

OLIVER WYMAN



Financial Services

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Impact of the crisis on European Banks

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Brussels

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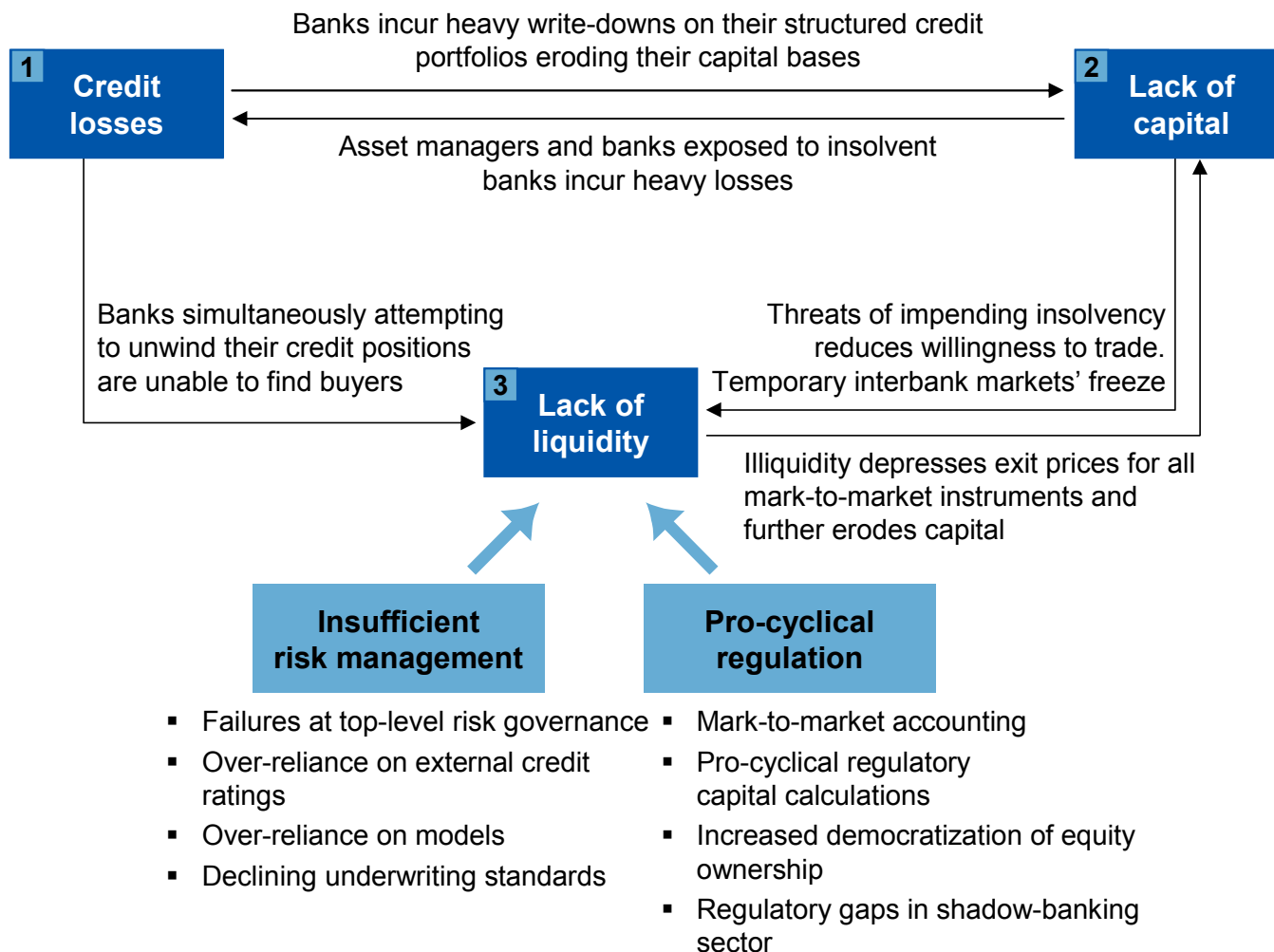
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The crisis consisted of three concurrent and inter-related crises, amplified by two external factors



Source: Oliver Wyman analysis

We expect the impact of the crisis on banks to unfold in two distinct phases

Phases of change

1

Survival: Repairing the balance sheet

- Strategic focus will be on surviving the financial crisis by
 - Deleveraging of balance sheets
 - Raising capital
- Already well under way, unclear how much longer this will last

2

Adapting and reconstructing business model

- Change in priorities to ensure adaptiveness to uncertain environment
- Strategic focus will shift to core businesses
- Potential disaggregation of businesses currently under the universal umbrella
- Will be highly impacted by shape of future regulation

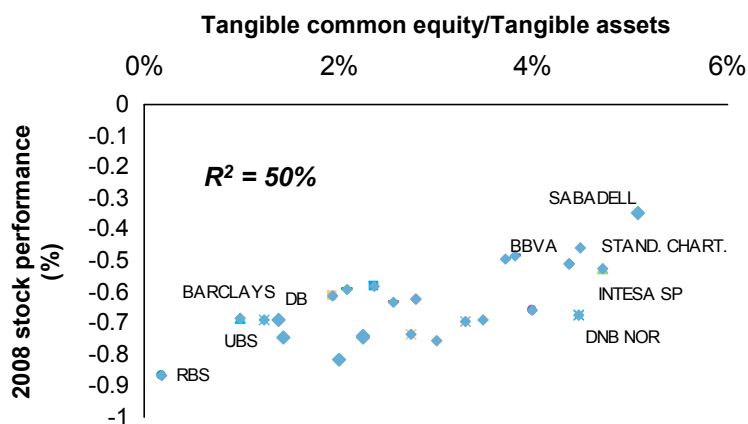
Additional comments

- Length of Phase 1 will be highly impacted by speed, shape and stability of global regulatory response
- Likely to be some level of overlap between the two phases
- Individual banks likely to shift their strategic focus at a different time

The need to repair balance sheets coupled with increasing capital demands will result in lending contraction

Status of banks will largely be determined by their ability to shore up balance sheets...

Market confidence largely driven by strength of banks' balance sheets



Note: Tangible common equity and tangible assets taken as of YE2007; YTD change in stock price from 1/1/2008 to 11/20/08
Source: Bloomberg. Oliver Wyman

Steps to shore up balance sheet

Assets

- + Proportion of short term instruments
- + Measures to boost liquidity

Equity

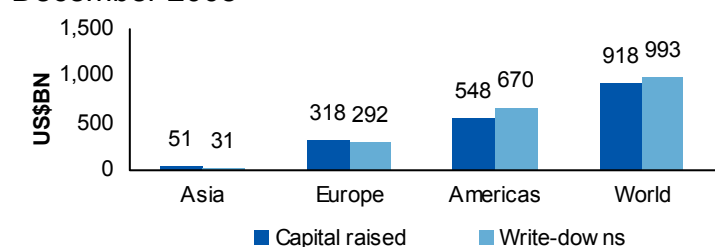
- Gap between write-downs and raised capital

Liabilities

- + Deposits
- Wholesale funding
- + Long-term, unsecured debt finance
- Short term repos

...while capital demands continue to increase making reduction in banks' assets inevitable

Write-downs and credit losses vs. capital raised



- Capital raised since the onset of the crisis remains less than total write-downs
- Regulatory demand for higher capital ratios
- **Banks forced to shrink balance sheets by selling assets and slowing new lending**

Source: Bloomberg. Oliver Wyman

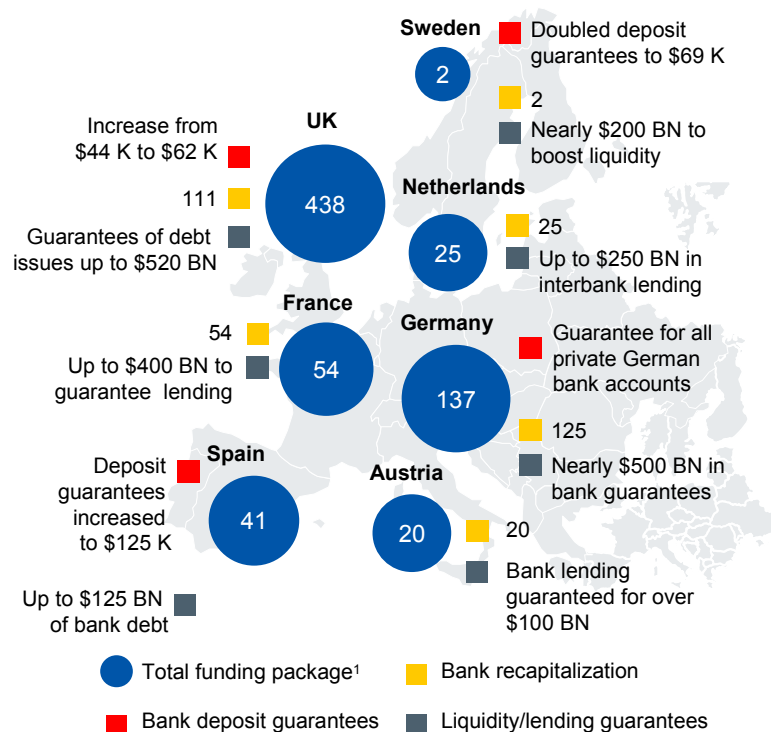
While governments have made a significant effort to prevent bank defaults...

Crisis response tools available to Governments

	Response option	Rationale	Action
Stability of economy	Bank recapitalisation	<ul style="list-style-type: none"> Banks are strapped for capital 	<ul style="list-style-type: none"> Government injects capital into banks
	Bank failure	<ul style="list-style-type: none"> Takes equity interest – part or complete nationalisation 	<ul style="list-style-type: none"> Adequate amount of capital injections
	Good bank/ Bad bank	<ul style="list-style-type: none"> Prevent future failure/further recapitalisation 	<ul style="list-style-type: none"> Non-performing or “at risk” assets transferred to government vehicle Enable raising of fresh capital, lower of funding costs and allow banks to write new business
Rebooting of economy	Funding guarantees	<ul style="list-style-type: none"> Prevent run on banks or bank failure 	<ul style="list-style-type: none"> Government guarantee on deposits and wholesale funding
	Securitisation guarantees	<ul style="list-style-type: none"> Applicable to all deposit-taking institutions 	<ul style="list-style-type: none"> Strong sovereign rating
	Loan guarantee schemes	<ul style="list-style-type: none"> Market confidence 	<ul style="list-style-type: none"> Government guarantees part of eligible loans, charging an annual fee Bank offers financing factoring

Financial Crisis intervention measures in major European economies

Government funding commitments US\$ BN, unless otherwise noted



1. Defined as the total amount of capital set aside by each country's government to deal with the financial crisis
Note: Data as at December 9, 2008 and subject to change

Sources: International news sources, Oliver Wyman, World Economic Forum

...significant risk remains from credit losses due to feedback loop between lending contraction and real economy...

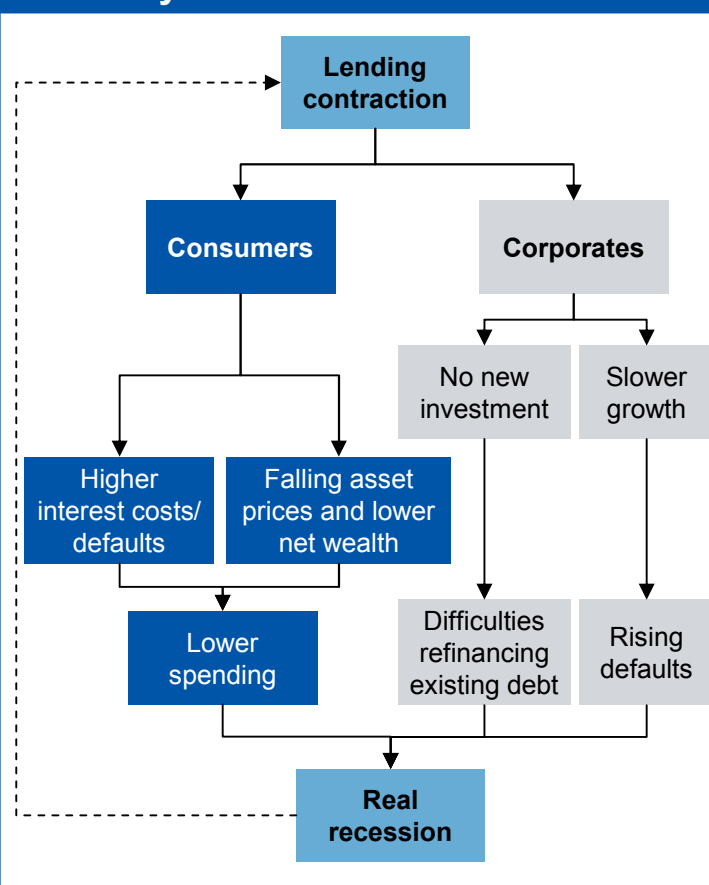
Lending contraction likely to focus on types of lending with least impact on banks' profits but most impact on GDP...

Relative impact of reduction in loan volumes

Index of impact for comm. lending based on simple closed economy model

Type of lending	GDP	Asset accumulation	Banks' profits	Key mechanisms
Residential lending	0.3x	2.3x	2.0x	<ul style="list-style-type: none"> Asset value reduction Reduced production due to lower investment Bank profits reduced through lost earnings and losses from default
Commercial lending	1.0x	1.0x	1.0x	<ul style="list-style-type: none"> Reduced output Asset value reduction Reduced production due to lower investment Bank profits reduced through lost earnings and losses from default
Consumer lending	0.9x	-	1.8x	<ul style="list-style-type: none"> Direct impact on consumer spending Bank earnings reduced through lost profit and losses from default

Fuelling a feedback loop with the real economy

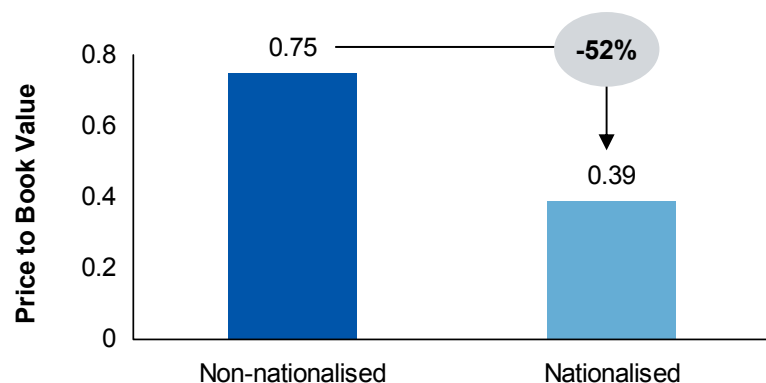


...which requires government to provide economic stimulus using available tools: Fiscal instruments, monetary policy, exchange rate fluctuation

Post-crisis environment is uncertain and will be highly impacted by the outcome of nationalizations and changes in the shape of future regulation

Price to tangible book value for European banks

March '09 market price, 2009E book value



Source: Deutsche Bank

- Nationalised banks - 50% or more owned by respective country's government: Lloyds, RBS (U.K.), Commerzbank (Germany), KBC (Benelux), Allied Irish, and Bank of Ireland (Ireland)
- Discount of ~50% reflects uncertainty about government ownership, oversight and involvement in management
- Past nationalisation examples reveal that it can lead to positive outcomes if
 - Banks are managed well and largely returned to private ownership within 4-5 years
 - Agencies are created to provide governments with ongoing transparency and influence

The degree of change and end game on regulation and supervision may vary greatly by country

Key issues where changes in regulation and supervision are undergoing

- Approach to capital and liquidity management
- Compensation reform
- Regulatory oversight of non-bank sector
- Introduction of early-warning systems and circuit breakers for systemic financial risks
- Increased coordination with foreign regulators

A new and uncertain environment will require banks to review priorities and take a more considered view of their long-term business strategies

Pre- and post-crisis priorities

BC (Before-crisis)

Short-term tactical priority

Refine core value proposition and respond to competitor initiatives

Long-term strategic priority

Continually improve competitive positioning in a stable and fast-growing dynamic equilibrium.

Required skill set

- Exceptional execution
- Gearing to controlled growth

AC (After-crisis)

Short-term tactical priority

Exploit discontinuities and future-proof business model

Long-term strategic priority

Continually evolve business model to a rapidly changing eco-system

Required skill set

- Agility and adaptiveness
- Simultaneous strategies to hedge an uncertain environment
- Management tool-kit
 - Collections and recoveries optimization
 - Risk appetite review
 - Deposit optimization
 - Elevation of risk role
 - Strategic cost management

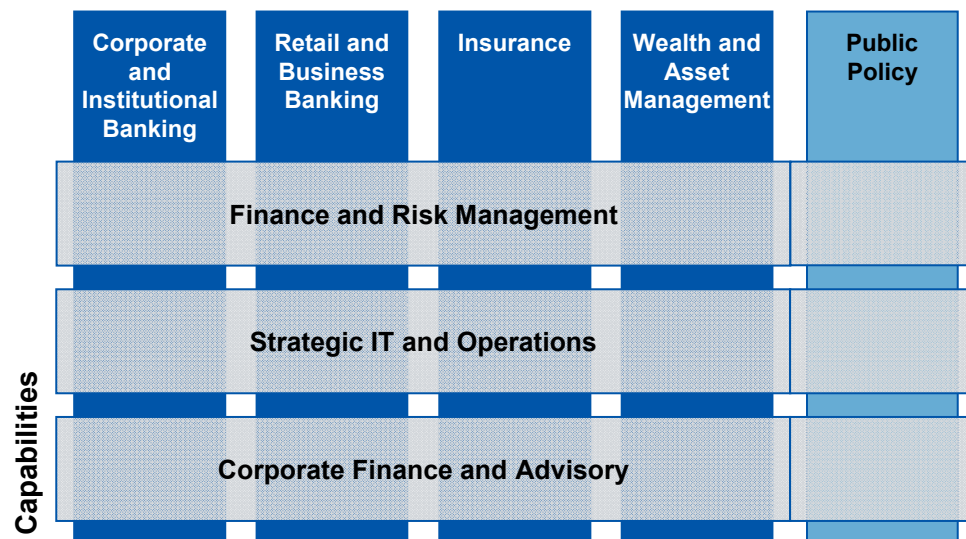
Available long-term business strategies

Emerging business model	Key characteristics
1. Scale global	<ul style="list-style-type: none"> ▪ Small, super class of global liquidity providers ▪ Deposit-funded, fortress-like balance sheets ▪ Global footprint across asset classes
2. Focused regional	<ul style="list-style-type: none"> ▪ Regionally focused specialists ▪ Focus in advisory and agency businesses where they have a competitive advantage ▪ Limited secondary trading operations
3. Private bank	<ul style="list-style-type: none"> ▪ Refocused deposit and asset gatherers ▪ Significantly de-risked trading businesses
4. Merchant bank	<ul style="list-style-type: none"> ▪ Fee-driven advisory and corp. finance boutiques ▪ Could potentially be either regionally or globally focused
5. Alpha risk taker	<ul style="list-style-type: none"> ▪ Alternative investment firms taking on bank-like risk-taking activities (e.g. market making)

Appendix

Oliver Wyman is a leading advisor to the financial industry spearheading management of crisis

Our Firm



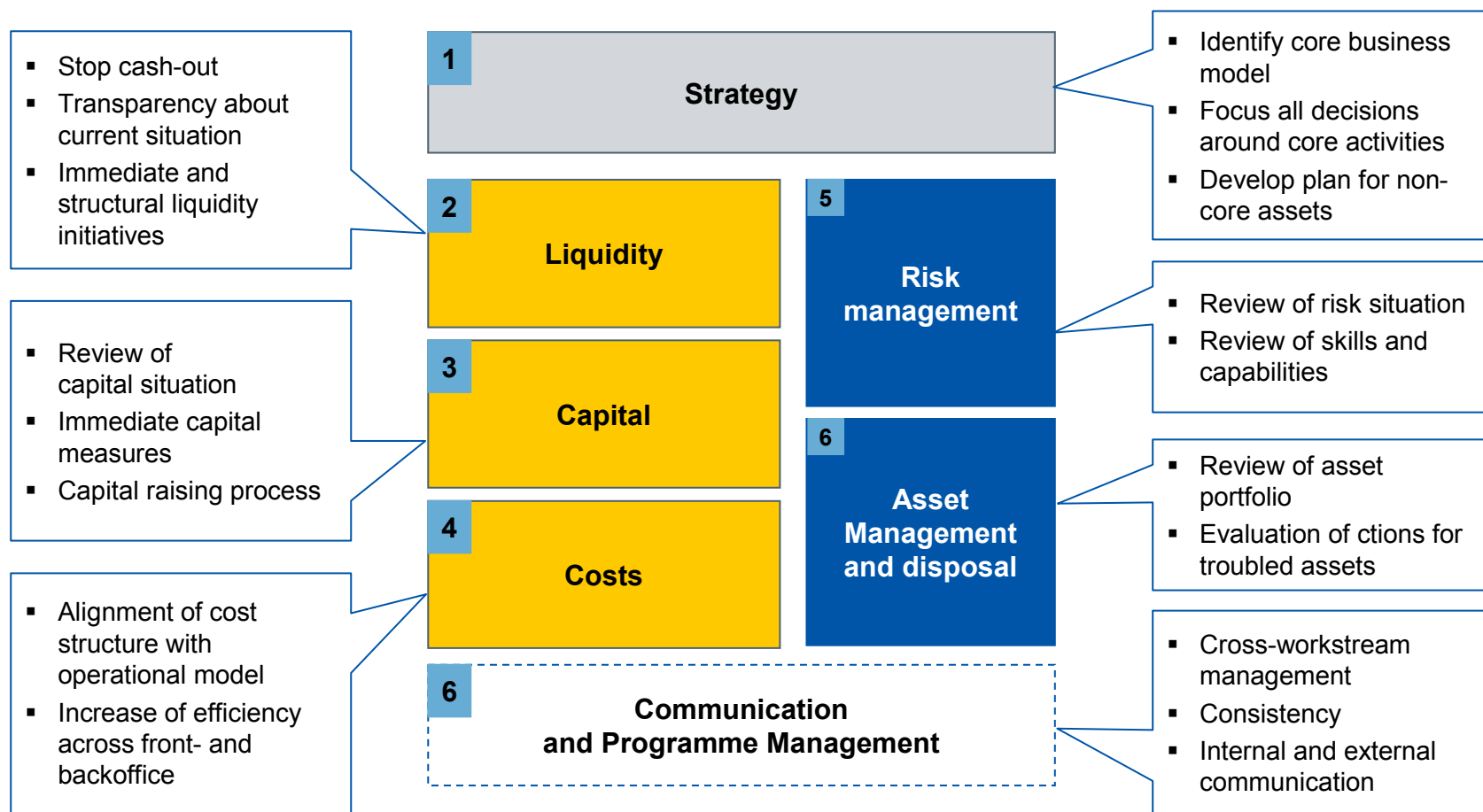
Industries

- Industry specialist consulting firm with 1,200 people dedicated to FS in c.30 locations
- Distinct approach characterised by deep specialisation and rigorous, fact-based analysis
- Current and past clients include
 - 75 of the global top 100 financial institutions
 - Leading institutions in smaller markets
 - Governments, central banks, regulators
- Non conflicting business model

Forefront of crisis support

- International Bodies
 - Financial Stability Forum
 - Institute of International Finance
 - World Economic Forum
 - Hedge Fund Standards Board
- Sovereigns
 - US
 - UK
 - Czech/EU
 - Iceland
- Institutions
 - Crisis management support across the globe
 - Rating tool design across major Irish Banks
 - Loss emergence for Irish Bank
 - Deposit gathering platform for Irish Institution
- PE
 - First port of call globally for FS due diligence
 - Advisors to PE firms in Irish capitalisation

Restructuring needs to be centred around key priorities



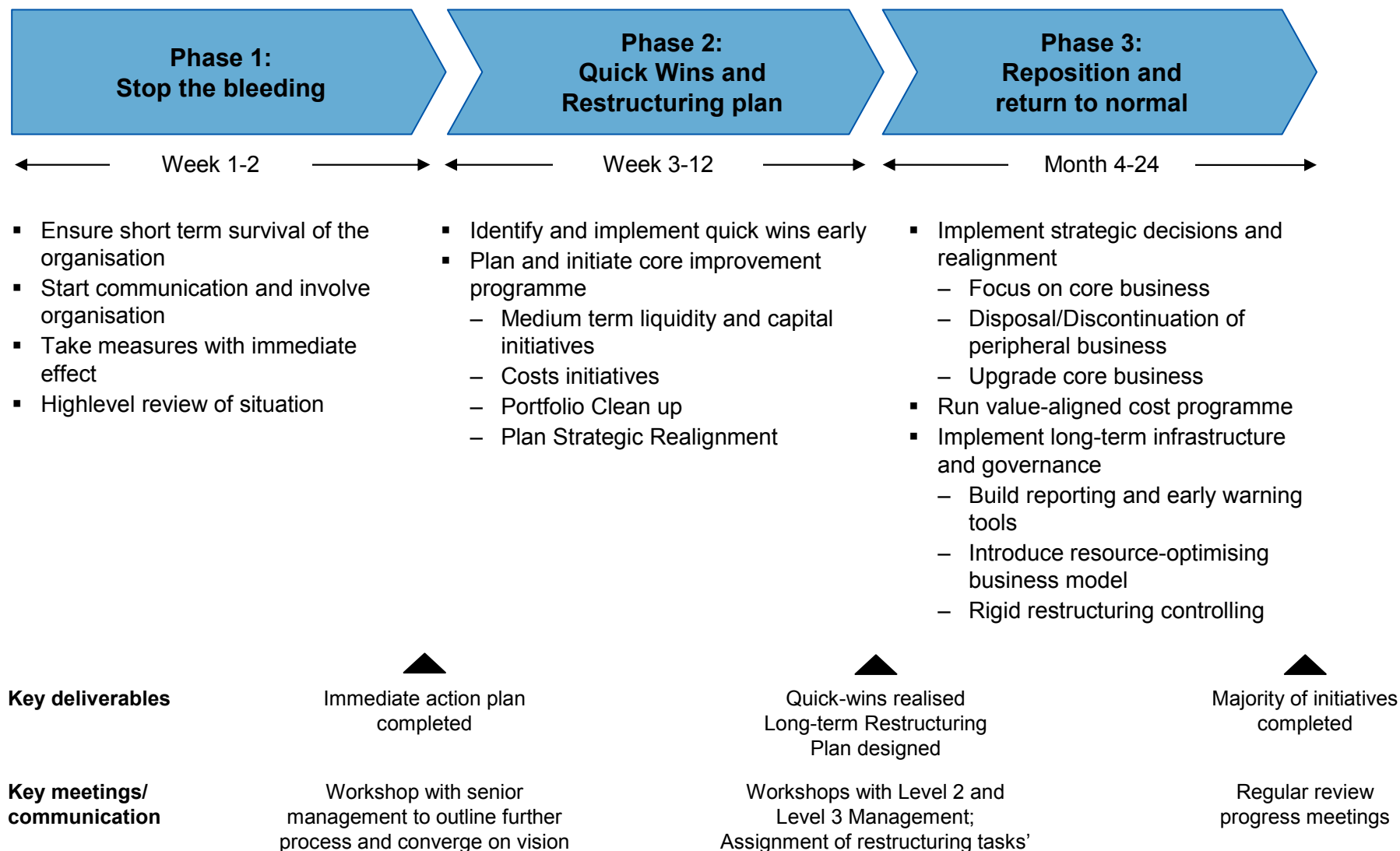
■ Guiding principles

■ High priority resources

■ Governance and control

Changes to the leadership team may be part of the immediate phase in order to signal change

Oliver Wyman has a toolkit which can stabilise an organisation in a short timeframe and lead towards a restructured bank



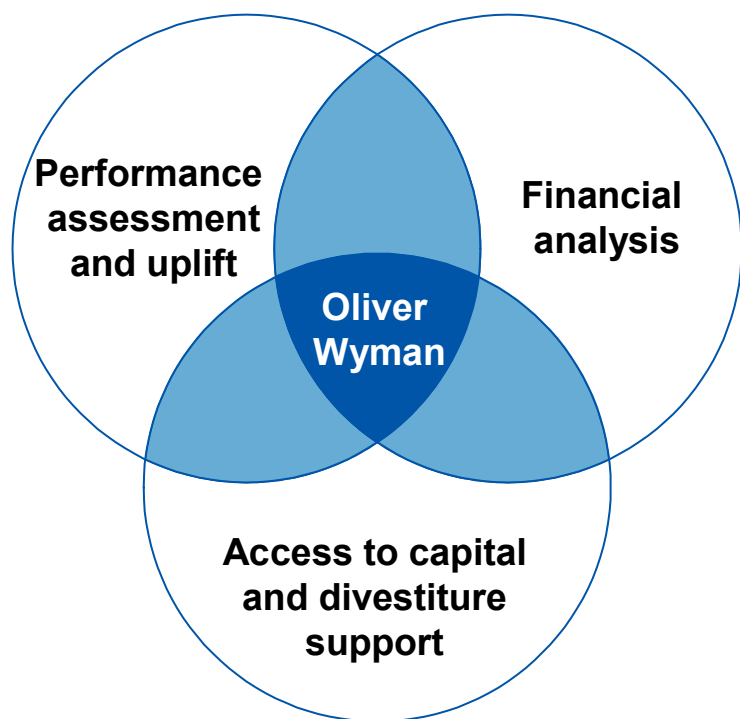
We can help organisations realise quick-wins by applying ideas with proven track-record

Sample quick-win ideas

- **Capital:** RWA reduction
 - Add missing data, e.g. on collateral and hedges
 - Review methodology for default values (typically missing values filled with worst value)
 - Mezzanine Hedging
- **Liquidity:** Active management of securitisation pools
 - Review current pool composition
 - Replace current assets with lower-quality assets which are still compliant for the pool
 - Re-use higher-quality assets
- **Collections:** Short term call-centre initiative
 - Shorten reminder cycles for delinquent clients
 - Prioritise clients with recent delinquencies
- **Costs:** Cut slack
 - Change travel and entertainment policy (lower class of travel/accommodation)
 - Stop/freeze flexible management compensation

Our dual expertise in financial services and corporate advisory provides us with unique capabilities in restructuring and recovery

Oliver Wyman USP



Performance assessment and uplift

- Our advisory expertise ensure we have a deep understanding of the issues facing banks internally and externally and can quickly diagnose the problem and develop a resolution plan

Financial analysis

- Significant expertise in complex financial and risk analysis enable us to effectively identify and manage down risks at the institutional and portfolio-level

Access to capital and divestiture support

- Our deep links in the finance industry provides us with access to capital providers and insight on 'what' and "how" to sell



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