

US and European banks – two sides of the same story?

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Jan Schildbach

Think Tank of Deutsche Bank Group

Deutsche Bank Research



Agenda

1

Introduction

2

Consolidation

3

Diversification

4

Regulation

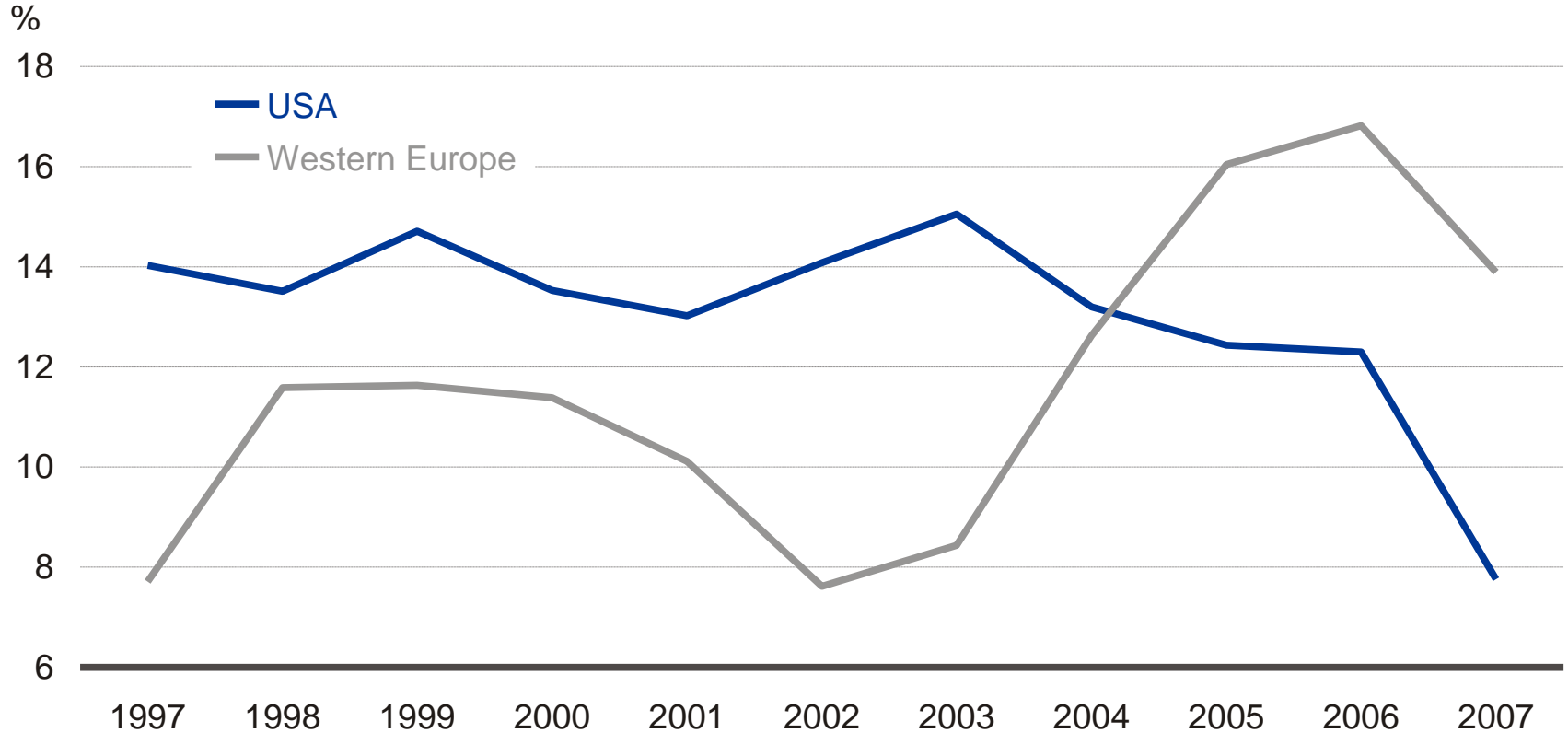
5

Conclusion



The Europeans catch up

Post-tax return on equity of US and European banks



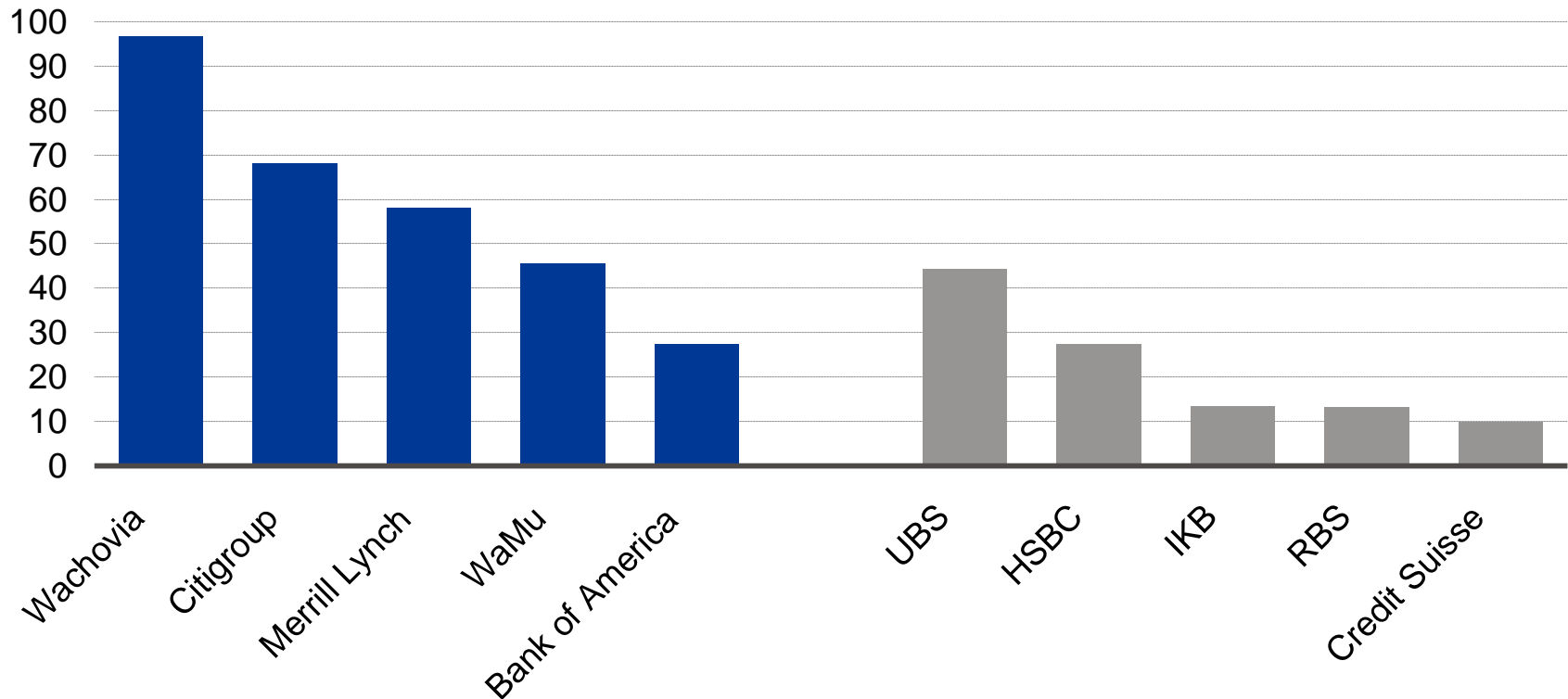
Sources: FDIC, OECD, ECB, national banking authorities, DB Research



...and share the subprime losses

Writedowns and credit losses in the subprime crisis

USD bn



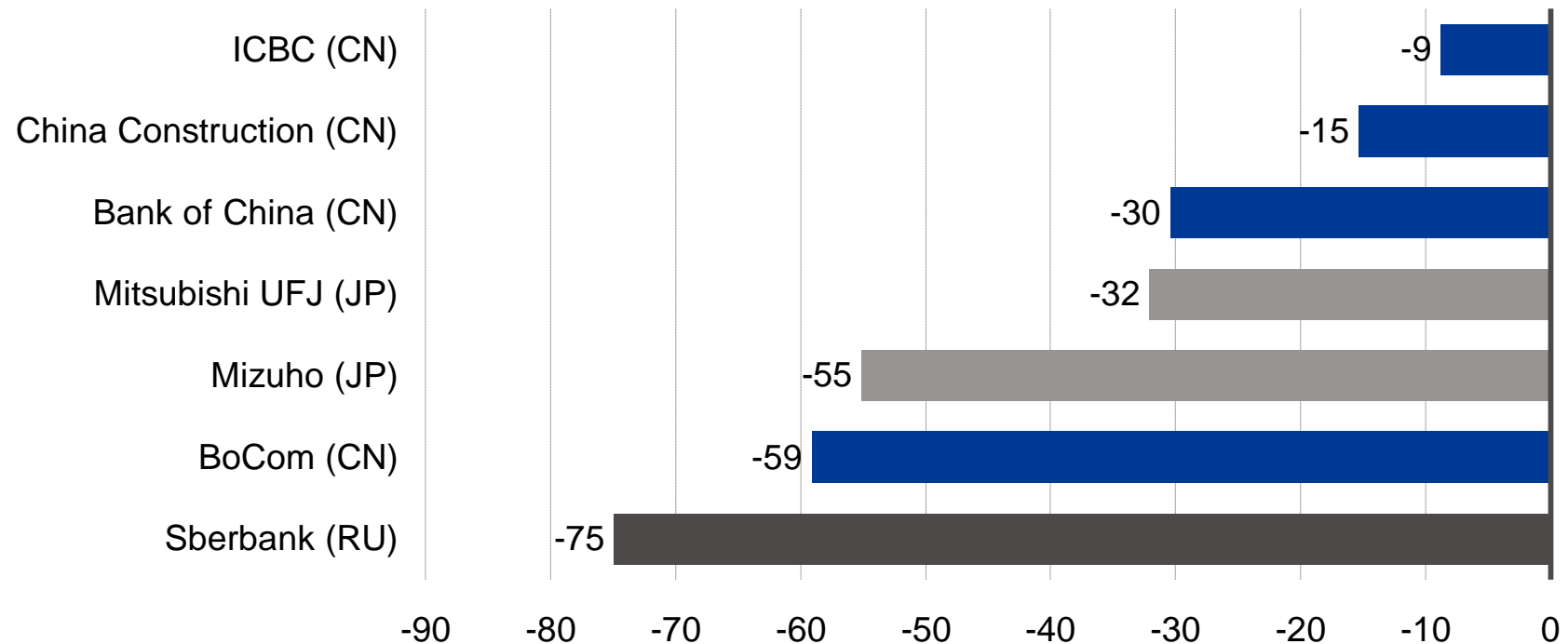
Source: Bloomberg



...but other countries' banks affected as well

Market cap loss of emerging market and Japanese banks in the credit crisis

% change; Jun 12, 2007 to Oct 21, 2008



Sources: Thomson Financial, Bloomberg, DB Research



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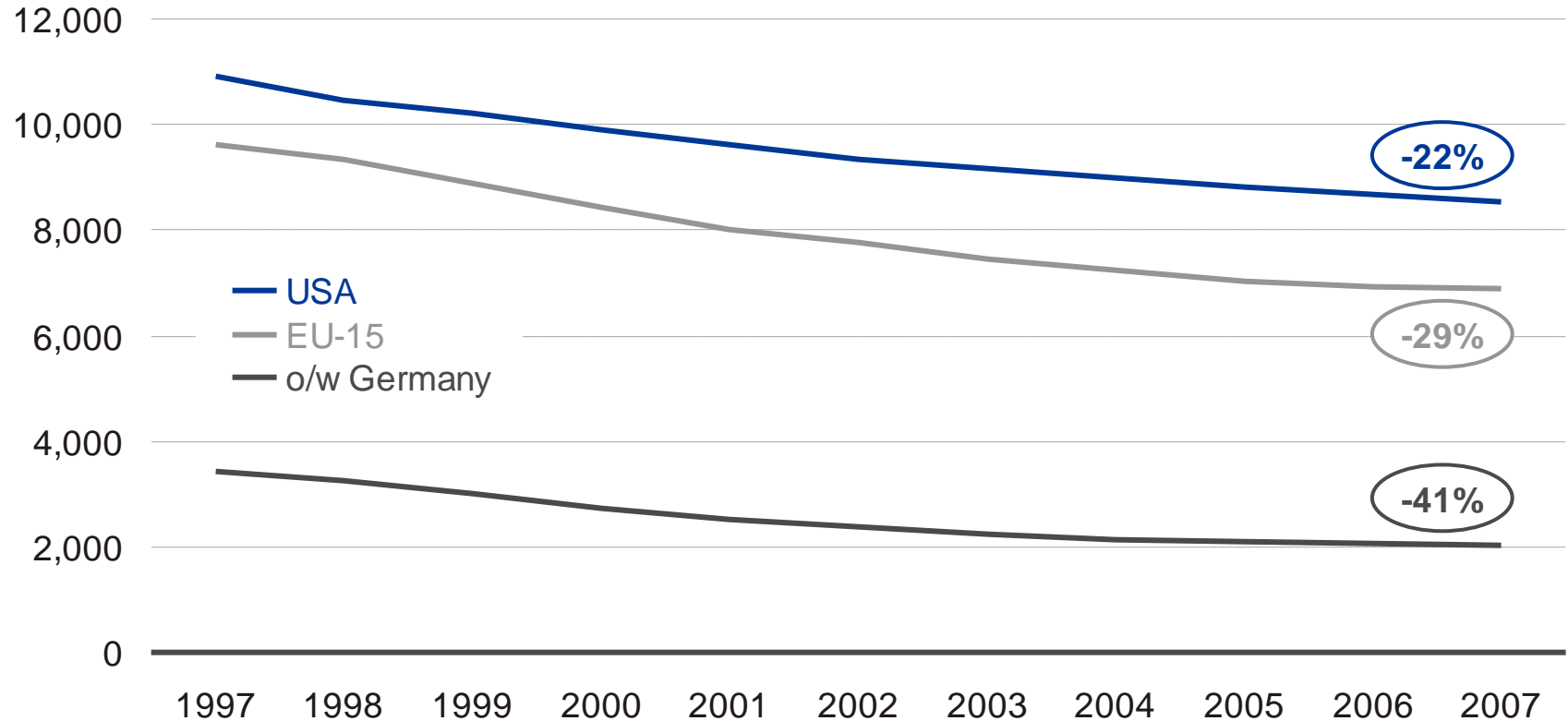
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Consolidation side by side

Number of banks



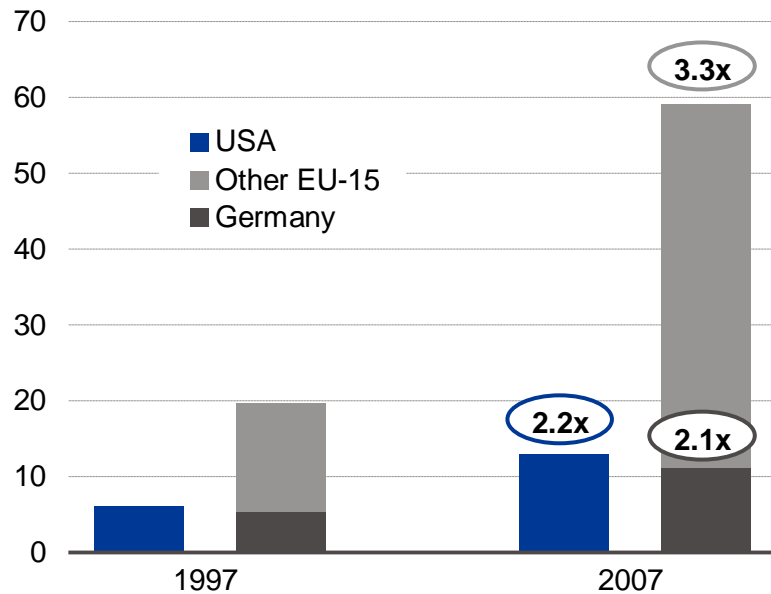
Sources: FDIC, ECB, DB Research



A matter of size

Size of banking markets

Total assets in USD tr

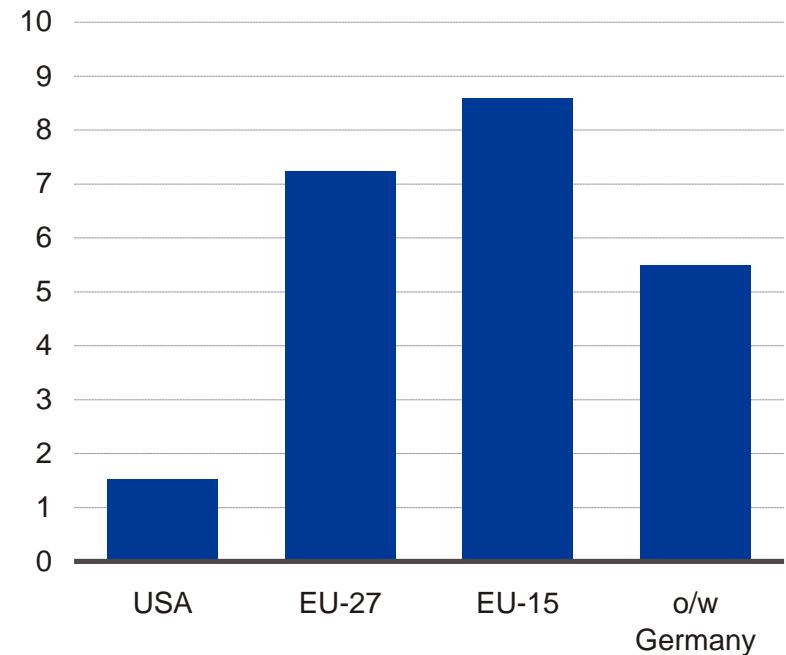


Does not include some investment banking assets in the US.

Sources: FDIC, ECB, DB Research

Average bank size

Total assets in USD bn, 2007



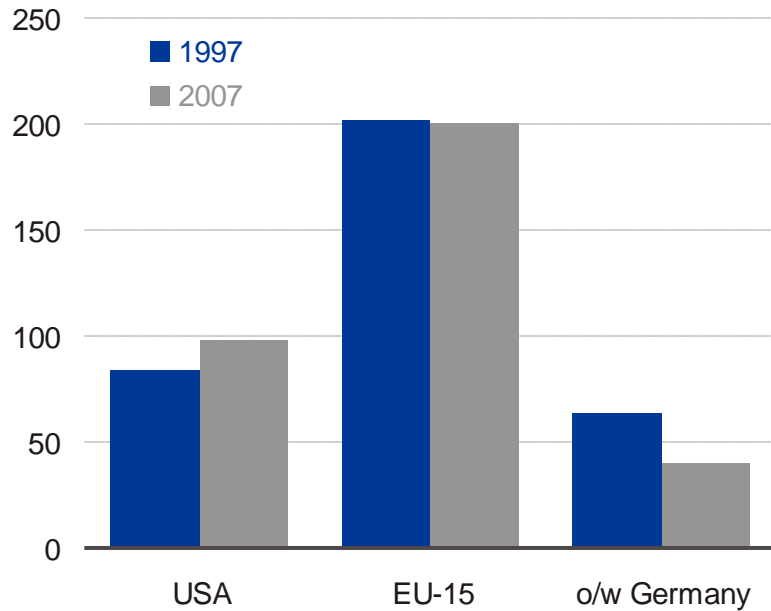
Sources: FDIC, ECB, DB Research



Branching convergence

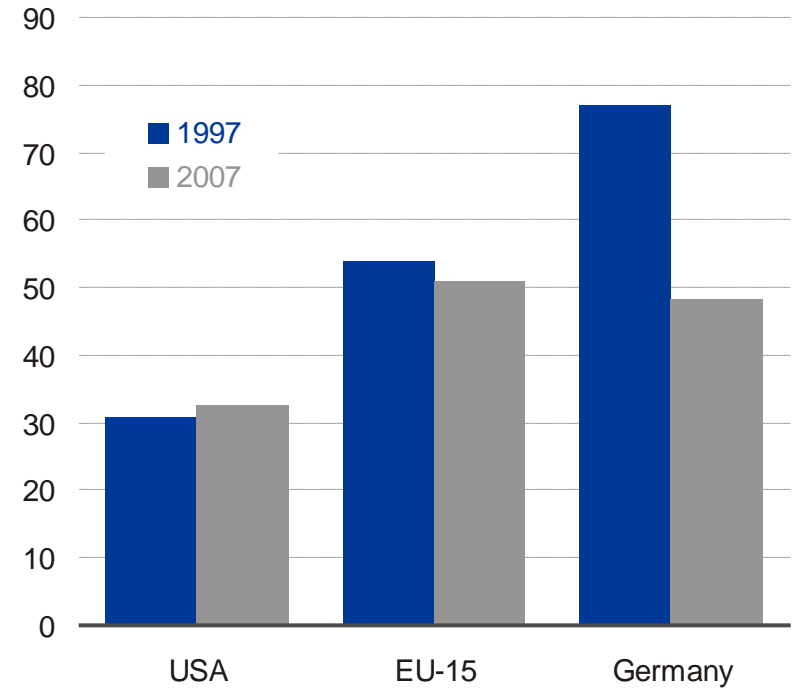
Number of branches

in '000s



Sources: FDIC, ECB, DB Research

Branches per 100,000 inhabitants

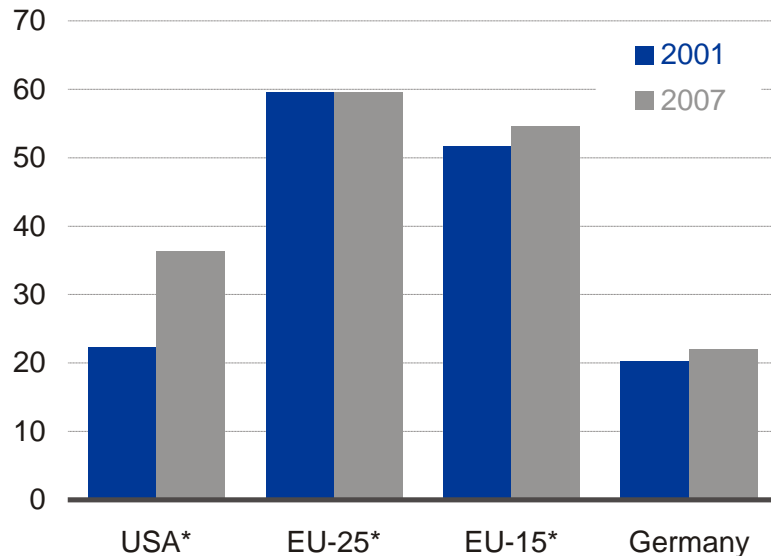


Sources: FDIC, ECB, Census Bureau, DB Research



Large banks become more dominant – but not in regional markets in the US

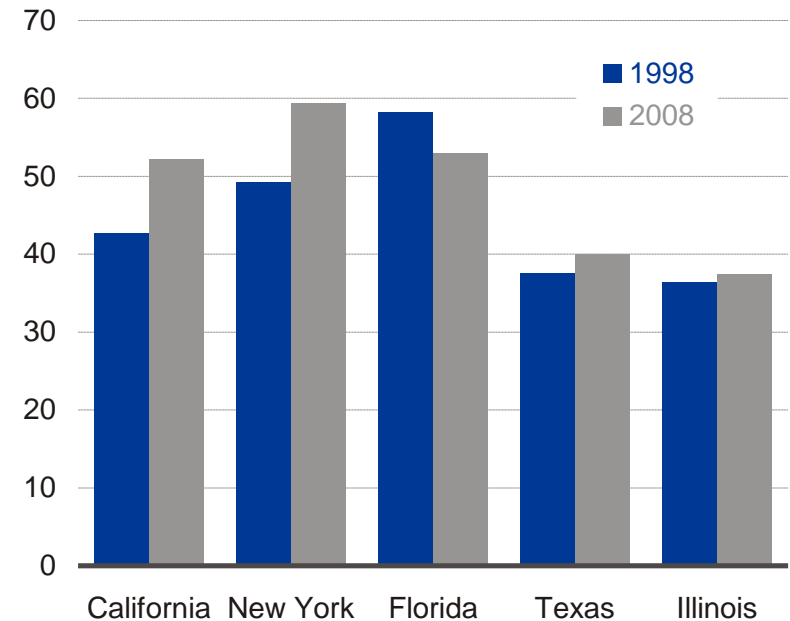
CR-5 (concentration) ratio % of total assets



*USA: as of June 30, 2008 and incl. JPMorgan-WaMu and Wells Fargo-Wachovia transaction; EU: unweighted average

Sources: Federal Reserve, ECB, DB Research

% of deposits



Sources: FDIC, DB Research



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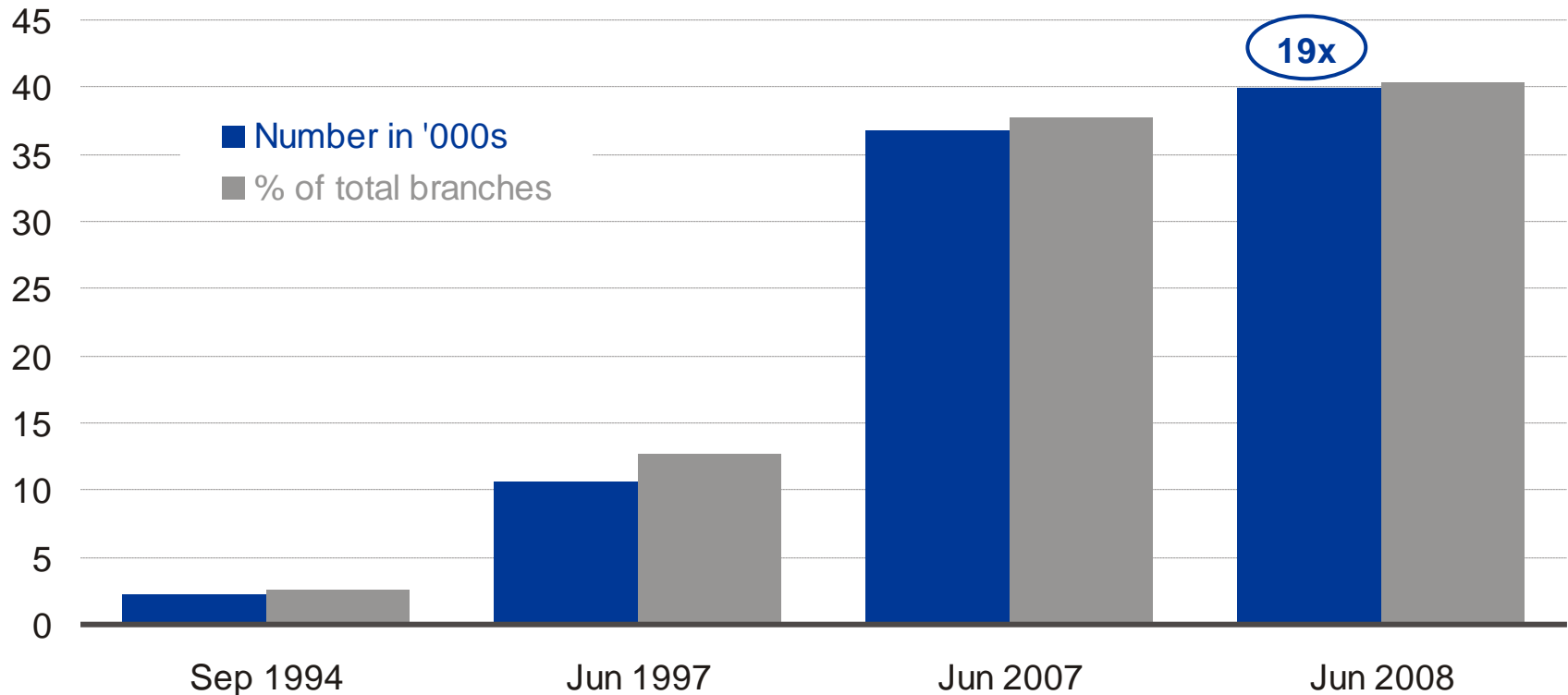
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...yet because of the interstate banking boom

Interstate branches of FDIC-insured institutions



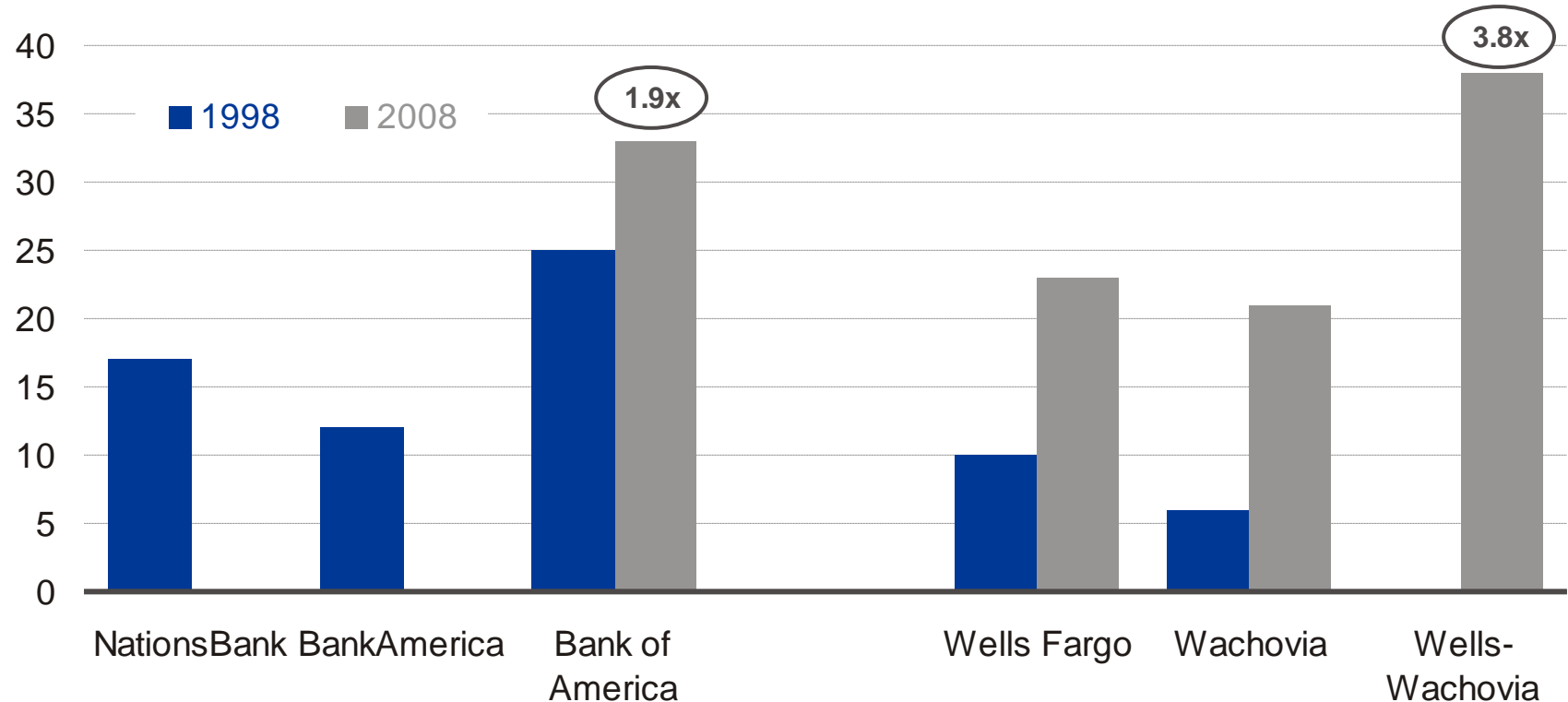
Sources: FDIC, DB Research



...pan-American banks emerge

Interstate banking at Bank of America and Wells Fargo

Number of states with branches



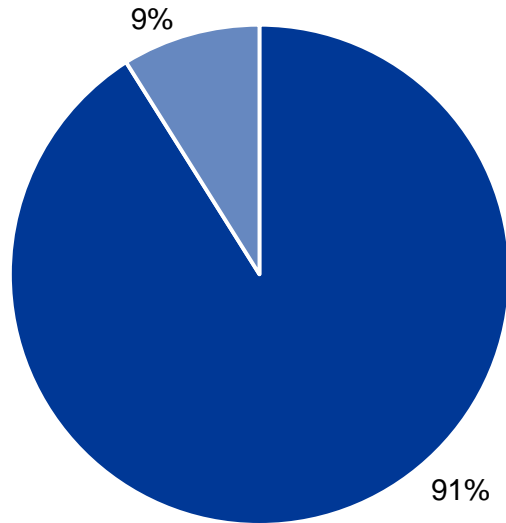
Sources: FDIC, DB Research



...that are domestic powerhouses but dwarfs abroad

Assets of the 20 largest US banks by region

June 30, 2008; unweighted average



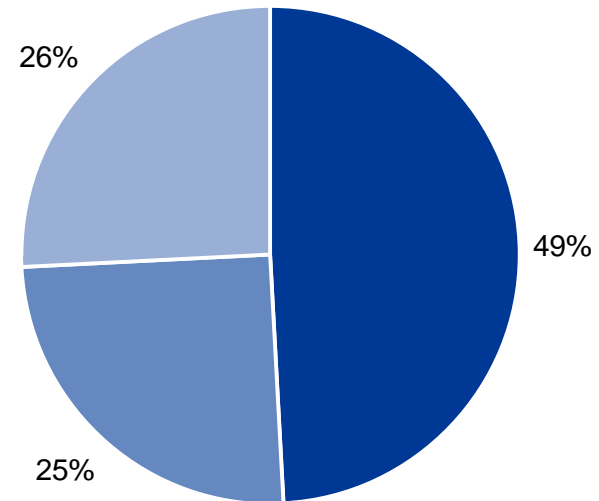
■ Domestic market ■ Foreign markets

Incl. JPMorgan-WaMu and Wells Fargo-Wachovia transaction

Sources: Federal Reserve, DB Research

Revenues of the 20 largest European banks by region

2007, unweighted average



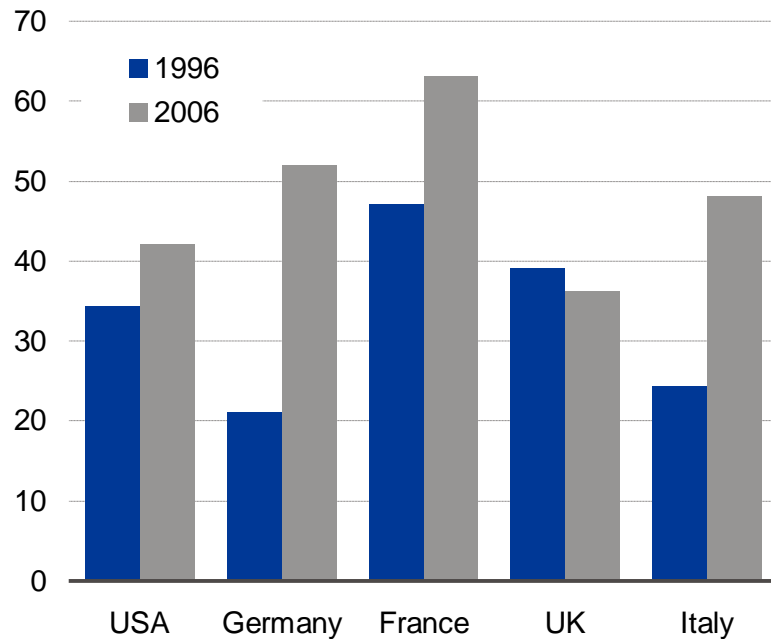
■ Domestic market ■ Other Europe ■ Rest of the world

Sources: Company reports, DB Research



...while banks diversify revenues as well

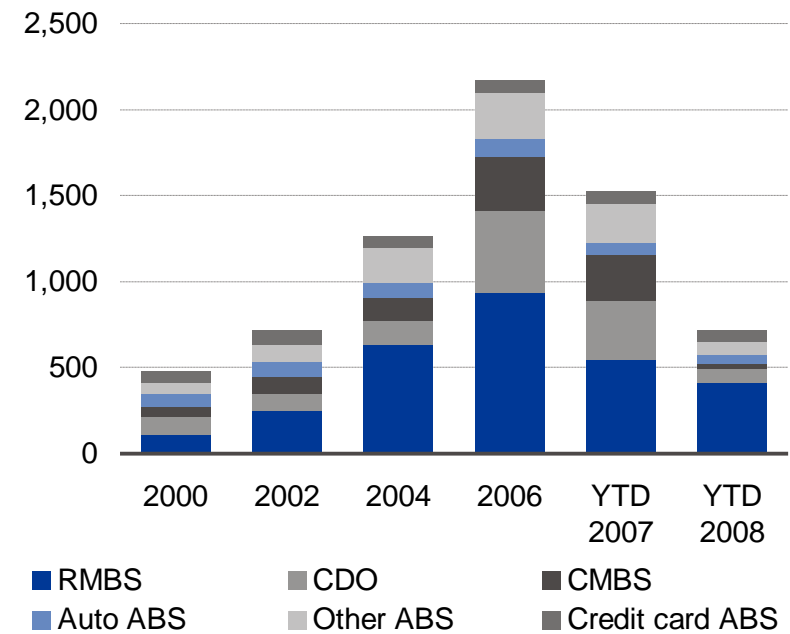
Non-interest income in % of total revenues



Sources: FDIC, ECB, OECD, DB Research

Global securitisation issuance

USD bn



Source: Deutsche Bank



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New regulation to cure financial markets?

■ Higher capital requirements to reduce leverage:

- Putting (de)leveraging into perspective
- Off-balance sheet assets → Basel II
- Refine capital requirements superior to leverage ratio

■ Securitisation

- Mandatory retention not the only, not the best instrument
- Greater transparency on underlying needed
- Targeted higher capital charges worth discussing

■ Relaxation of mark-to-market principle:

- Resistance from investors?
- Detrimental to re-establishing trust among banks?
- Need for internationally consistent rules



New regulation (II)

- Re-thinking the role of ratings and rating agencies:

- Improve oversight?
- Make investors pay instead of issuers?
- Reduce role of ratings in regulation

- Limits to management compensation:

- Can't owners judge best?
- Industry working on proposals to align compensation with long-term sustainable profitability

- Ban on short selling:

- Ineffective tool to stabilise markets
- Lowering financial market efficiency by impeding hedging



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Summary & conclusion

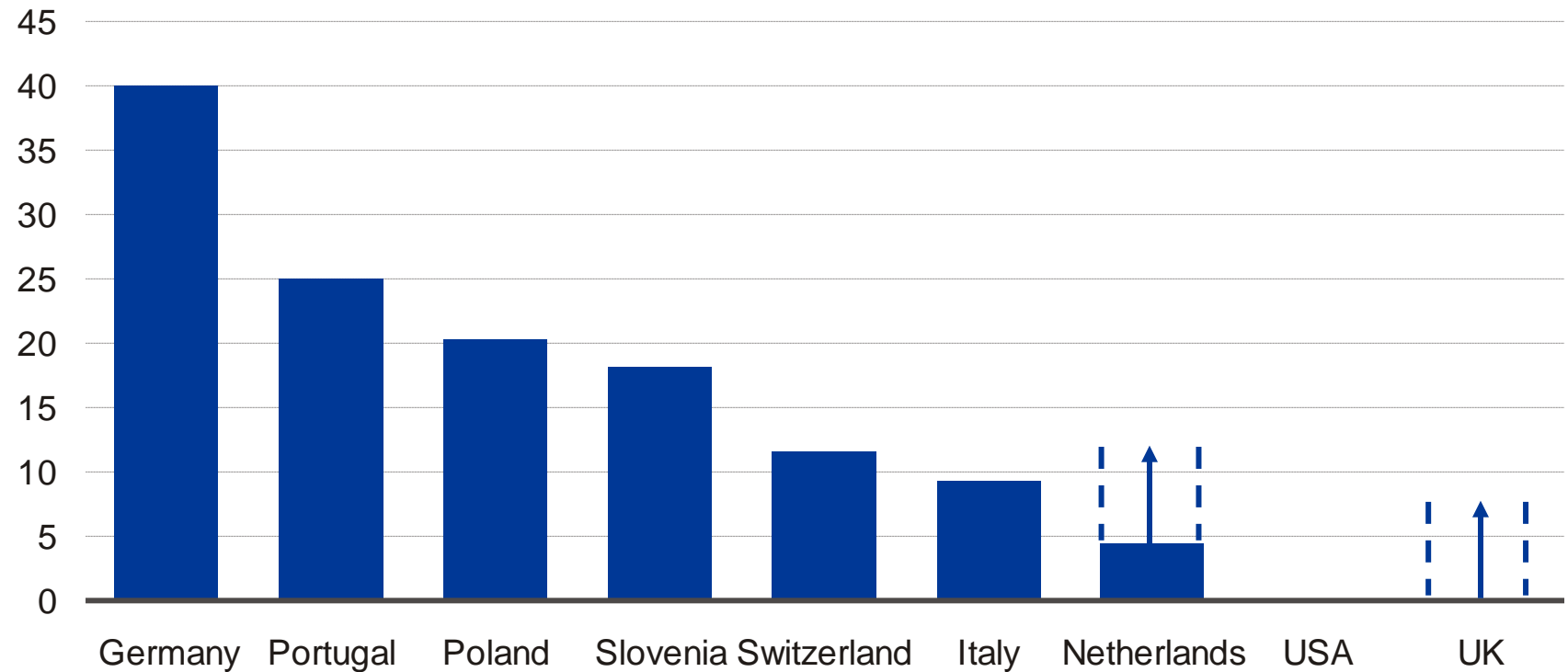
- Convergence of US and European banking markets:
 - European banks closing in with regard to profitability
 - US banks consolidating, few large players emerging
 - European banks becoming more capital markets-oriented
 - Regulation as a result of the financial crisis
- Differences to remain:
 - US banks operate national, European banks international
 - Ownership structures



Public banking on the rise again

Government ownership of banks (majority holdings)

%, 2005



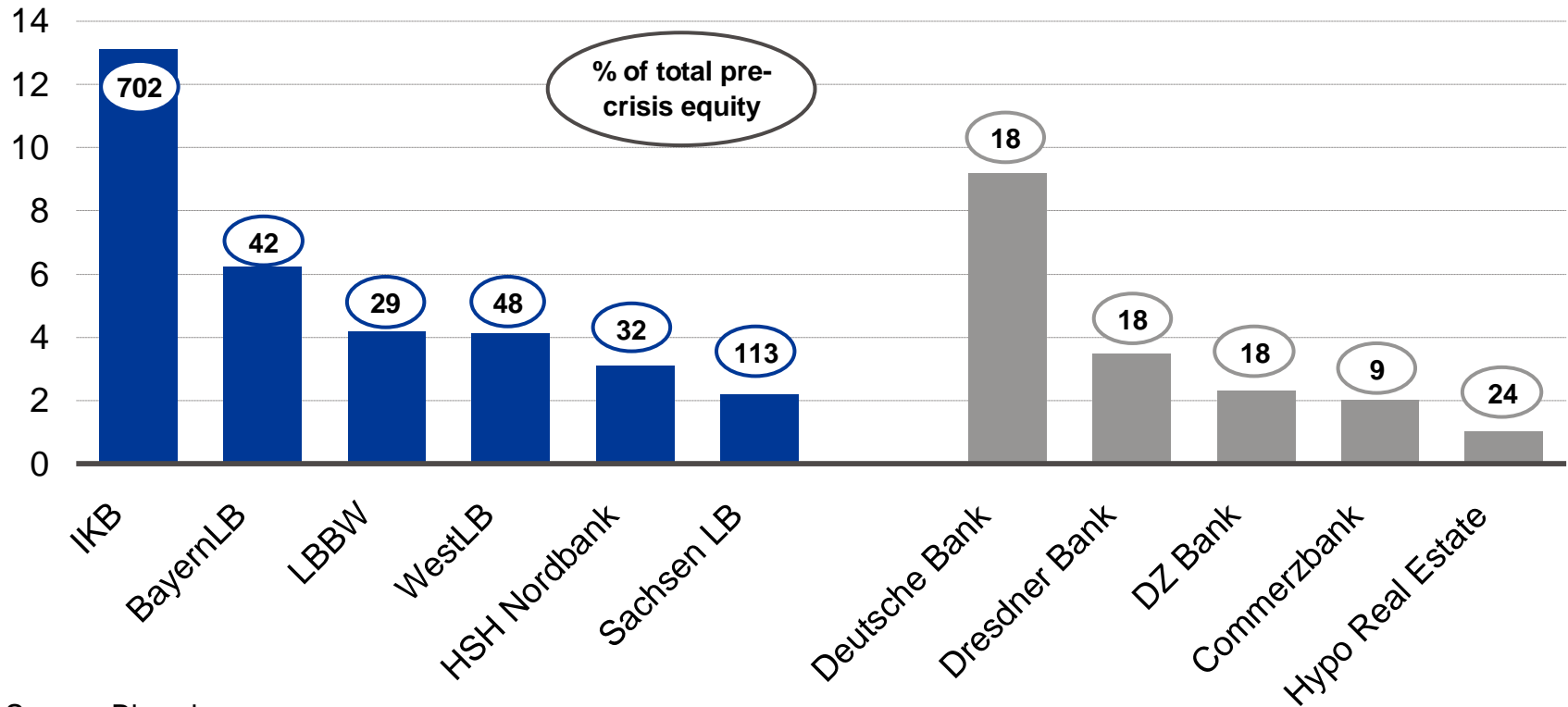
Source: World Bank



Politicians the better bankers?

Writedowns and credit losses at public and private German banks

USD bn



Source: Bloomberg



Contact

Jan Schildbach

Deutsche Bank Research

Banking, Financial Markets, Regulation

Theodor-Heuss-Allee 70

D-60486 Frankfurt/Main

Germany

Phone: +49-69-910-31717

Fax: +49-69-910-31743

E-mail: jan.schildbach@db.com



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