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ALM

A year in the life of a medium sized UK Bank

4 June 2010, Paris

United Kingdom



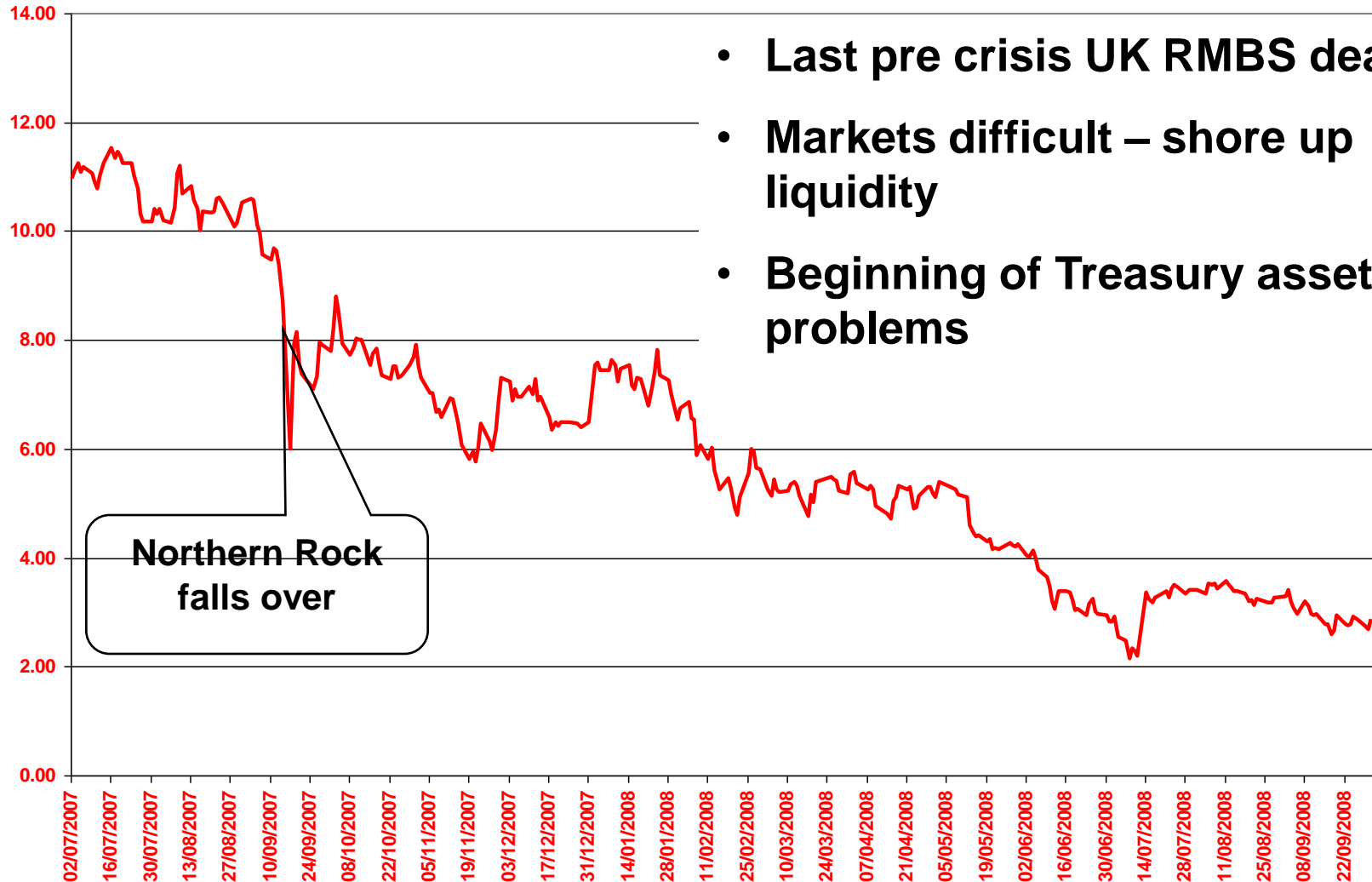
Agenda

1. **About Alliance & Leicester**
2. **Bastille Day 2007 – 13 September**
3. **September – Christmas**
4. **Christmas – May Day**
5. **May Day – Bastille Day 2008**
6. **Is this a wholesale run?**
7. **Conclusions**

About Alliance & Leicester

- **Former Building Society – converted to a bank in 1997**
- **Full Service Proposition to Personal and Corporate Markets**
- **Approx £75bn balance sheet**
- **7th largest bank in the UK**
- **Over 50% wholesale funded**
- **Focus on very high asset quality**

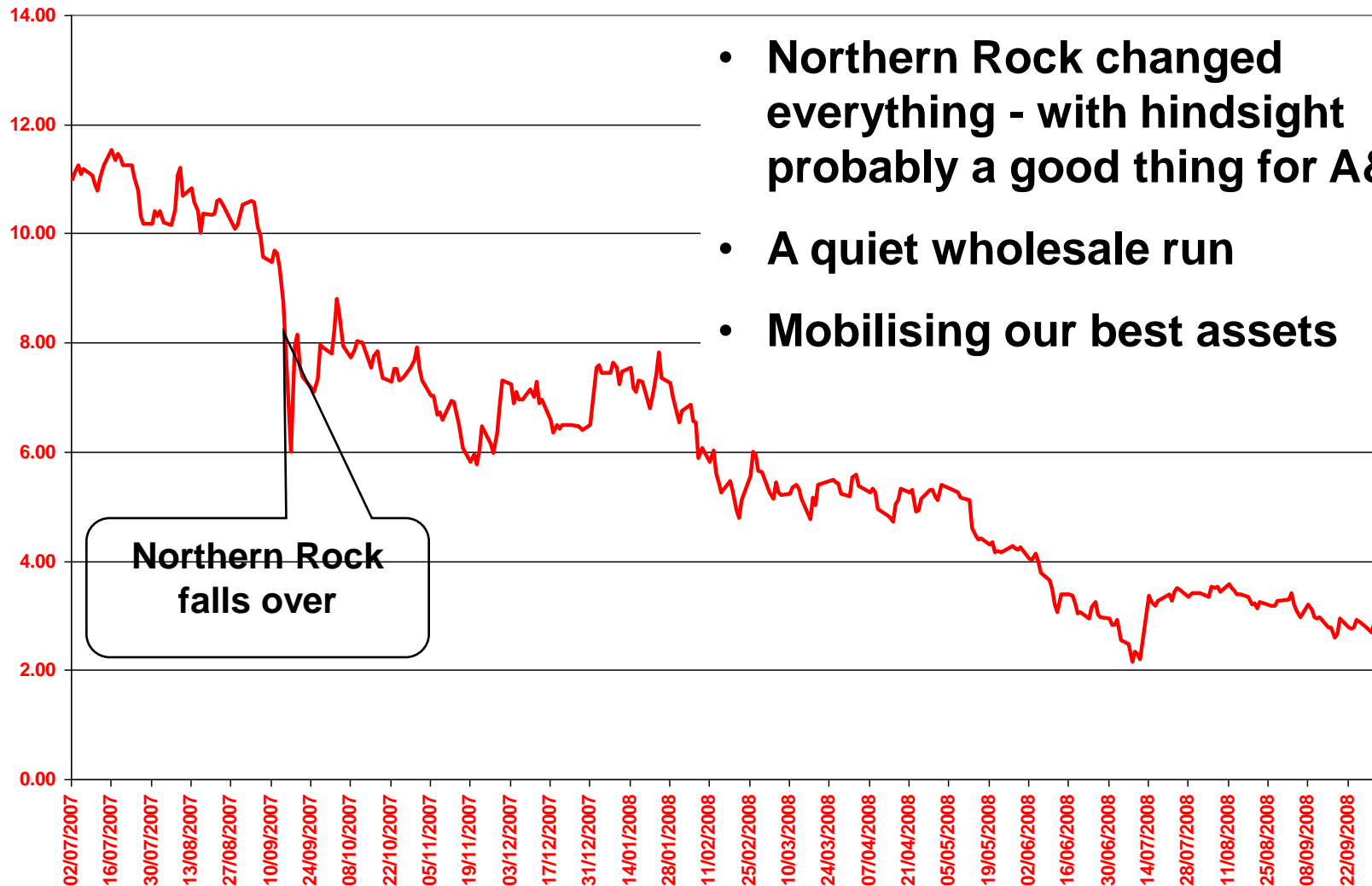
Bastille Day – Northern Rock



- Last pre crisis UK RMBS deal
- Markets difficult – shore up liquidity
- Beginning of Treasury asset problems

**Northern Rock
falls over**

Northern Rock – Christmas



- Northern Rock changed everything - with hindsight probably a good thing for A&L!
- A quiet wholesale run
- Mobilising our best assets

This was the public one

Alliance & Leicester gets £4bn cash boost from Swiss bank

► Shares soar on news of two-year loan deal

► B&B assurance helps allay credit market fears

Miles Costello

The embattled mortgage lender Alliance & Leicester (A&L) turned to the Swiss banking giant Credit Suisse yesterday for a £4 billion cash injection.

The arrival of the loan helped to temper an unexpected profits warning from Britain's seventh largest bank and sent a wave of relief through the stock market. Shares in A&L shot up as much as 15 per cent on news of the loan, despite the bank giving warning that operating profits for the full year would come in below the £589 million pencilled in by analysts.

The bank, led since July by David Bennett, also took a far lower write-down on credit investments than the market had feared.

A&L will take a £55 million pre-tax loss on its exposure to credit markets, made up of a £40 million charge on the value of structured investment vehicles (SIVs) and a further £15 million hit on other securities, including collateralised debt obligations. It further wrote down the market value of other Treasury Investments by £101 million, although that is not recorded as a loss.

A&L shares were further boosted by speculation that Banco Santander of Spain was lining up a potential bid for the bank. They closed 8.4 per cent higher at 589p.

Mr Bennett said the loan meant the bank was now fully funded "comfortably" into next year. However, analysts at Citigroup described the losses as significant and questioned the terms of the loan. The credit from the Swiss bank lasts for two years and pays a commercial interest rate above Libor, the rate London-based banks charge to lend to each other. Its precise terms are not known.

Credit Suisse arranged and fully underwrote A&L's loan, which is secured on a portfolio of the bank's prime mortgages, all rated triple-A for investment purposes. While the Swiss



bank is currently bearing a large portion of the loan's risk itself, it is understood to have several informal commitments from other European banks to take part in a syndication.

A&L has borrowed from other banks but it is understood that the Credit Suisse deal is by far the largest.

Sources in the lending market said the two-year maturity of the loan was significant as banks have been unwilling to lend for this long in the current climate. They claimed the loan should

give confidence to investors worried about funding problems for UK banks. "This stops the rot," one said.

With a 3.6 per cent share of the UK mortgage market, A&L lent £9.8 billion to homebuyers over the first nine months of the year, including £290 million of buy-to-let lending. Customer deposits stood at £23.4 billion as at the end of October, A&L said.

A&L said net interest margins, a key measure of banks' profitability, would slip next year as economic growth

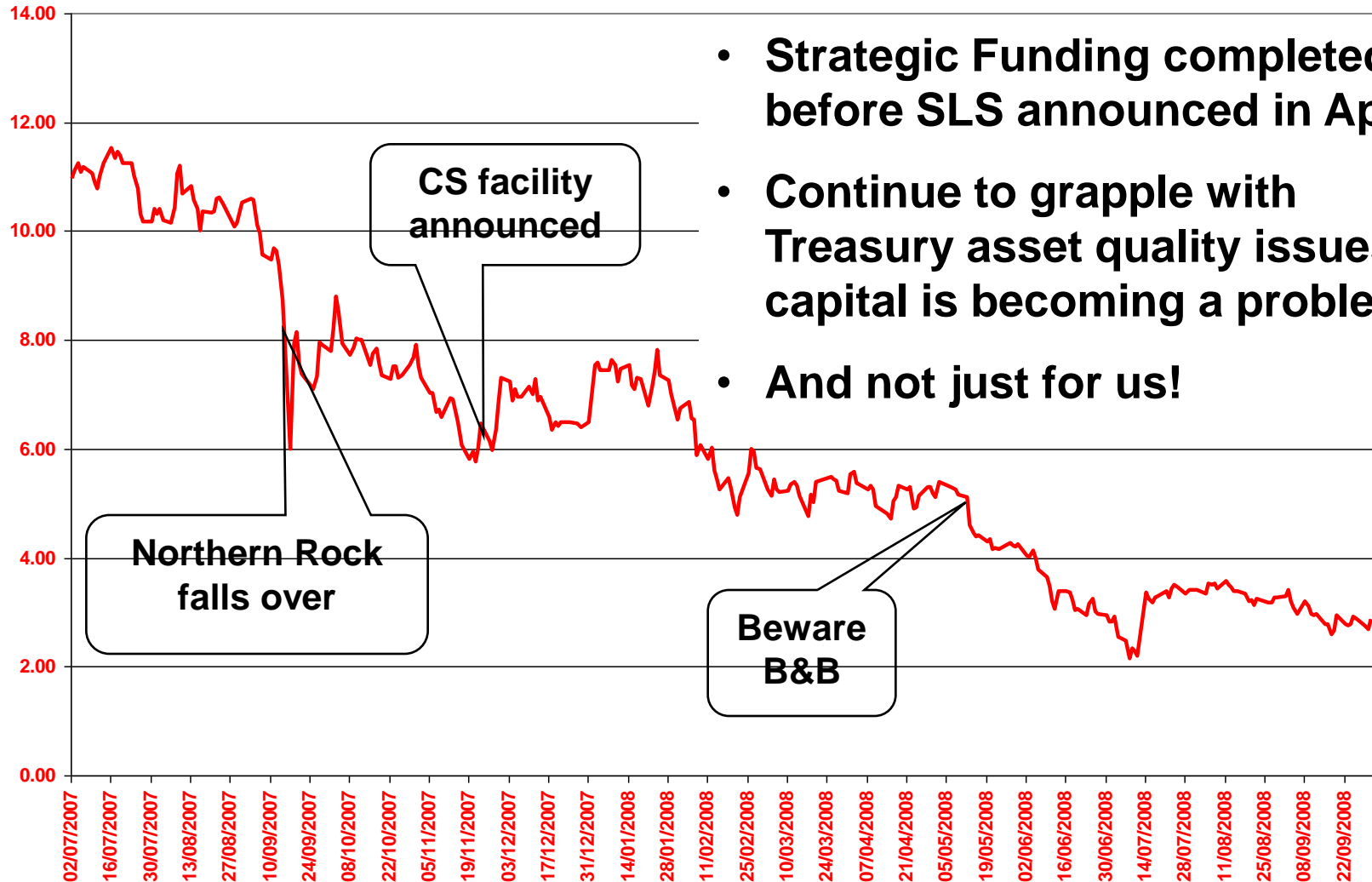
slows and the UK mortgage market shrinks. Annual revenues will come in flat at about £1.5 billion.

Together with an upbeat assurance from Bradford & Bingley, the specialist buy-to-let mortgage lender, that full year profits would meet analysts' targets of about £356 million, the soothing noises allayed some of the credit fears that had seen both banks' shares fall 40 per cent so far this year. B&B shares initially gained more than 5 per cent, but closed 1½p lower at 30½p.

It was worth £1.50 on the share price

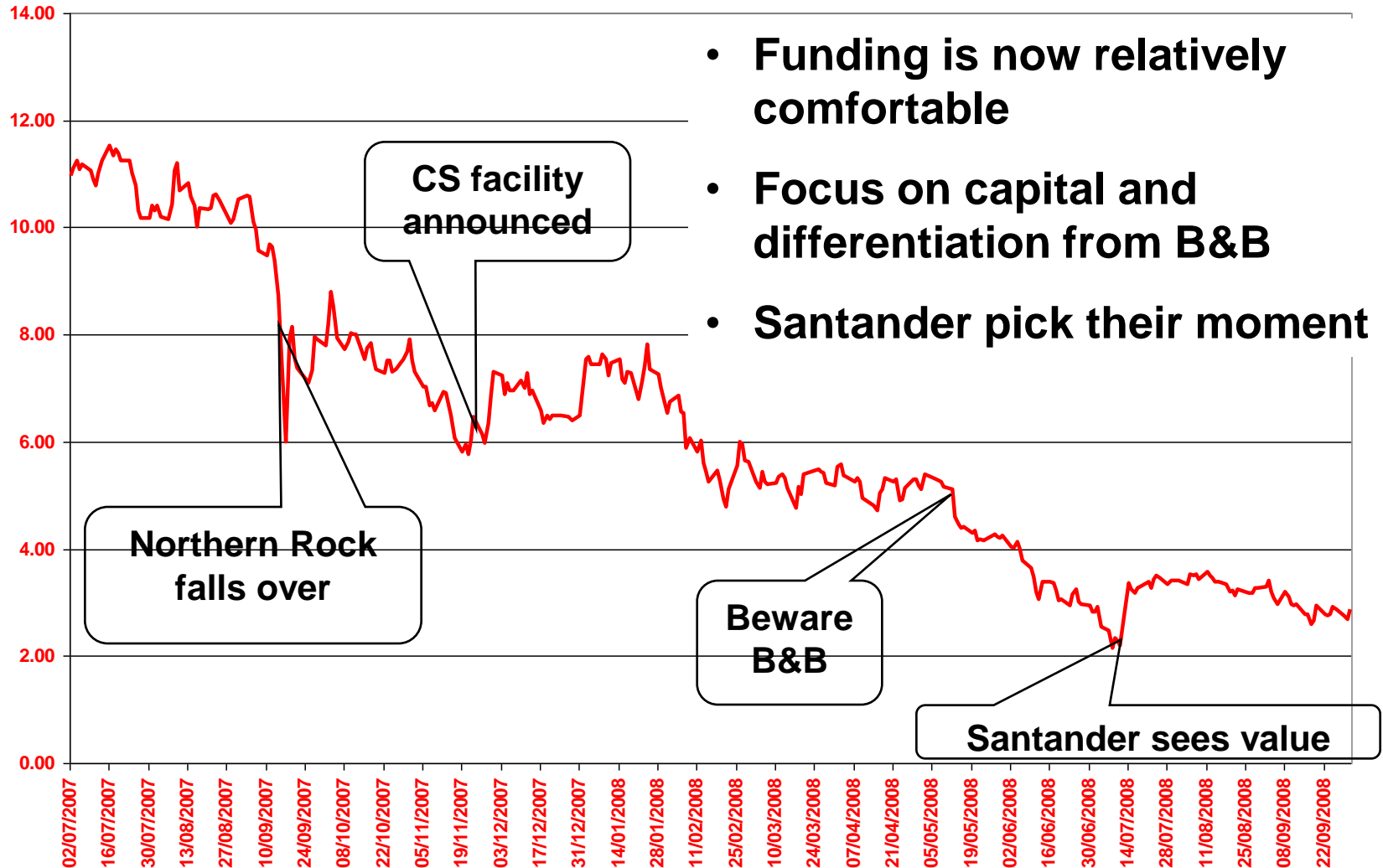
There were a few others too....

Christmas to May Day



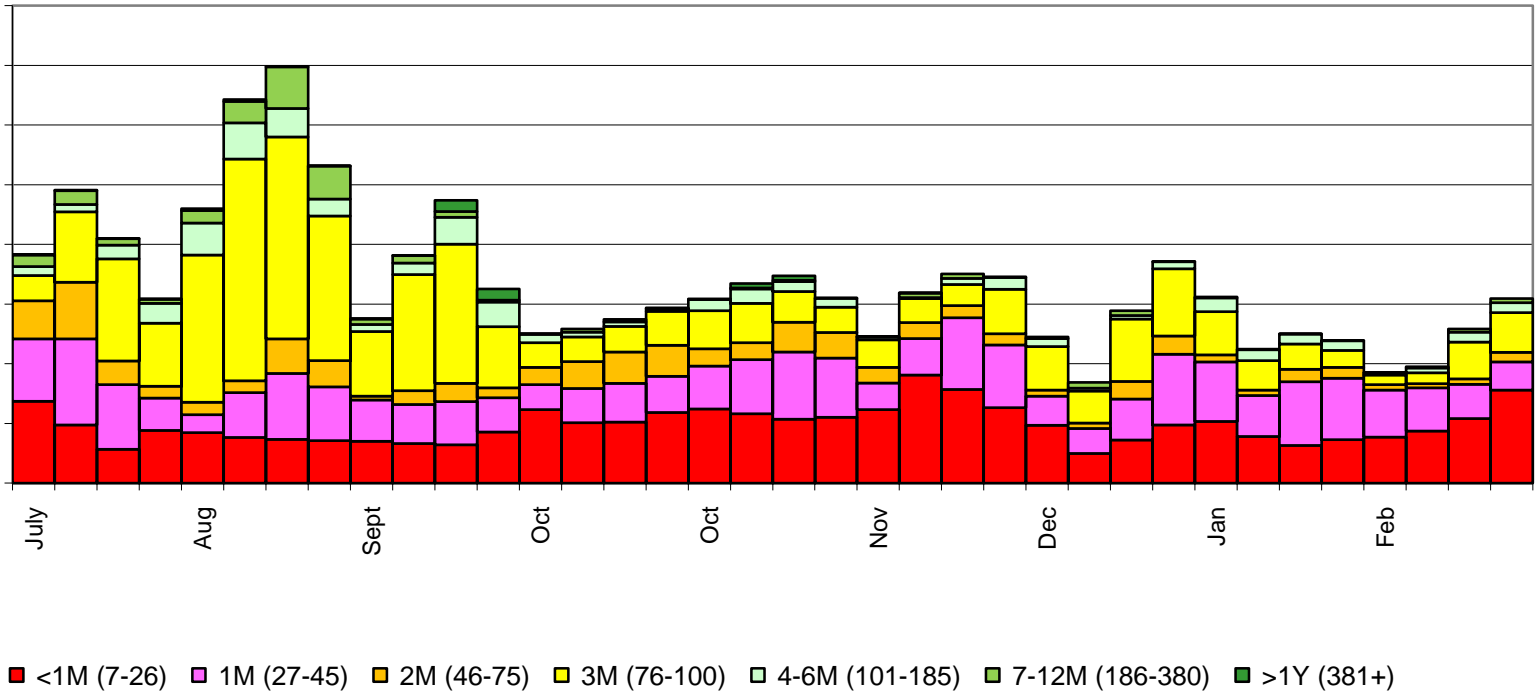
- **Strategic Funding completed before SLS announced in April**
- **Continue to grapple with Treasury asset quality issues – capital is becoming a problem**
- **And not just for us!**

May Day to Bastille Day



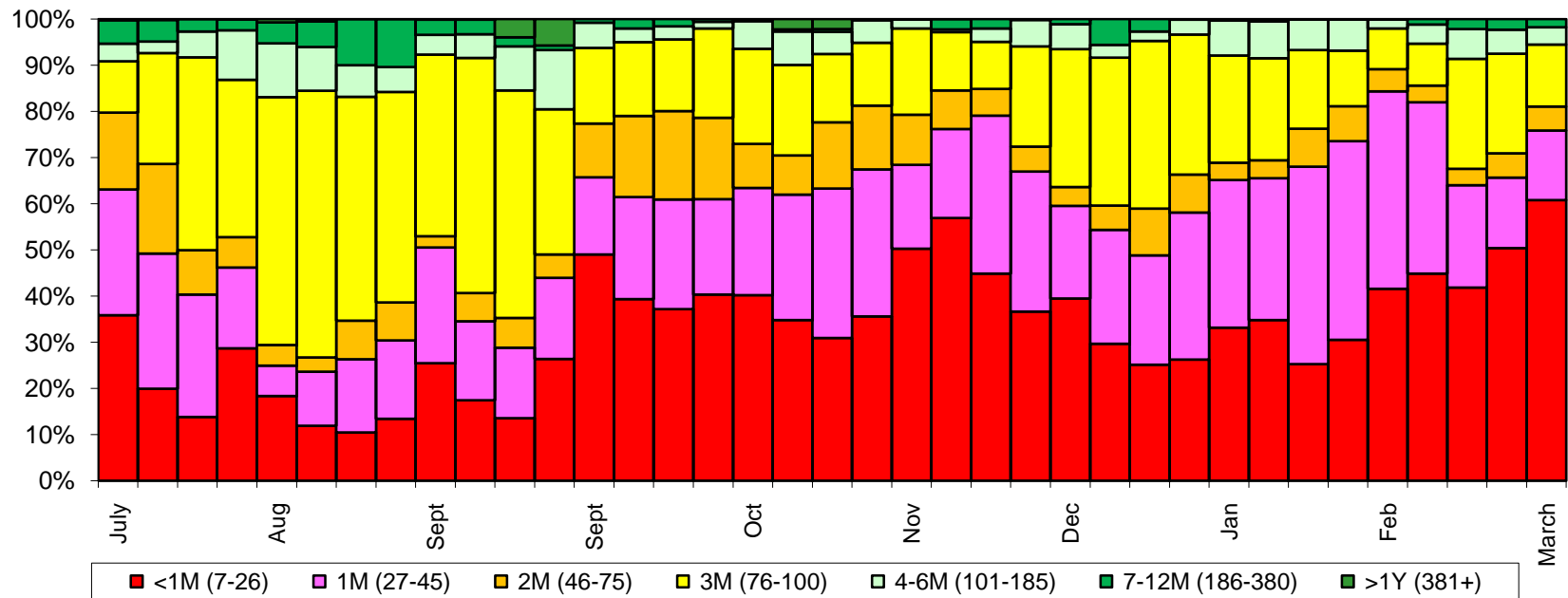
- Funding is now relatively comfortable
- Focus on capital and differentiation from B&B
- Santander pick their moment

Wholesale funding drying up



Each bar represents two weeks data

And shortening!



Each bar represents two weeks data

Any idea when this slide was put together?

- **Funding markets remain very nervous**
- **We should take wholesale funding for granted at our peril for the foreseeable future**
- **In stressed markets fine tuning is too risky – cash is king!**
- **Securitisation technology and repo capability are critical for flexibility**

Conclusions

- **In stressed markets fine tuning is too risky – cash is king!**
- **Securitisation technology and repo capability are critical for flexibility**
- **Short lines communication are critical – everyone needs to know what their role is**
- **Don't procrastinate**
- **Diversification – a good thing or not?**
- **Internal and external messaging needs to be joined up**
- **You can't build relationships in stressed markets but you need them**
- **The behaviour of competitors and peers is vital**