

How to gain from the pain

Post credit crisis opportunities for Holland Financial Centre

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Agenda

- **The landscape after one year HFC**
- **What happened?**
- **Where to go from here?**

Significant events in Dutch financial landscape

- **Carving-up of ABN AMRO by consortium members**
- **RBS Netherlands new entrant in Dutch wholesale market**
- **Carving-up and nationalization of Dutch assets Fortis Group**
 - Business Unit Netherlands ABN AMRO
 - Business Unit Private Banking (globally) ABN AMRO
 - Fortis Insurance
 - Fortis Corporate Insurance
 - Fortis Bank Nederland (Holding) NV
- **State aid for ING Group, AEGON**
- **Postponed decision on EU remedy sale of parts of AAB to Deutsche Bank**

} via RFS Holding BV

Similar developments abroad

- **Significant change in US among bulge bracket**

- JP Morgan acquired Bear Stearns
- Bank of America acquired Merrill Lynch
- Lehman Brothers failed
- Freddie Mac and Fannie Mae recapitalized
- Morgan Stanley and Goldman Sachs recapped and turning into FED regulated deposit takers
- AIG nationalized
- Etcetera

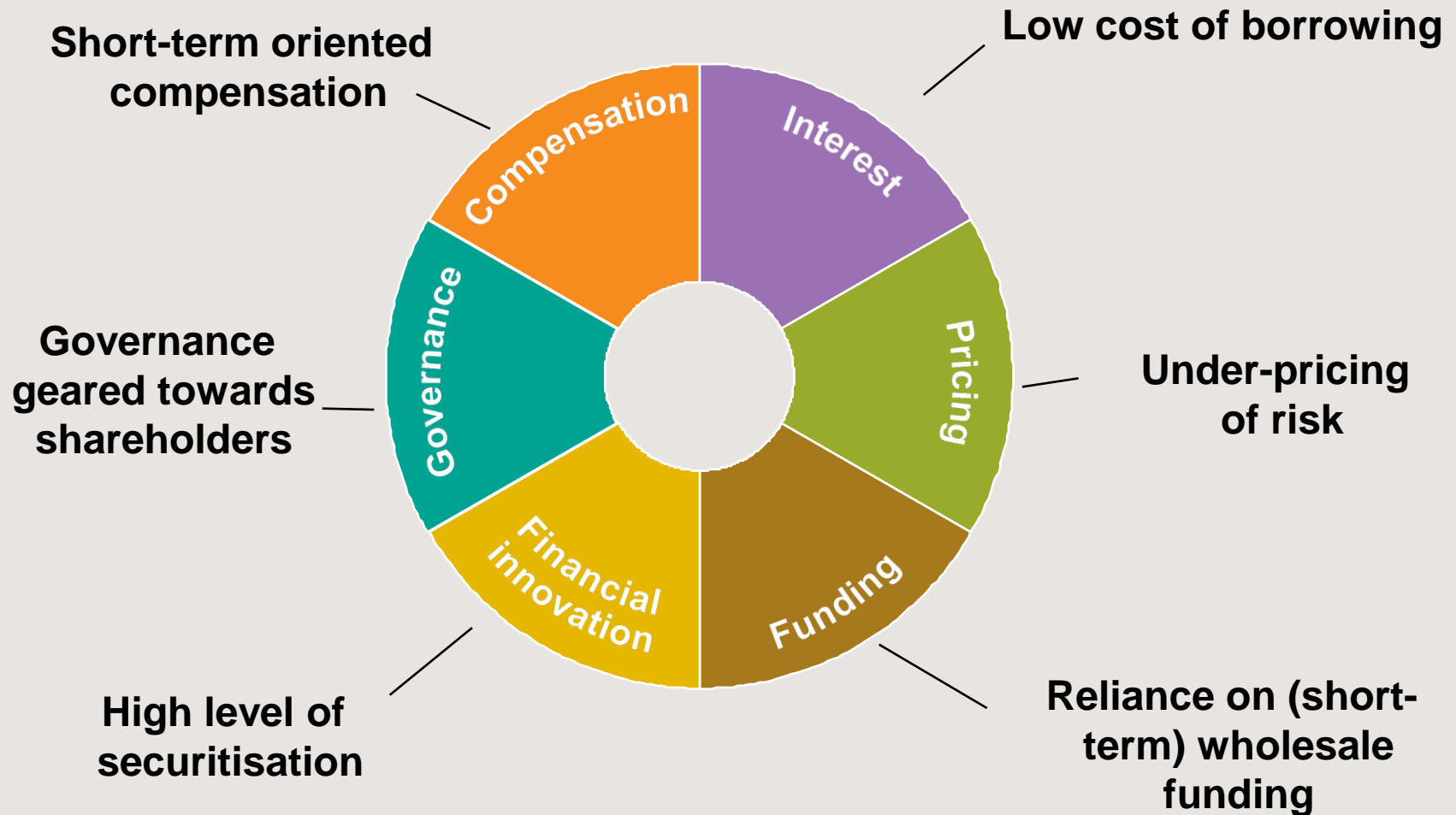
- **and as well in Europe**

- Merger Lloyds TSB & HBOS, accepting state supported recapitalization
- RBS recapitalized
- Northern Rock nationalized
- Deutsche Real Estate on financial life line from German government
- UniCredito recapitalized by Italian government
- KBC and Dexia recapitalized by Belgian & French governments
- France ??

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The six causes of over-gearing the economy

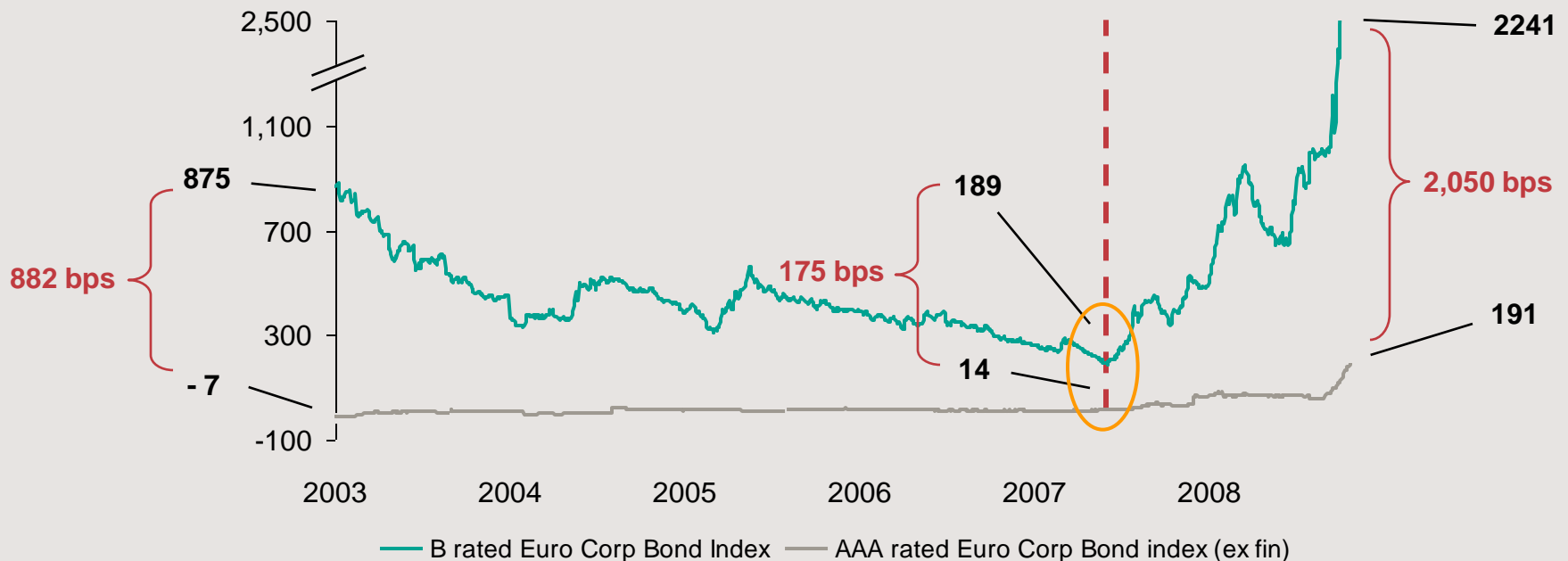


Most significant factor: cheap money

We all benefitted from historically low credit spreads until July 2007

- Too low interest rates have resulted in ever declining spreads on corporate debt
- Low rates combined with low risk premium caused leverage to rise significantly
- The impact of the credit crisis is essentially a spread widening we have never witnessed before
- Resulting in a serious de-leveraging of balance sheets

Significant decrease in credit spreads in the years 2003 – 2007



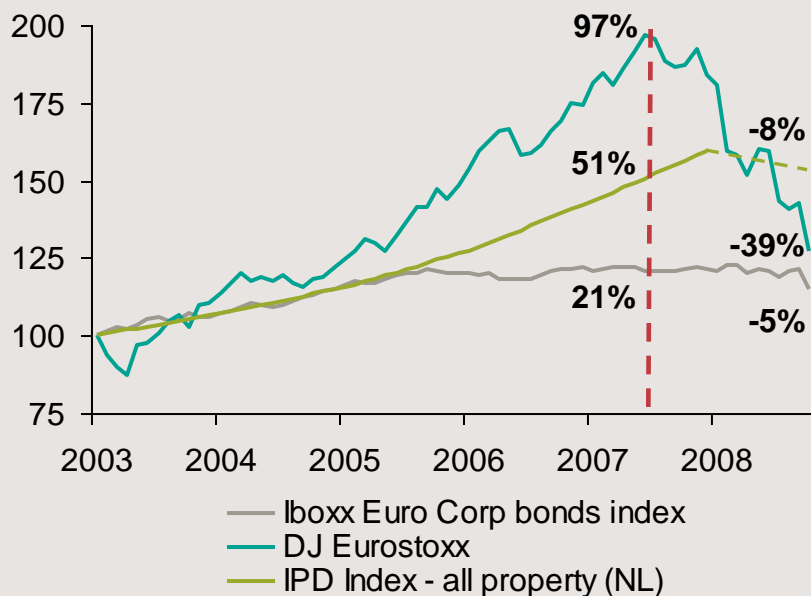
Source: Datastream

Resulting in inflating asset prices

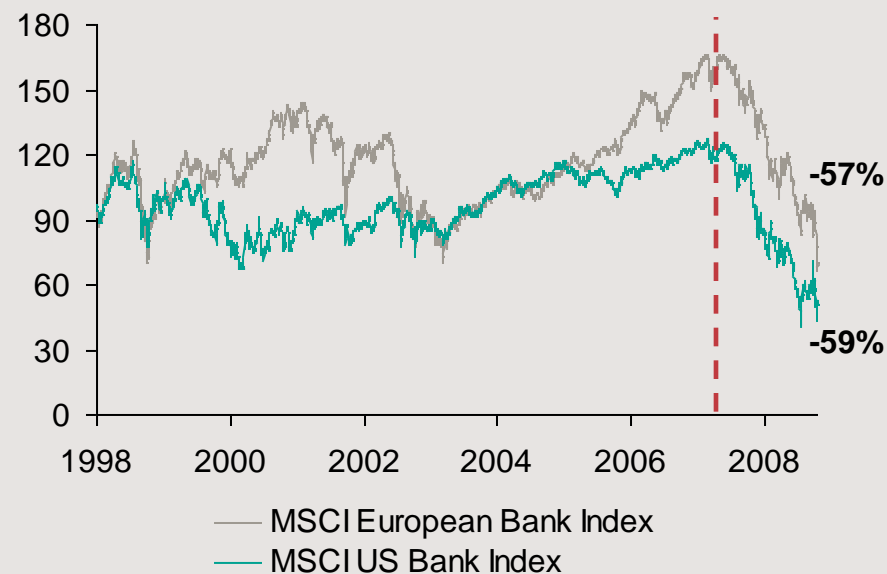
Significant asset outperformance from 2003 to 2007

- Post the internet bubble, equities staged a formidable recovery
- During this period, valuations underpinned by share buybacks and PtP's / M&A activity
- Post Q2 2007, shares, real estate and corporate debt start their steep decline

Returns of different asset classes between 2003 and June 2007 (indexed)



Banking stocks: pricing in dilution



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Mission statement of HFC

The main purpose of the Holland Financial Centre is to develop initiatives to help ensure the Dutch financial sector remains:

- strong,**
- open and**
- able to compete internationally**

So, where to start...

The world of banking will change dramatically

The new “old” world:

- **Banking will shrink globally as financial institutions as counterparties cease to exist**
- **Less off balance sheet banking (buy & hold vs. capital velocity)**
- **Tightening of risk standards & risk premiums (fewer deals)**
- **Less dependency on wholesale funding (smaller balance sheets)**
- **Reduced incentive compensation and based on medium term performance**
- **Exchange trading will grow at the expense of OTC markets (central clearing)**
- **Complete & drastic overhaul of regulatory framework, including IFRS accounting**
- **Separation of lending banks and investment banks ?**

Against that background: re-configuring the dutch landscape

- **With the arrival of significant State influence (almost everywhere):**

- Will governments pursue maximization of shareholder value ?
- Will they use their influence to create a strong domestic financial sector ?
- Or can both goals be obtained simultaneously ?
- Two tier system: privately versus semi publicly owned institutions
- How actively should the State be involved in running financial institutions ?
- How is Europe approaching the very same questions ?

Food for thought

- A financial centre starts with strong domestic players in every sector
- Headoffices are more relevant than (big) subsidiaries
- Government and business need active and open dialogue
- Move in tandem with other Europe, no medals for finishing first
- Overhaul of regulatory framework, including asset management industry



...RELAX, MY BROKER
SAYS THE ECONOMY
WILL BOUNCE BACK...

... I AM
YOUR BROKER!..

WALL
ST

WORK
FOR
FOOD

MATT HANTZELMAN
New York Daily News

Thank You