



COMPLEXITY, INTERCONNECTEDNESS, & THE NEED TO RETHINK BASEL

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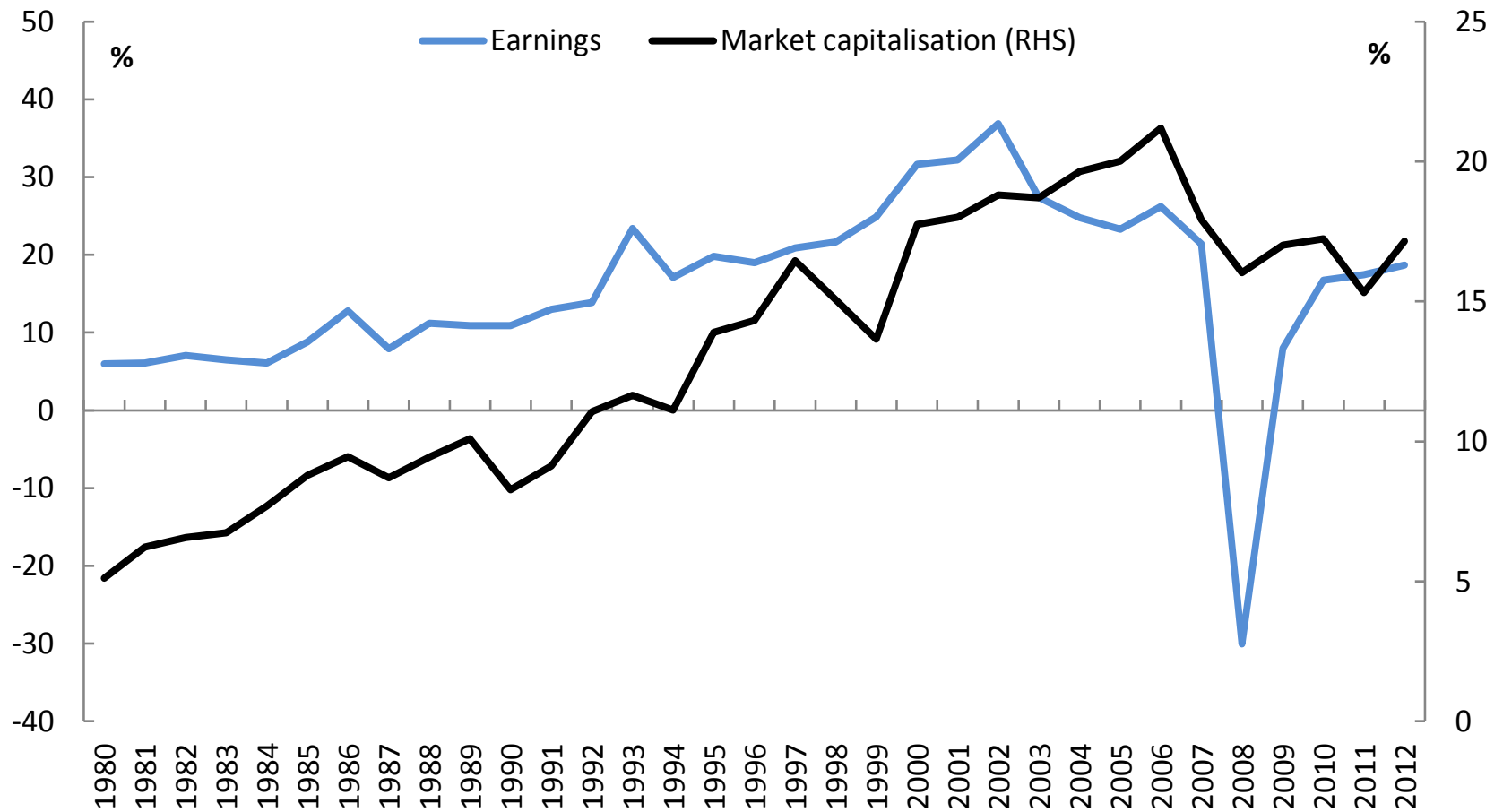


The Financial Sector in the S&P500: Earnings & Market Capitalization Share

- Since OECD started writing about leverage ratio views, the excess complexity of Basel, regulatory arbitrage, derivatives, and separation. Haldane BoE, Norton FDIC, Hoenig FDIC, a growing realisation about Basel. Things are changing.
- USA now 6% leverage ratio (not 3%), so even with accounting standards.....
- Business models, derivatives and separation: Volcker, Vickers, Liikanen, Swiss bail in. But huge cross border differences.

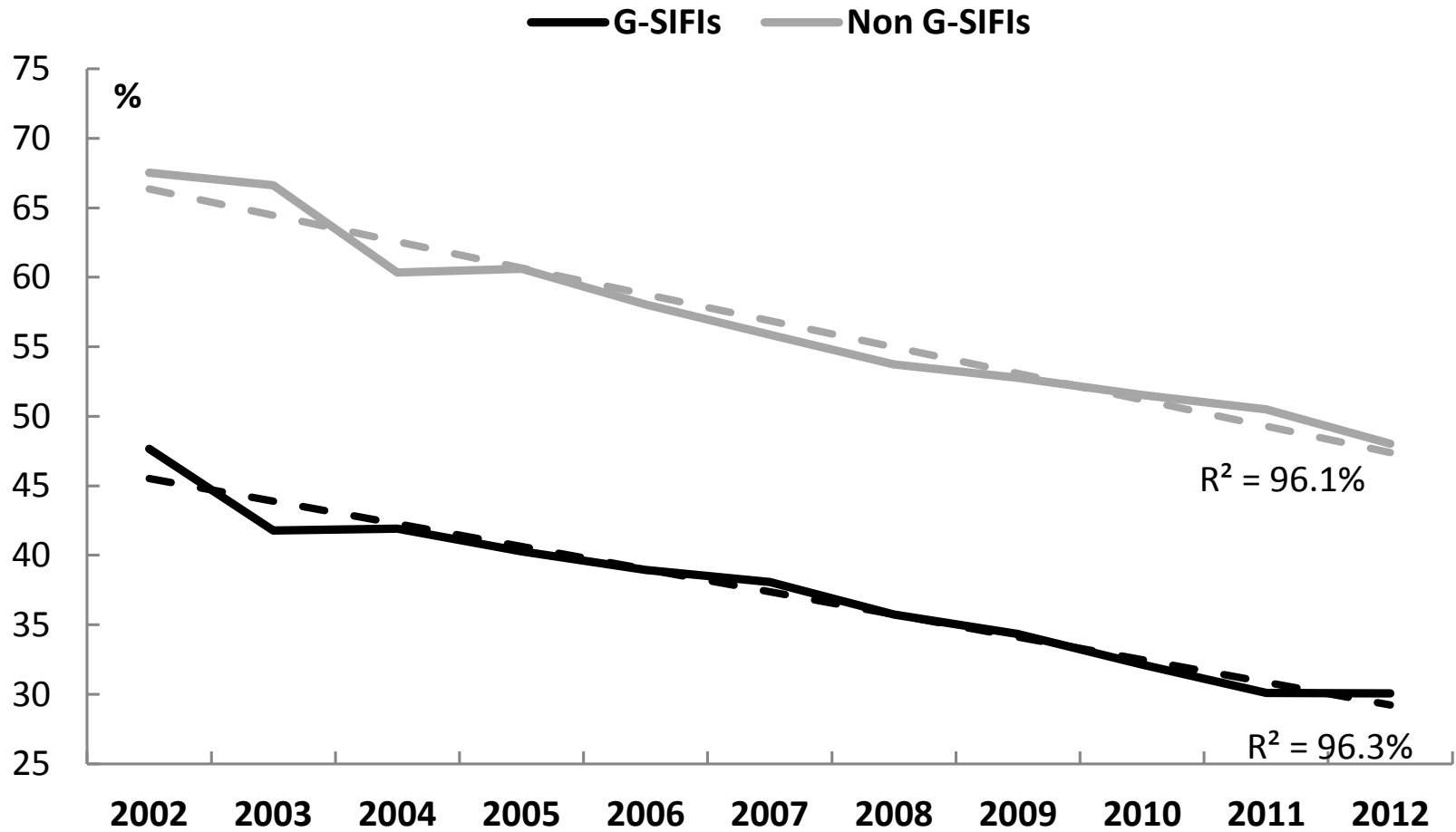


The Financial Sector in the S&P500: Earnings & Market Capitalization Share



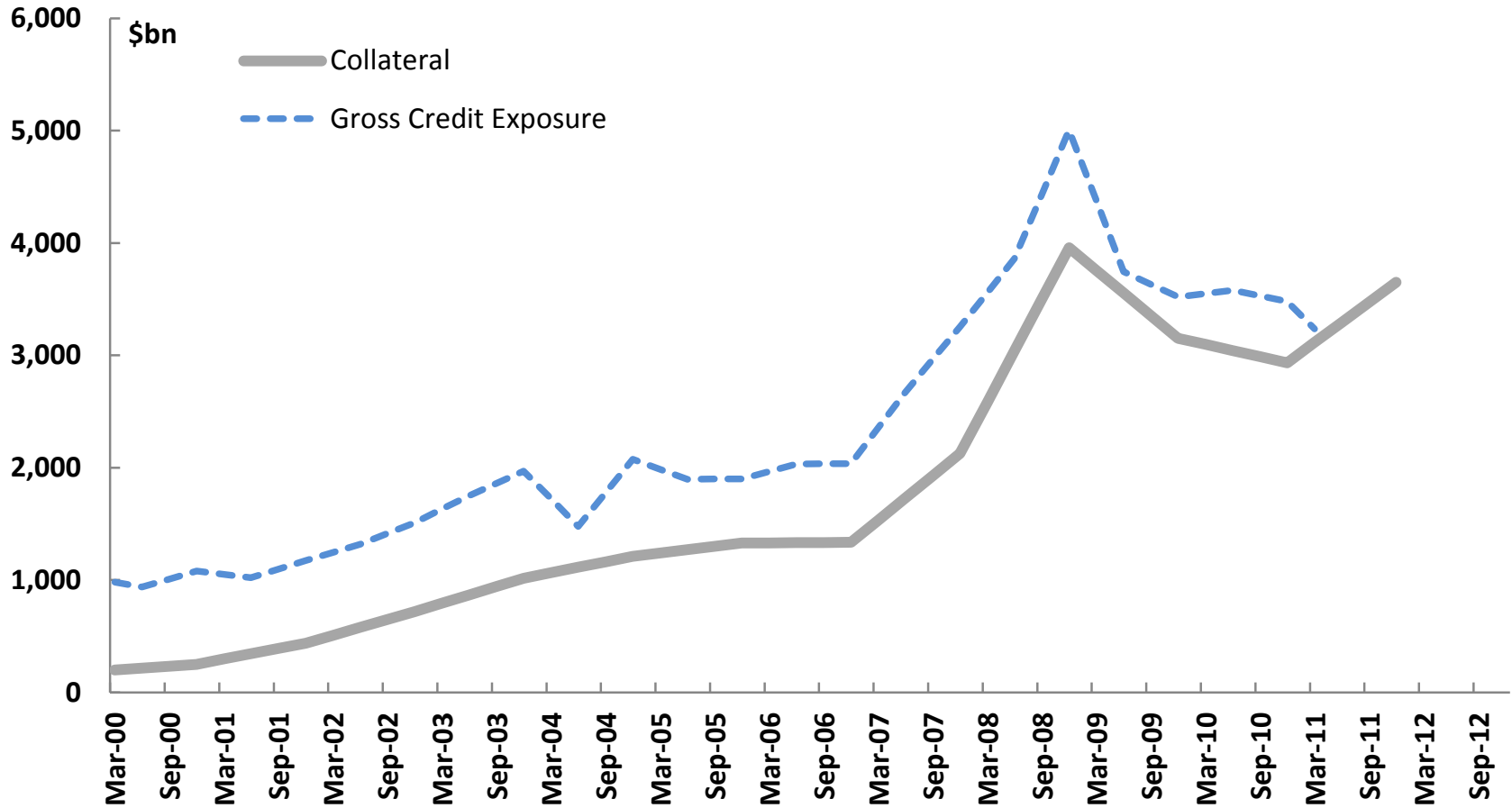


RWA to Total Assets: GSIFI Banks versus Non-GSIFI Banks



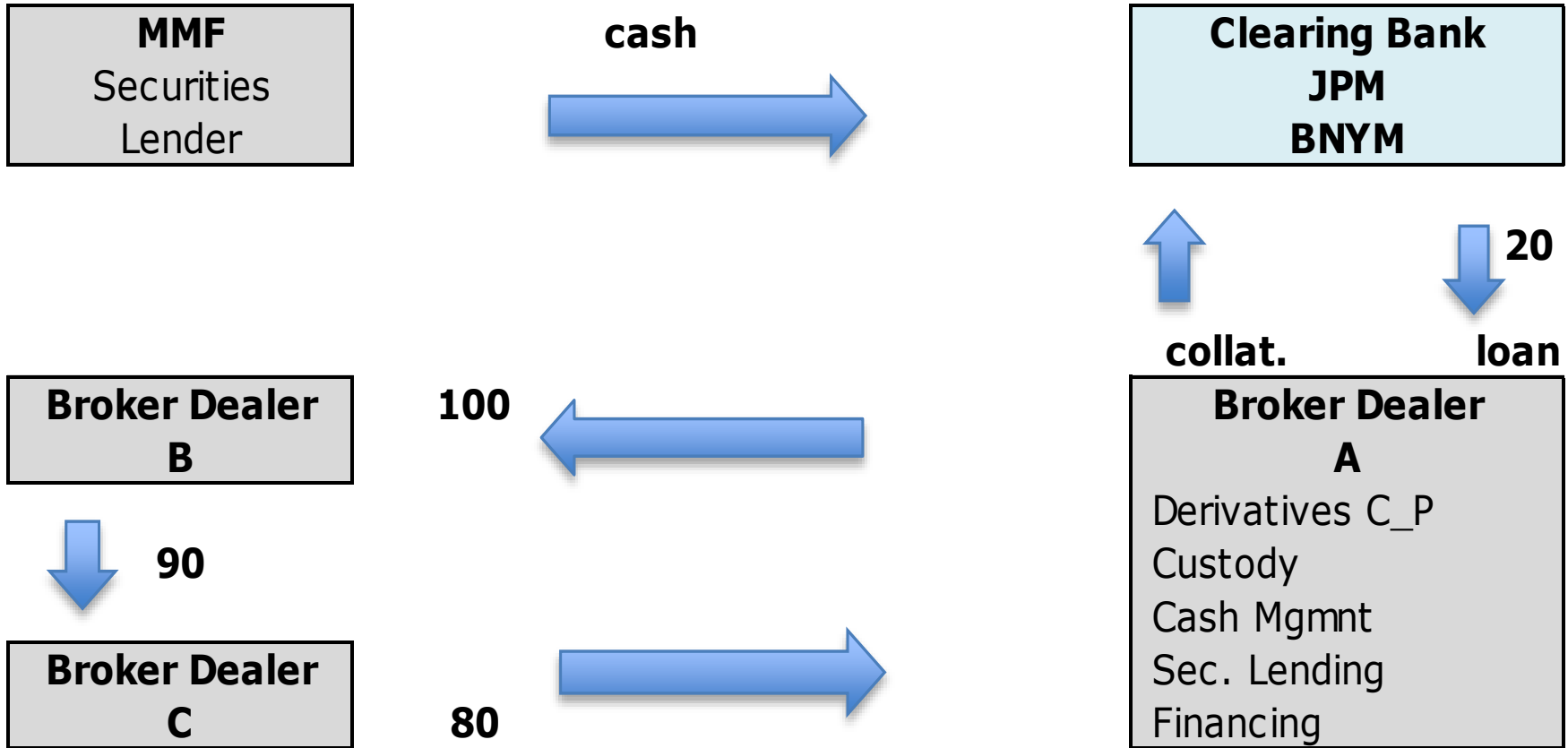


The Gross Credit Exposure (GMV-Netting) of Derivatives & Collateral



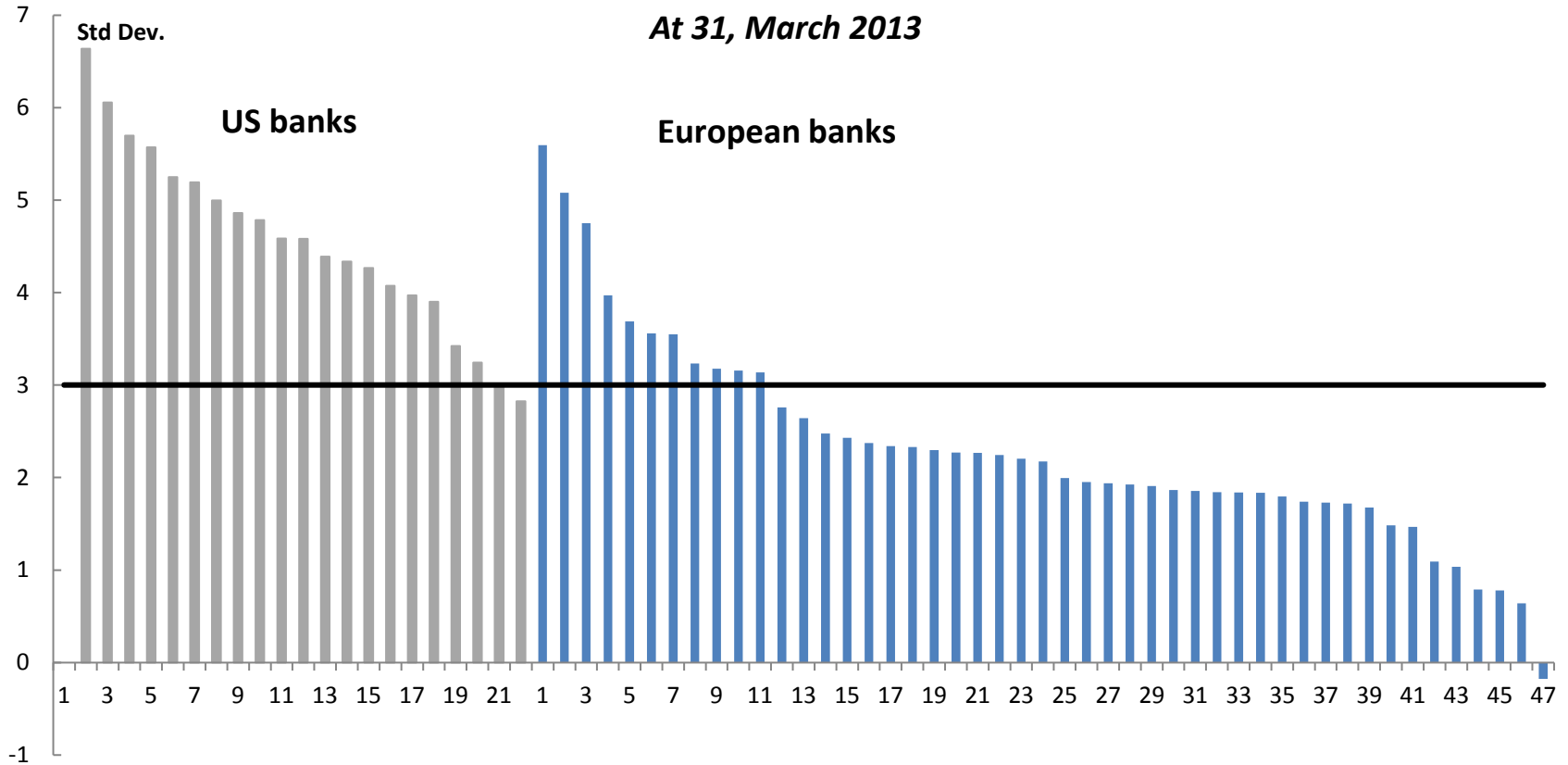


Collateral & Margin Calls





Distance-to-Default in 2012: US versus Europe





Determinants of Bank Distance to Default: Multi-variate Panel Results

	All banks		G-SIFIs banks		Other large banks	
Constant, α	9.20 *** (18.09)	8.28 *** (13.12)	11.82 *** (8.98)	11.46 *** (8.62)	8.52 *** (16.19)	7.46 *** (10.48)
TA : Bank TA/Ntl. Bank Assets	-3.30 *** (-2.67)	-3.88 *** (-2.74)	-1.77 (-1.12)	-2.36 (-1.30)	-6.70 *** (-2.92)	-6.63 *** (-2.54)
LEV: TA/Bank Equity	-0.04 *** (-3.09)	-	-0.03 *** (-2.73)	-	-0.06 *** (-2.81)	-
T1: Basel Tier 1 Ratio	-	1.31 (0.57)	-	1.24 (0.24)	-	1.57 (1.14)
TD: Trading Book plus Available for Sale Securities/TA	2.33 ** (2.26)	1.94 * (1.79)	3.91 ** (2.07)	3.73 ** (1.98)	1.15 (0.97)	0.52 (0.37)
WFD: Wholesale Funding/Total Liabilities	-2.50 *** (-2.89)	-1.39 (-1.39)	-6.32 *** (-3.85)	-5.49 *** (-3.29)	-1.70 (-1.54)	-0.72 (-0.57)
GMV: GMV of Derivatives/TA	-5.31 *** (-4.09)	-8.22 *** (-5.73)	-6.23 *** (-3.78)	-8.47 *** (-4.61)	-1.67 (-0.67)	-5.33 (-1.58)
BETA: CoVar Bank Stock Ret. with Ntl. Mkt Ret./Var. Mkt	-2.35 *** (-12.24)	-2.73 *** (-12.48)	-2.79 *** (-10.46)	-3.54 *** (-11.49)	-2.16 *** (-9.21)	-2.05 *** (-8.73)
%HPI: House Price Index ann. % change	13.14 *** (11.42)	16.81 *** (16.12)	14.14 *** (7.96)	16.58 *** (8.90)	13.37 *** (8.98)	13.91 *** (10.20)
R2	0.74	0.72	0.79	0.77	0.72	0.72
Fisher Statistic	16.76	14.98	20.38	17.78	14.27	14.15
P-Value F	0.00	0.00	0.00	0.00	0.00	0.00
Total Observations	728	690	223	205	505	485
VECM 1 Year lagged residual (Engel & Granger test)	-0.89 *** (-21.20)	-0.84 *** (-19.81)	-0.90 *** (-12.14)	-0.87 *** (-10.83)	-0.94 *** (-18.02)	-0.92 *** (-17.18)



The Capital Needs of Banks and Regional Breakdown

	\$ billion					
	2007	2008	2009	2010	2011	2012
	Type of bank					
Global						
Core Tier 1 Cap.	1,222	1,144	1,621	1,708	1,831	1,960
Add. Cap. Req. For DTD 3.0	14	2,225	4,560	363	616	314
G-SIFIs						
Core Tier 1 Cap.	820	741	1,138	1,191	1,230	1,335
Add. Cap. Req. For DTD 3.0	7	1,624	3,611	250	449	203
Non G-SIFIs						
Core Tier 1 Cap.	402	403	483	516	601	624
Add. Cap. Req. For DTD 3.0	7	602	949	113	166	111
	Domicile of bank					
United States						
Core Tier 1 Cap.	331	329	530	577	634	702
Add. Cap. Req. For DTD 3.0	5	1285	2473	32	176	17
United Kingdom						
Core Tier 1 Cap.	215	211	348	354	352	363
Add. Cap. Req. For DTD 3.0	3	252	1075	79	80	53
Europe						
Core Tier 1 Cap.	675	604	743	777	845	894
Add. Cap. Req. For DTD 3.0	6	689	1013	252	359	245

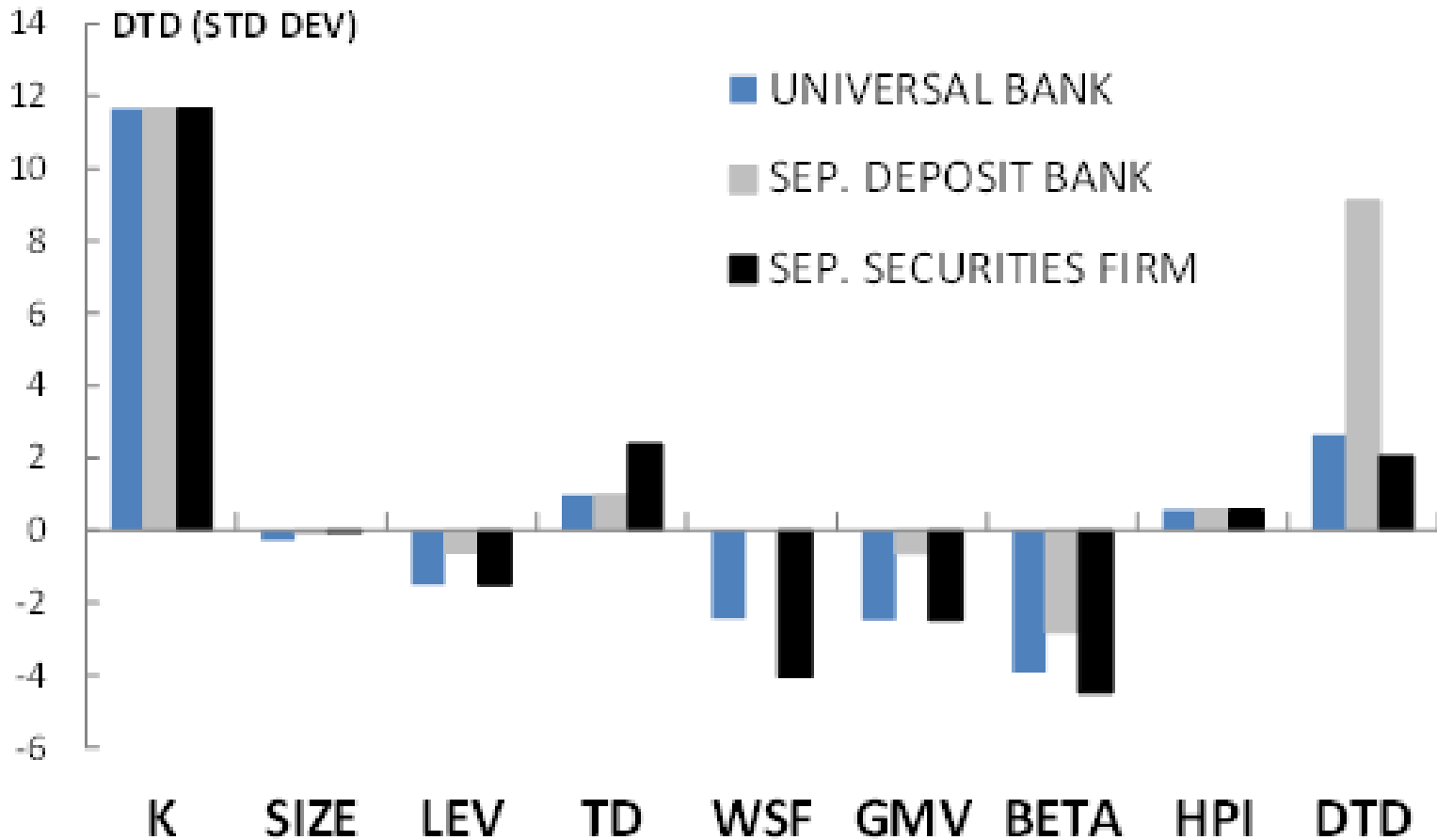


Separation of Universal Bank into Core Deposit Bank & Securities Firm

Hypothetical Large Universal Bank and NOHC Separated Bank with 5% Leverage Ratio						
	Universal Bank Before Separation		Separated Deposit Bank		Separated Securities Subsidiary	
ASSET RATIOS	€ bn	Ratio TA	€ bn	Ratio TA	€ bn	Ratio TA
Trading Assets	625	0.25	200	0.25	300	0.60
Loans	375	0.15	375	0.47	0	0.00
Derivative Assets (IFRS)	1000	0.40	80	0.10	200	0.40
Other Assets	500	0.20	145	0.18	0	0.00
LIABILITY RATIOS	€ bn	Ratio TL	€ bn	Ratio TL	€ bn	Ratio TL
Deposits/Liabilities	735	0.3	735	0.98	0	0
Wholesale Funding/Liabilities	980	0.40	0	0.00	325	0.67
Other Liabilities/Liabilities	735	0.30	15	0.02	162.5	0.33
CAPITAL INDICATORS	€ bn	%	€ bn	%	€ bn	%
Core T1 Capital	50	2	40	5.0	10	2
Tier 1	62.5	2.5	50	6.3	12.5	2.5
RWA/TA %		31.3		78.1		31.3
T1/RWA %		8		8.0		8
MEMO:		(see row)		(see row)		(see row)
Market Beta (elasticity to market stock price)		1.4		1.0		1.6
National HPI % Change		4		4.0		4
Leverage to Core T1 (Ratio)		50		20		50
Size as % National Banking System %		15		5.2		3.2



DTD: Impact on NOHC Subsidiaries versus the Universal Bank





Countrywide Financial Changing Business Model

