
Regaining Foreign Investor Confidence The Next Steps

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Introduction

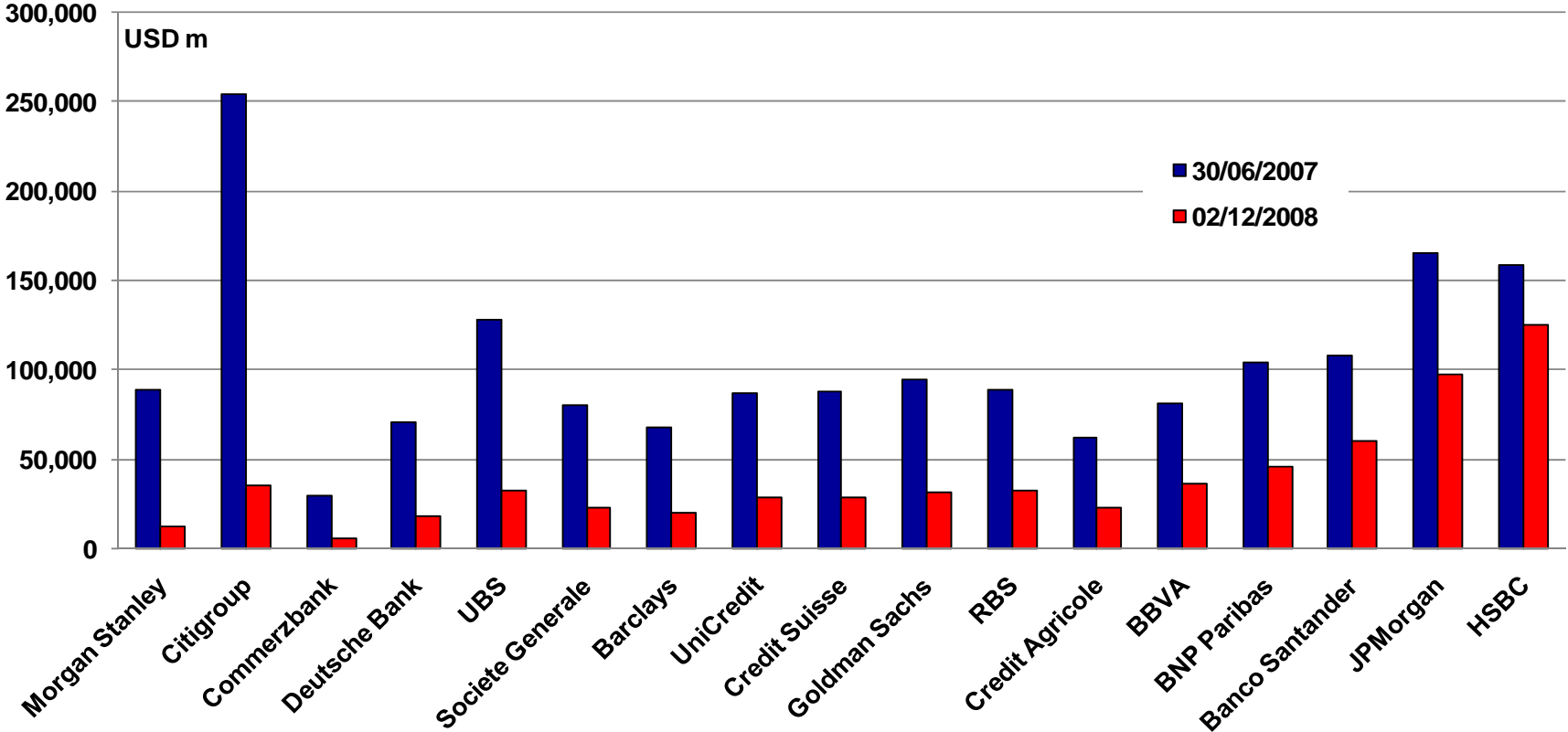
- **We focus on the banking and financial sector as this is where it began but most fundamentally because of the global impact, the systemic risks inherent in our financial system and the extreme shocks to-date – *are we through the worst or is there more to come?***
- **Confidence is fragile and trust has evaporated. Who or what will rebuild this – *the markets, Governments, regulators, you, me?***

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Market Capitalisation: Major Banks (1)

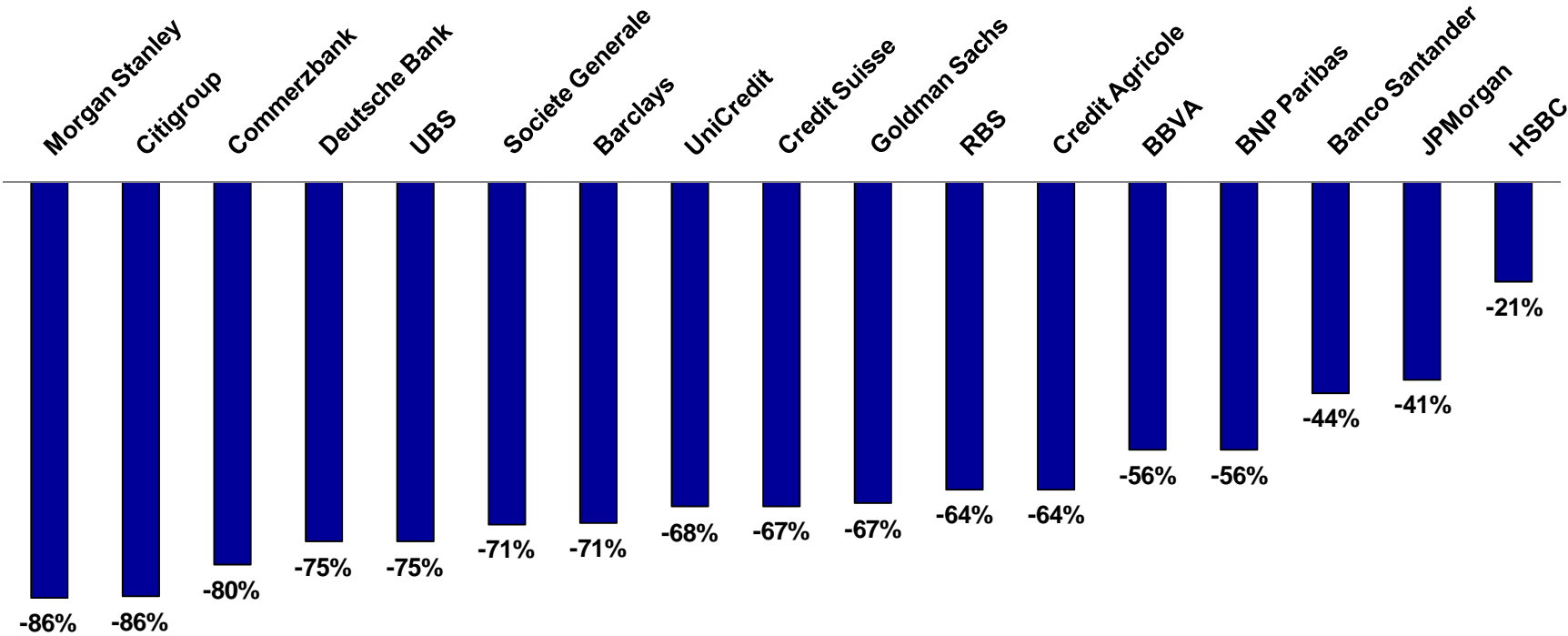
- Confidence in our banks has evaporated



Source: Bloomberg

Market Capitalisation: Major Banks (2)

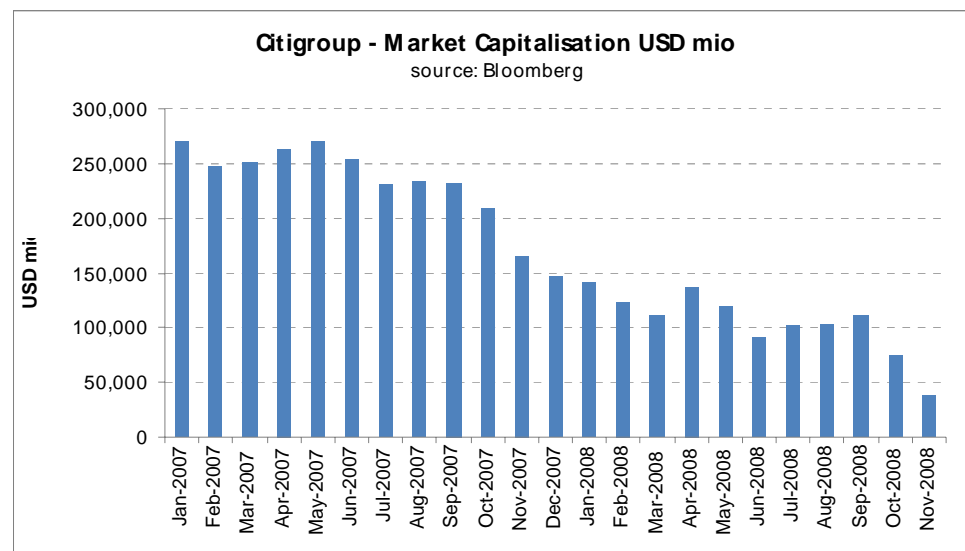
▪ Market values have decreased by 21% to 86% from 30/06/2007 to 02/12/2008



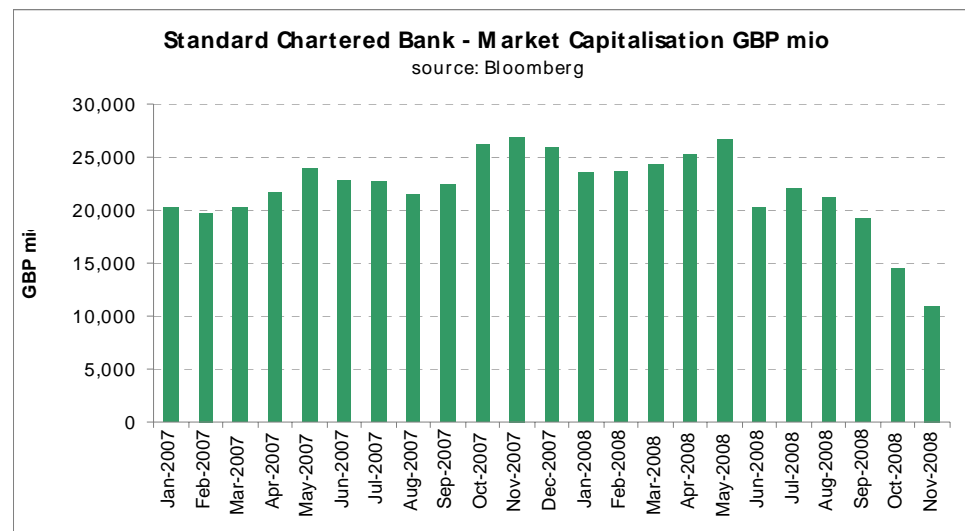
Source: Bloomberg

A Tale of Two Banks

- The fall of the Citi ...**
... too big to fail but at what price to the US taxpayer and to you and me

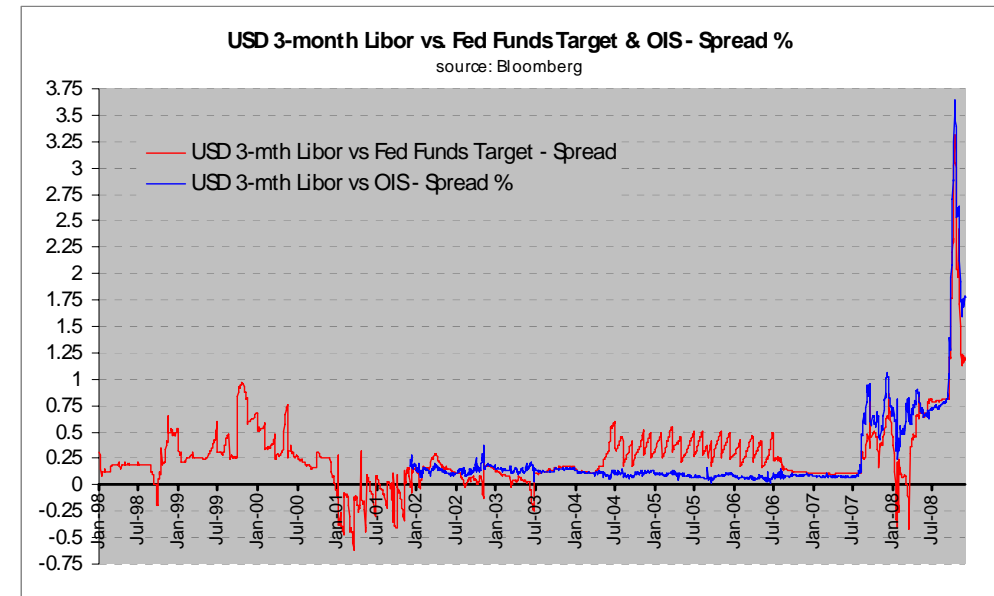


- StanChart ...**
... down 50% even with relatively low exposure to structured credit



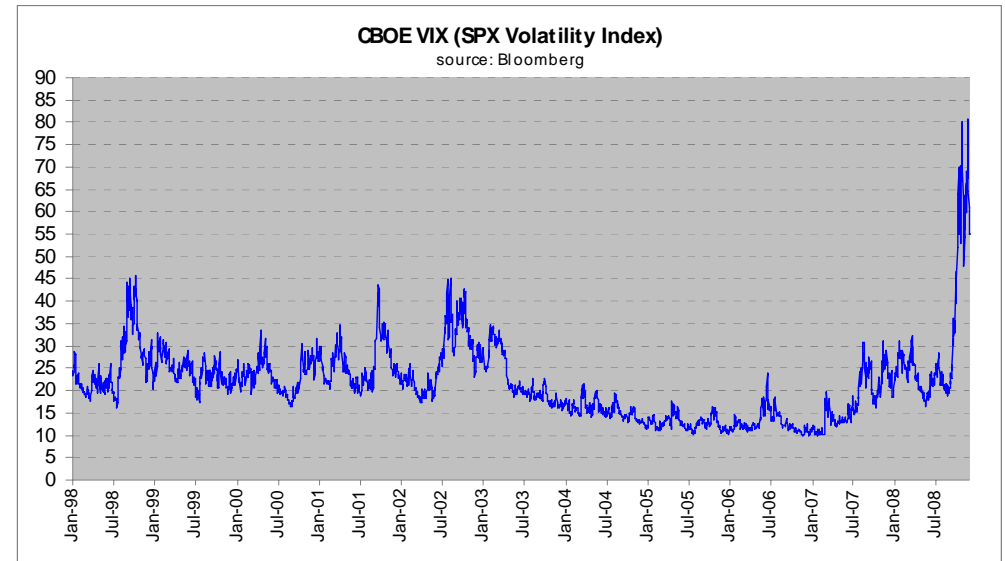
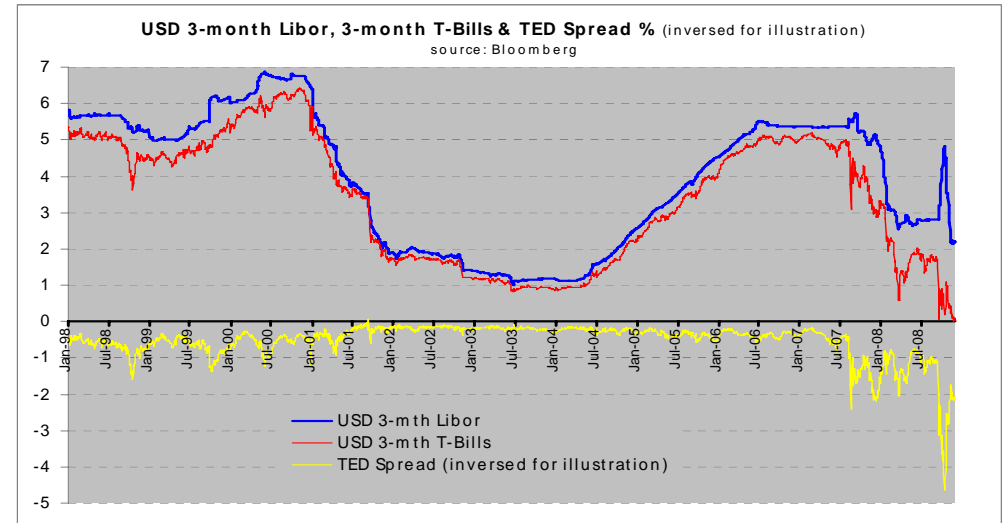
Credit

- **Very tight credit markets will persist**
 - **Inter-bank market: some easing following extraordinary spikes**
 - **Decimation of securitisation**
 - **Credit rating agencies discredited**
 - **Capital structure and adequacy: shoring up of balance sheets before the recession**
 - **Monoline incapacitation**



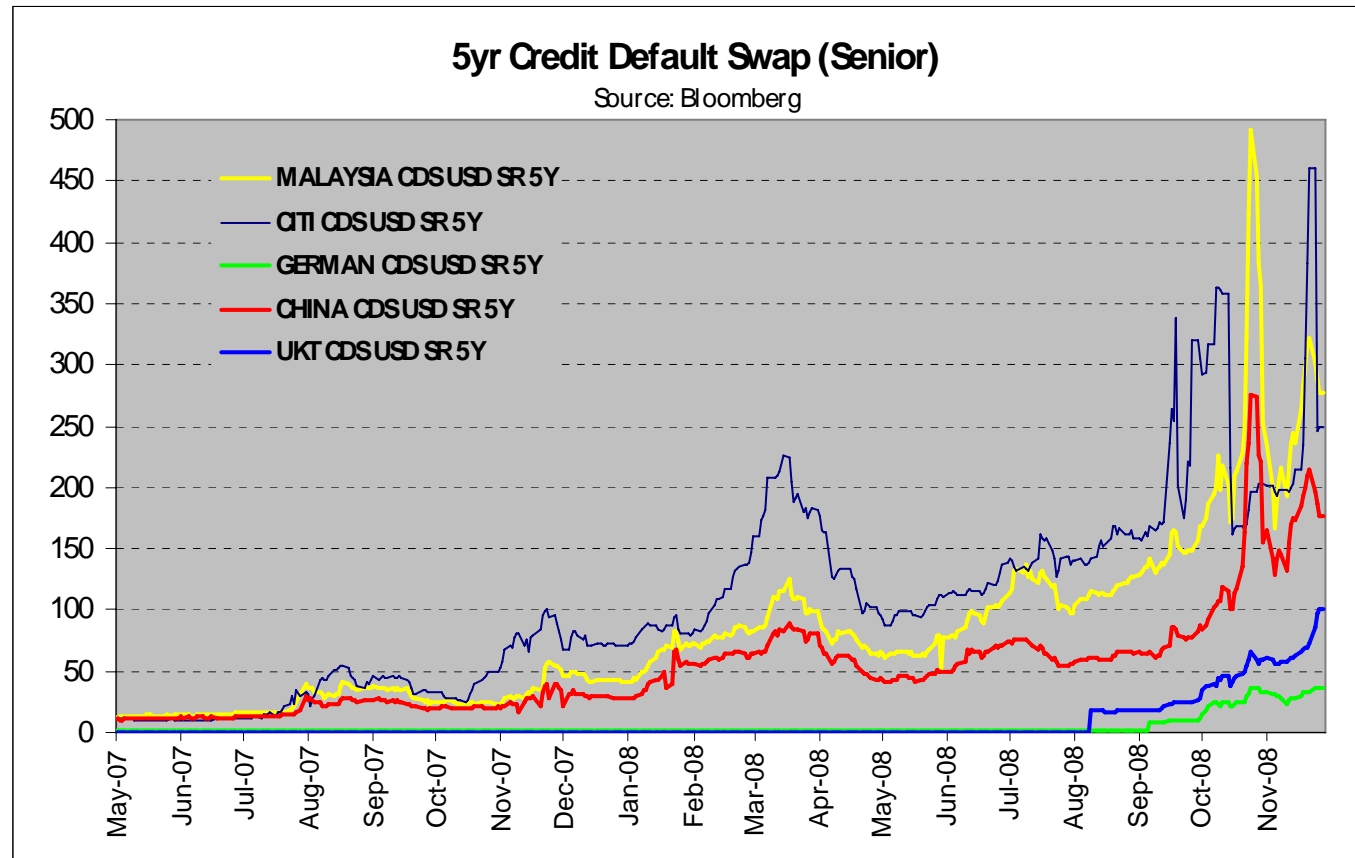
Risk (1)

- Risk appetite has been drastically reduced
 - Flight to quality: what is quality from a credit market and equity standpoint today
 - Impact on emerging market securities (different from Asian crisis)
 - Financial crisis preceding recession
 - Debt complexity
 - Counterparty risk



Risk (2)

- The pricing of risk today

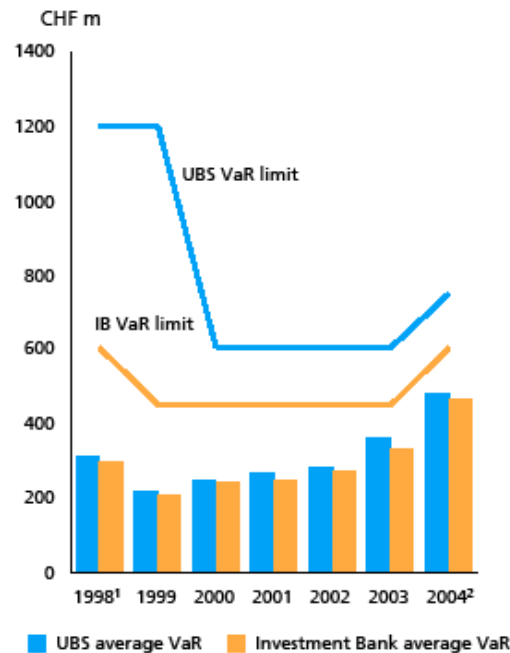


Risk (3)

- UBS in 2004

Risk appetite: how much risk do we wish to take?

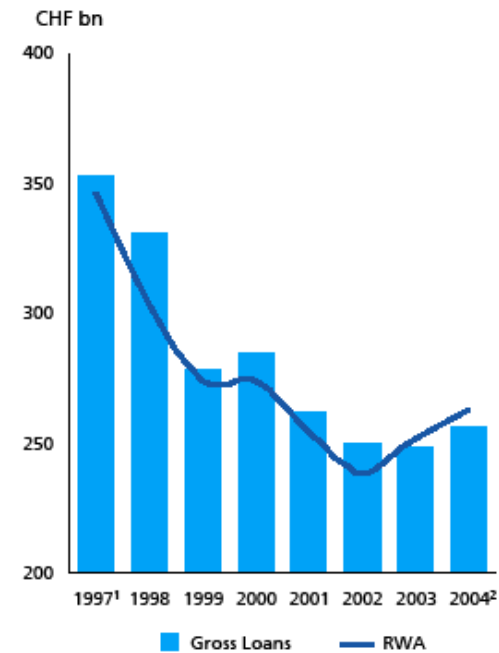
Market risk



¹For six months ending 31.12.98 ²As at 31.03.04



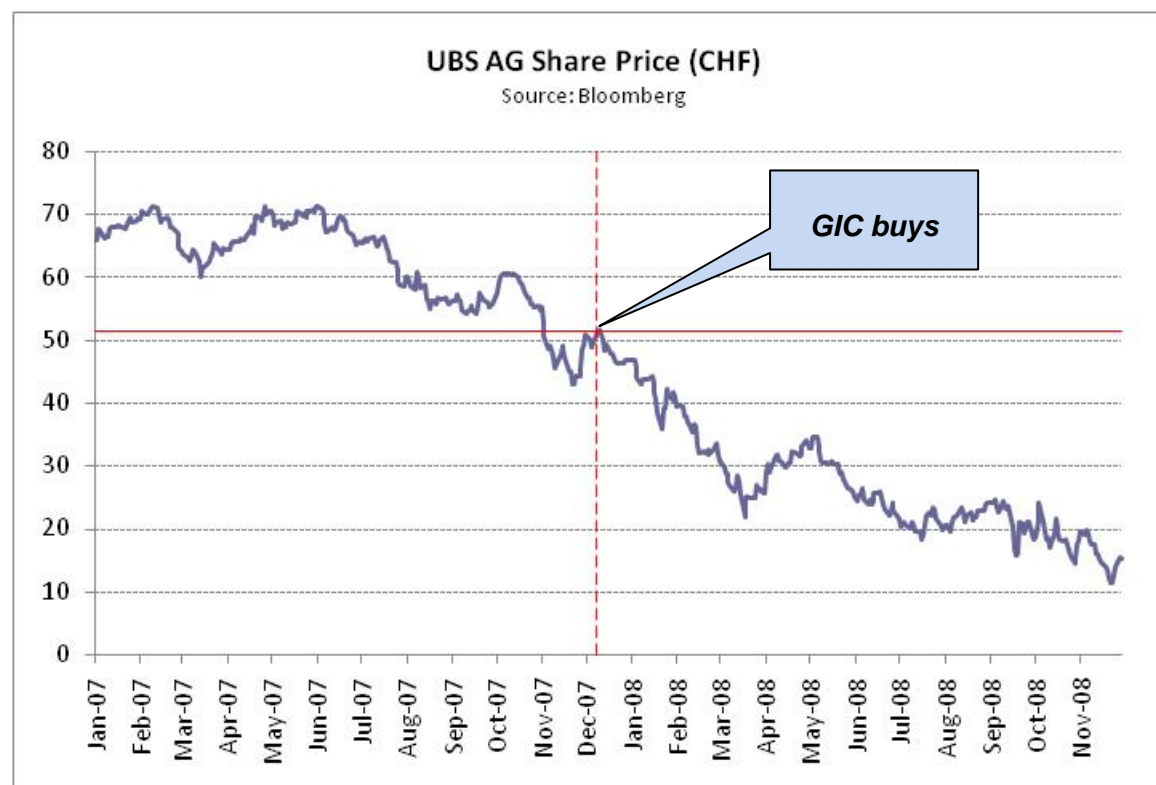
Credit risk



¹Pre-merger, combined UBS and SBC ²As at 31.03.04

Cross-border Investment

- **Cross-border strategic and SWF interest**
 - *Round 1: Summer/Autumn 2007* – HoldCo investment, eg GIC into UBS, Merrill Lynch
 - *Round 2: Meaningful well-priced transactions involving subsidiaries and operations*



Policy and Regulation

- **Knee-jerk reactions generally**
 - Total nationalisation: Northern Rock
 - Partial nationalization: RBS
 - Financial support: ING
 - Acquisition of structured credit portfolios: Fortis, UBS
 - No action: Lehman (the market shall decide)

- **Regulators remain behind the curve**

- **IMF role: Hungary and Iceland to-date**

- **BIS: Nothing new. Theoretical framework questioned**

Restoring Confidence (1)

- **Investor and public relations**
 - **Poor initial delivery from US Treasury. Firm commitments and guarantees, forget economic and financial management theory – the condition is too complex to unravel immediately**
 - **Scope for back-tracking**

- **Swift, decisive action to stabilise – advanced scenario planning but understand the causes**

- **Engage neutral parties**

- **Beware the acquisition of structured credit**

Restoring Confidence (2)

- **Addressing systemic risk**
 - **Immediate measures to release liquidity**
 - Liquidity guarantee (temporary measure)
 - Injecting equity
 - CP facility
 - **Short – Medium term**
 - Asset purchases but beware
 - **Medium term**
 - Transparency and valuation
 - Tightening regulation in certain areas and new regulation
 - Risk monitoring and management

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