiction Standard Bank's international operation falls.

Neville Chester, senior portfolio manager at Coronation Fund Managers, said the 33% stake was worth about \$300m in total as ZAO Standard Bank could be worth about \$100m.

Standard Bank's exposure to

Russia of about R3bn was equal to about 3,5% of its total market capitalisation, which Chester said was large in the context of its international operations.

When Industrial and Commercial Bank of China bought a 20% stake in Standard Bank in 2008, the bank said it would use some of the proceeds to fund growth. Chester said the market had expected deals sooner, but that this transaction was timely given the recent fall in asset prices due to the financial market turmoil.

"It's an opportunity to do some deals at what must be attractive valuations. Asset prices have come down significantly and Russia has been particularly hard hit," Chester said. "They are paying roughly book value, so effectively getting the franchise for free."

Chester said the current environment presented opportunities for banks like Standard Bank to strike deals. He said Standard Bank had remained committed to Russia through the 1998 economic crisis in that country, when it defaulted on its sovereign debt.

"This is when banks that understand emerging market risk make their money," he said.

Chester said his only concern was that Standard Bank was taking a minority stake in Troika, whereas he would have preferred it to have control of the bank.

"That might not have been possible with this deal," he said. "But in a politically sensitive environment like Russia it might make sense to keep it Russian owned."

Leith said there may be the opportunity to grow its stake, although the bank felt it was important to have a strong local partner in Russia, where connections were important.

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