Bianco Research L.L.C.

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Independent · Objective · Original

Understanding What Happened

Atlanta Presentation Package

September 25, 2008

Long-Term Interest Rates - 1900 to 2007

Summary/Conclusion – The Beginning Of The End

Modified From A Newsclips, Originally Written Thursday Morning, September 18, 2008

Comment - Everyone loves analogies ... An asteroid hit in early July and all the dinosaurs are dying ... Fannie/Freddie, Lehman, Merrill, AIG, and now Morgan Stanley and WaMu.

After the asteroid hit, the only food left are those financial institutions that are light on mortgage holdings and get their funding from a retail deposit base. Either get with a food source or die.

We believe this is the final capitulation process. It is "the beginning of the end." Within the next three months the low price and high spread should be in place. However, between now and then it will not be pleasant. See the charts below. Both the High Yield and Investment Grade option-adjusted spreads (OAS) have widened by a similar amount, over 100 basis points in the last week!

The objective is to stay in business over the next 90 days, and as the list of those that have not survived over the last two weeks attests, it's not as easy as it sounds. If you are still standing when this capitulation process is over, that will be the time to make money.

Then comes the ice age. This will constitute a period of low returns, higher inflation and where risk-taking is regulated from the marketplace.

The Epiphany About Fannie

Table 32: Supplemental Non-GAAP Consolidated Fair Value Balance Sheets[1]

	As of March 31, 2008			As of December 31, 2007		
	GAAP Carrying Value	Fair Value Adjustment[1]	Estimated Fair Value	GAAP Carrying Value[2]	Fair Value Adjustment[1]	Estimated Fair Value[2]
	(Dollars in millions)					
Assets:						
Cash and cash equivalents	$ 2,304	$ —	$ 2,304[3]	$ 4,502	$ —	$ 4,502[3]
Federal funds sold and securities purchased under agreements to resell	20,484	15	20,499[3]	49,041	—	49,041[3]
Trading securities	110,573	—	110,573[3]	63,956	—	63,956[3]
Available-for-sale securities	228,228	—	228,228[3]	293,557	—	293,557[3]
Mortgage loans:						
Mortgage loans held for sale	8,486	147	8,633[4]	7,008	75	7,083[4]
Mortgage loans held for investment, net of allowance for loan losses	402,449	4,118	406,567[4]	396,516	70	396,586[4]
Guaranty assets of mortgage loans held in portfolio	—	3,711	3,711[4][5]	—	3,983	3,983[4][5]
Guaranty obligations of mortgage loans held in portfolio	—	(7,915)	(7,915)[4][5]	—	(4,747)	(4,747)[4][5]
Total mortgage loans	410,935	61	410,996[3][4]	403,524	(619)	402,905[3][4]
Advances to lenders	11,732	(265)	11,467[3]	12,377	(328)	12,049[3]
Derivative assets at fair value	1,037	—	1,037[3]	885	—	885[3]
Guaranty assets and buy-ups, net	10,808	3,481	14,289[3][5]	10,610	3,648	14,258[3][5]
Total financial assets	796,101	3,292	799,393[3]	838,452	2,701	841,153[3]
Master servicing assets and credit enhancements	1,592	5,011	6,603[5][6]	1,783	2,844	4,627[5][6]
Other assets	45,534	15,195	60,729[6][7]	39,154	5,418	44,572[6][7]
Total assets	$843,227	$ 23,498	$866,725	$879,389	$10,963	$890,352
Liabilities:						
Federal funds purchased and securities sold under agreements to repurchase	$ 711	$ —	$ 711[3]	$ 869	$ —	$ 869[3]
Short-term debt	215,916[8]	526	216,442[3]	234,160	208	234,368[3]
Long-term debt	544,424[8]	25,616	570,040[3]	562,139	18,194	580,333[3]
Derivative liabilities at fair value	4,123	—	4,123[3]	2,217	—	2,217[3]
Guaranty obligations	15,521	29,578	45,099[3]	15,393	5,156	20,549[3]
Total financial liabilities	780,695	55,720	836,415[3]	814,778	23,558	838,336[3]
Other liabilities	23,538	(5,596)	17,942[9]	20,493	(4,383)	16,110[9]
Total liabilities	804,233	50,124	854,357	835,271	19,175	854,446
Minority interests in consolidated subsidiaries	158	—	158	107	—	107
Stockholders' Equity (Deficit):						
Preferred	16,913	(2,633)	14,280[10]	16,913	(1,565)	15,348[10]
Common	21,923	(23,993)	(2,070)[11]	27,098	(6,647)	20,451[11]
Total stockholders' equity/non-GAAP fair value of net assets	**$ 38,836**	**$(26,626)**	**$ 12,210**	**$ 44,011**	**$ (8,212)**	**$ 35,799**
Total liabilities and stockholders' equity	$843,227	$ 23,498	$866,725	$879,389	$10,963	$890,352

<Original is here, page 52>

Last Friday after the close, both Fannie and Freddie made statements saying they were properly capitalized and had enough liquidity. On Bloomberg TV Thursday we were interviewed alongside Eileen Fahey of Fitch and she reiterated the view that they were properly capitalized. Senator Chris Dodd (D-CT) said it again this morning on CNBC. If everyone keeps saying these two companies are properly capitalized, why does the market think otherwise?

We believe the answer lies in Fannie and Freddie's financial statements themselves. Recall that both Fannie and Freddie were involved in an accounting scandal. As part of the settlement with their regulator OFHEO, they were required to present a "fair value" balance sheet (a balance sheet marked at market prices and not at their "model prices"). To the left we show Fannie Mae's fair value balance sheet and on the next page we show Freddie Mac's.

To be fair, the section displaying these balance sheets (which the link takes you to) has pages of notes and explanations which attempt to say they are meaningless.

When looking at the balance sheets, one can see why the GSEs would want you to believe they are meaningless. They present Fannie Mae and Freddie Mac in a bad light. According to Fannie Mae's "fair value" balance sheet, "net assets" (net equity) collapsed to $12.2 billion on March 31, 2008 from $35.8 billion on December 31, 2007. Given the worsening housing situation, this fair value balance sheet could show a negative equity position as of June 30, 2008 when it is released later this quarter. *… Continued on next page*

The Epiphany About Freddie

<Original is here, page 33>

FREDDIE MAC
CONSOLIDATED FAIR VALUE BALANCE SHEETS[1]
TABLE 7
(unaudited)
(dollars in billions)

Line:		2007 March 31, Carrying Amount[2]	2007 March 31, Fair Value[3]	2007 June 30, Carrying Amount[2]	2007 June 30, Fair Value[3]	2007 September 30, Carrying Amount[2]	2007 September 30, Fair Value[3]	2007 December 31, Carrying Amount[2]	2007 December 31, Fair Value[3]	2008 March 31, Carrying Amount[2]	2008 March 31, Fair Value[3]
	Assets:										
1	Mortgage loans	$ 66.7	$ 65.6	$ 68.3	$ 66.1	$ 71.6	$ 68.8	$ 80.0	$ 76.8	$ 86.5	$ 83.9
2	Mortgage-related securities	645.0	645.0	634.4	634.4	634.3	634.3	629.8	629.8	601.1	601.1
3	Retained portfolio	711.7	710.6	702.7	700.5	705.9	703.1	709.8	706.6	687.6	685.0
4	Cash and cash equivalents	10.0	10.0	11.8	11.8	12.2	12.2	8.6	8.6	8.3	8.3
5	Investments	31.9	31.9	41.7	41.7	21.3	21.3	35.1	35.1	48.2	48.2
6	Securities purchased under agreements to resell and federal funds sold	34.2	34.2	27.5	27.5	17.3	17.3	6.6	6.6	17.2	17.2
7	Derivative assets, net	0.3	0.3	0.5	0.5	0.7	0.7	0.8	0.8	1.0	1.0
8	Guarantee asset[4]	7.6	8.5	9.3	10.2	9.9	10.7	9.6	10.4	9.1	9.9
9	Other assets[5]	17.7	16.2	20.6	16.8	19.6	20.9	23.9	31.8	31.6	42.5
10	Total assets	$813.4	$811.7	$814.1	$809.0	$786.9	$786.2	$794.4	$799.9	$803.0	$812.1
	Liabilities and Minority Interests:										
11	Total debt securities, net	$750.2	$749.8	$751.4	$744.4	$726.9	$728.9	$738.6	$749.3	$759.8	$778.6
12	Guarantee obligation	10.1	7.3	10.9	7.7	11.9	14.2	13.7	26.2	13.7	29.3
13	Derivative liabilities, net	0.2	0.2	0.4	0.4	0.2	0.2	0.6	0.6	0.9	0.9
14	Reserve for guarantee losses on PCs	0.7	—	1.0	—	2.1	—	2.6	—	3.5	—
15	Other liabilities	23.2	22.0	25.6	24.4	20.0	18.8	12.0	11.0	9.0	8.3
16	Minority interests in consolidated subsidiaries	0.5	0.5	0.3	0.2	0.3	0.3	0.2	0.2	0.1	0.2
17	Total liabilities and minority interests	784.9	779.8	789.6	777.1	761.4	762.4	767.7	787.3	787.0	817.3
	Net Assets Attributable to Stockholders:										
18	Preferred stockholders	6.6	6.5	7.1	6.8	8.1	7.4	14.1	12.3	14.1	11.7
19	Common stockholders	21.9	25.4	17.4	25.1	17.4	16.4	12.6	0.3	1.9	(16.9)
20	Total net assets	28.5	31.9	24.5	31.9	25.5	23.8	26.7	12.6	16.0	(5.2)
21	Total liabilities, minority interests and net assets	$813.4	$811.7	$814.1	$809.0	$786.9	$786.2	$794.4	$799.9	$803.0	$812.1

… continued from previous page …

Freddie Mac's position is far worse (to the left). As the summary below shows, Freddie was at a negative equity position on March 31, 2008.

Freddie Mac
Net Asset (Equity) using the "Fair Value" Balance Sheet

Quarter	Net Equity (billions)
31-Mar-07	$31.90
30-Jun-07	$31.90
30-Sep-07	$23.80
31-Dec-07	$12.60
31-Mar-08	($5.20)

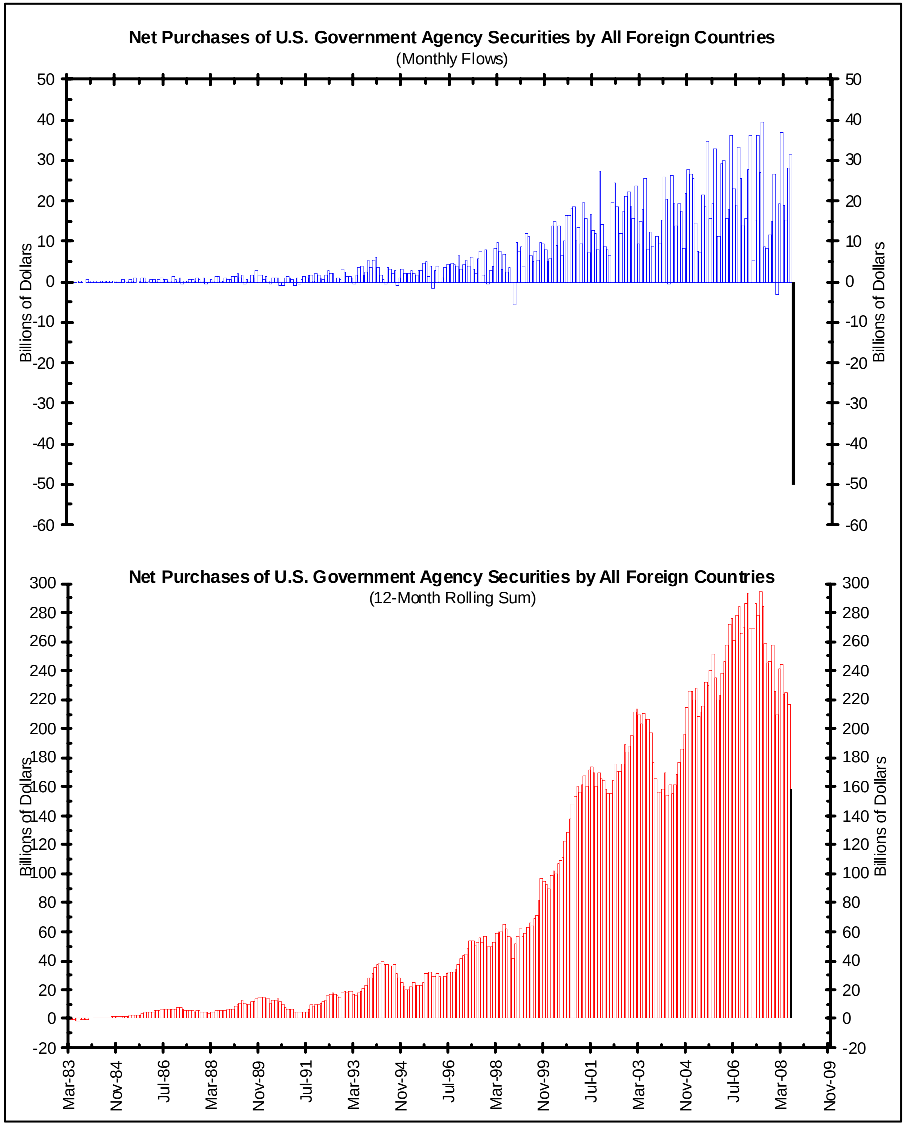
Let us repeat, Freddie Mac was insolvent **by this measure** on March 31, 2008. Q1 financial statements detailing this were released on May 14. So, it is not a secret and technically it is not new. What appears to be new is the epiphany the market had in the last several weeks. See a chart of Freddie Mac's stock, it plummeted from about $27 on May 14 to $7.75 on Friday.

Maybe the emotional move is not the selling of the last two weeks. Maybe it was the optimism about these companies until two weeks ago. If so, regulators and company officials need to explain why the market is wrong to use the fair value balance sheet as a "leading indicator" of their upcoming financial statements. So far, they have not touched this topic.

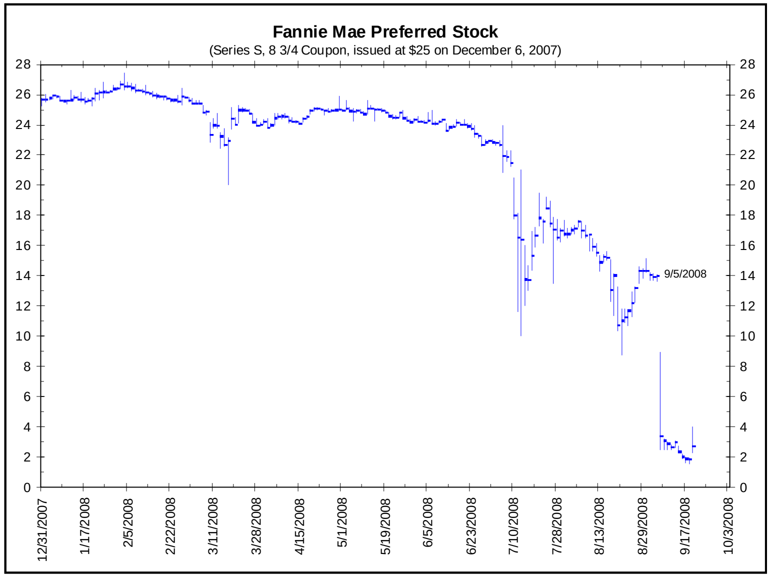
When the GSEs were nationalized, the reasons given were essentially confirmation of all the negative rumours that pushed down these stocks. Why do the rumours continue? Maybe because they are often proven correct (also see Ackman and monolines and Einhorn and Lehman).

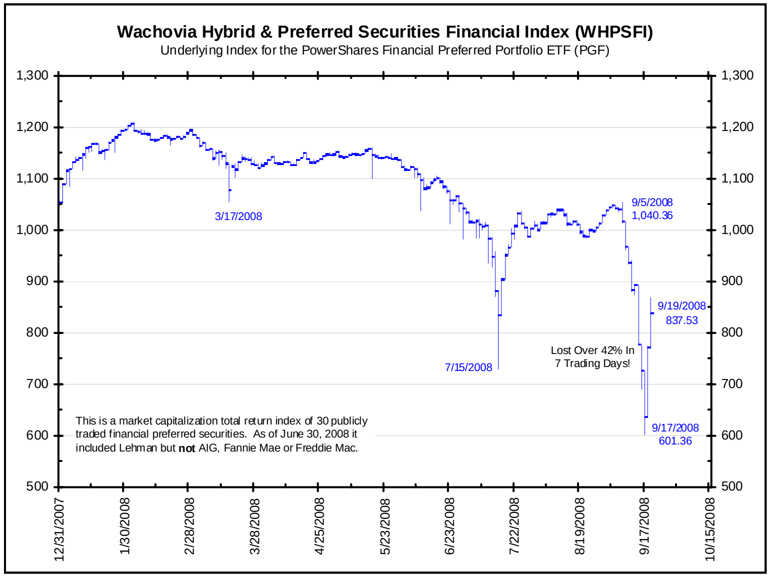
The Chinese Stop Buying GSE Paper? Have They Returned?

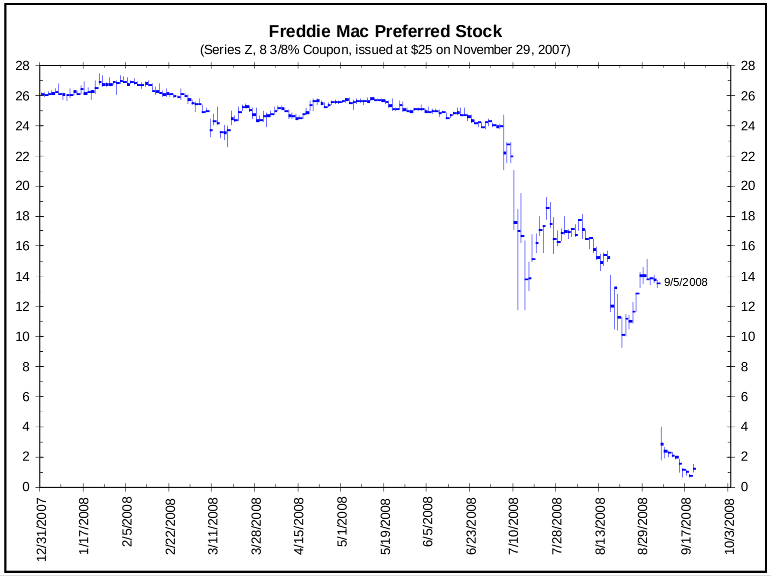
The Wall Street Journal - (Sept. 3) China Pulls Back From Fannie, Freddie
China's big banks, having trimmed their holdings of U.S. mortgage-related debt, are facing increasingly difficult decisions about how to invest their sizable foreign-currency holdings.
The Financial Times – (Aug 27) Bank of China flees Fannie-Freddie
Bank of China has cut its portfolio of securities issued or guaranteed by troubled US mortgage financiers Fannie Mae and Freddie Mac by a quarter since the end of June.
The Wall Street Journal - (Sept. 8) Pulling the Trigger for Fannie and Freddie?
Fed data offer circumstantial evidence of, if not of a run, then of a steady walking away from Fannie and Freddie securities.
The Wall Street Journal - (Sept. 11) Fan-Fred Turmoil Made Chinese Bankers Nervous
Recent turmoil at mortgage giants Fannie Mae and Freddie Mac sparked major concerns among Chinese bankers before the U.S. guaranteed payment on the firms' debt, a former Treasury Department official told a congressional panel Wednesday
Asahi.com – (Sept. 13) U.S. requests help on mortgage bonds
U.S. Treasury officials urged Japanese financial institutions not to dump bonds issued by ailing U.S. mortgage giants Fannie Mae and Freddie Mac to prevent a tailspin in financial markets, sources said Friday. The extremely rare requests from U.S. government officials came following the announcement Sunday of a federal bailout of the Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corp. (Freddie Mac), which have been hit hard by the U.S. subprime mortgage crisis, the industry sources said. According to the sources, senior Treasury Department officials, including Undersecretary David McCormick, phoned executives of Japanese megabanks and the Life Insurance Association of Japan on Wednesday and Thursday.

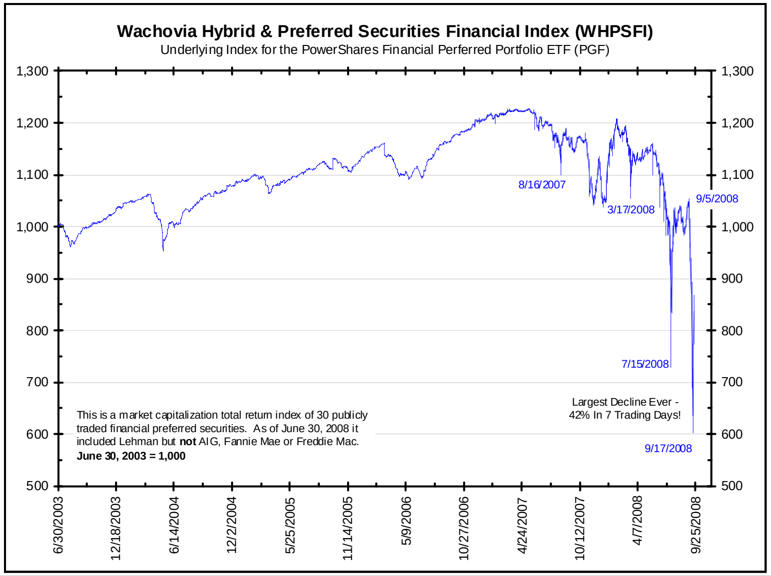


Killing The Preferred Stock Market

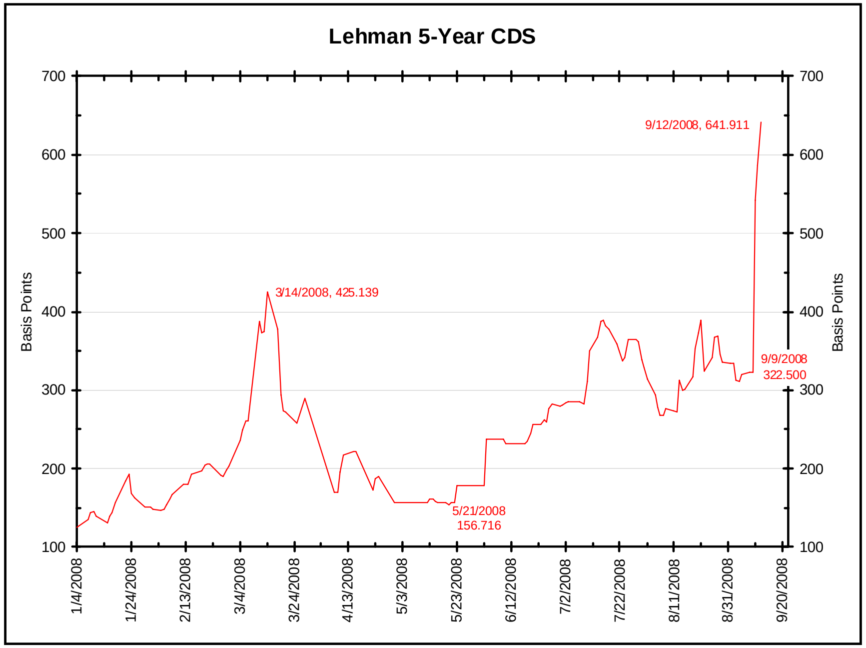






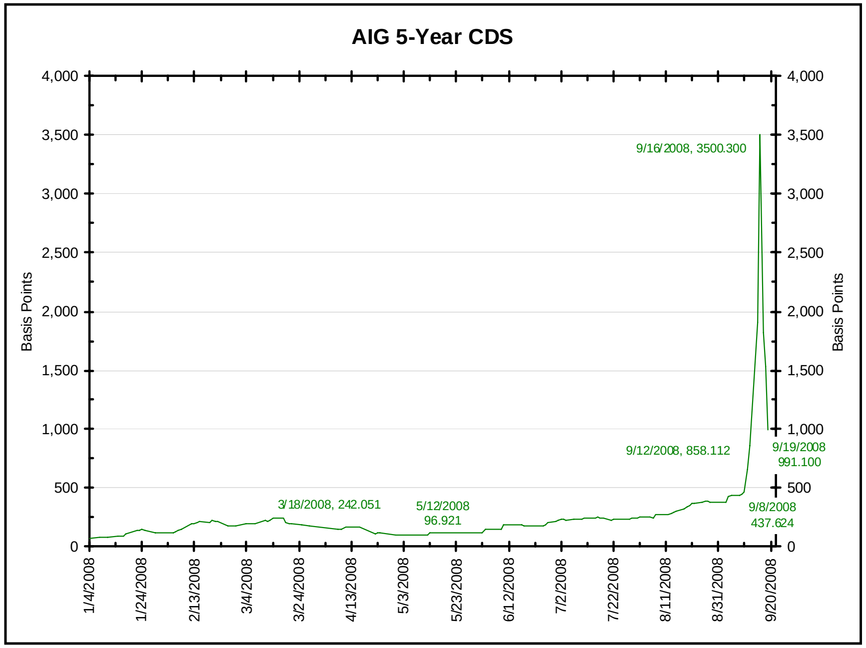


The Demise Of Lehman And AIG



The Financial Times – (Sept. 10) **KDB suspends talks with Lehman Brothers**

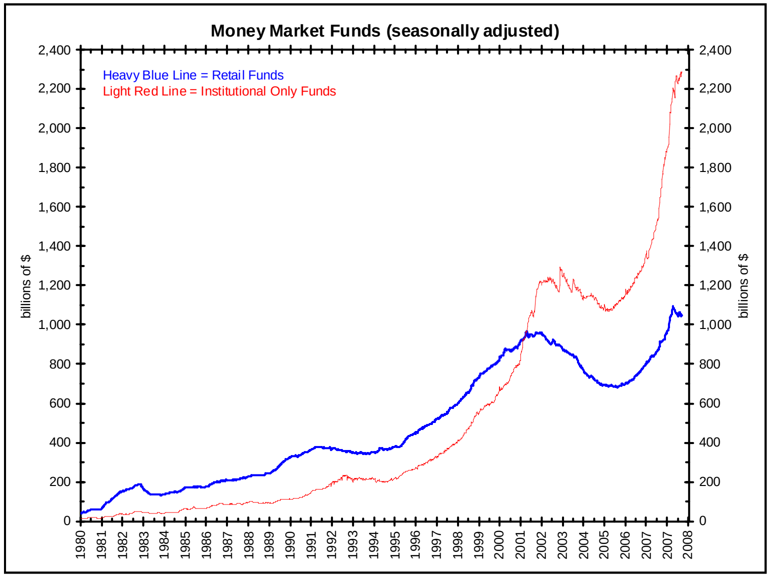
Korea Development Bank on Wednesday confirmed that it had suspended talks to invest in Lehman Brothers, just hours before the beleaguered US bank is set to announced its third-quarter results. In a statement, the government-run lender said the decision was "due to disagreements over transaction terms and in consideration of the state of financial markets at home and abroad." Lehman shares plunged 45 per cent the day before on worries it would be unable to raise capital to bolster its balance sheet. A newswire report cited on Tuesday an unnamed Korean government official as saying that KDB had decided not to invest in Lehman, although Korea's financial watchdog initially denied the news

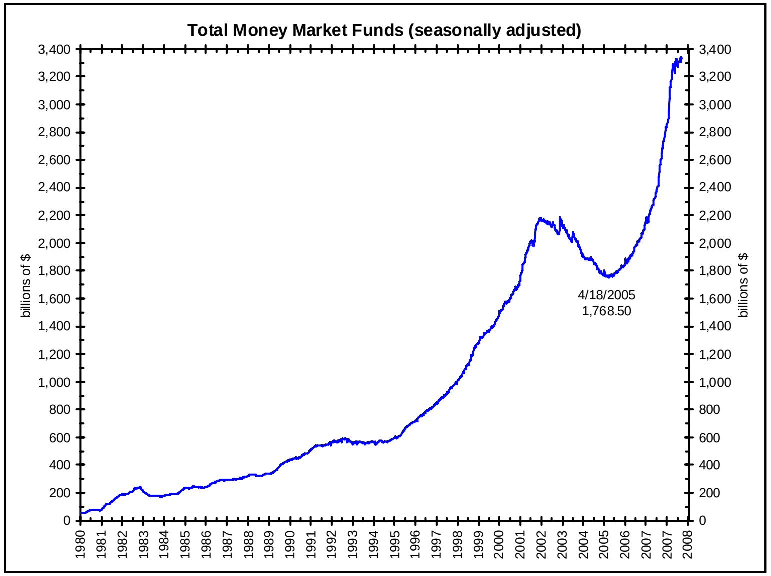


Money Markets Break The Buck

•***The Wall Street Journal – (Sept. 18)*** [Breaking Buck]
Friday, the Reserve Primary Fund had $62.6 billion in assets, making it one of the largest money-market funds. Then investors noticed this supposedly safe repository of their cash also held a scary batch of debt securities from Lehman Brothers, the teetering titan du jour. Lehman Brothers Holdings Inc. filed for Chapter 11 bankruptcy protection on Monday. At least a dozen large investors pulled out almost $40 billion of their money Monday and Tuesday, two-thirds of Primary Fund's formidable asset base. This modern-day run on the bank has left a husk of a once-proud money fund. The withdrawals meant the Primary Fund had to "break the buck." That is, its net asset value sunk below the time-honored standard of $1 a share...The cruel irony is that the founder of the money-market fund concept more than three decades ago, Bruce Bent, is Reserve Management's chief -- and Mr. Bent, 71 years old, has long trumpeted the funds as avatars of sober-minded investing.

•***The Wall Street Journal – (Sept. 18)*** [Money-Fund Assets Fall by $89.38 Billion]
Investors to money-market funds withdrew $89.38 billion in the week ended Tuesday, bringing total net assets to $3.446 trillion, according to the Money Fund Report, published by iMoneyNet Inc. Institutional investors withdrew $93.57 billion, while individual, or "retail," investors added $4.19 billion. Assets in taxable money funds decreased by $80.71 billion to $2.931 trillion.





TARP – Troubled Asset Relief Program

The original proposal (released Saturday) was only three pages and can be found here. **It is not an RTC 2, in fact it is the opposite of the original RTC. Also, there is not a new agency, it is an expansion of the U.S. Department of Treasury. This means more new Treasury debt.**

http://www.nytimes.com/2008/09/21/business/21draftcnd.html?ref=business

Highlights
(a) Authority to Purchase.--The Secretary is authorized to purchase, and to make and fund commitments to purchase, on such terms and conditions as determined by the Secretary, mortgage-related assets from any financial institution having its headquarters in the United States.
(b) Necessary Actions.--The Secretary is authorized to take such actions as the Secretary deems necessary to carry out the authorities in this Act, including, without limitation:
(d) Application of Sunset to Mortgage-Related Assets.--The authority of the Secretary to hold any mortgage-related asset purchased under this Act before the termination date in section 9, or to purchase or fund the purchase of a mortgage-related asset under a commitment entered into before the termination date in section 9, is not subject to the provisions of section 9.
Sec. 6. Maximum Amount of Authorized Purchases.
The Secretary's authority to purchase mortgage-related assets under this Act shall be limited to $700,000,000,000 outstanding **at any one time**
Sec. 8. Review.
Decisions by the Secretary pursuant to the authority of this Act are non-reviewable and committed to agency discretion, and may not be reviewed by any court of law or any administrative agency.
Sec. 9. Termination of Authority.
The authorities under this Act, with the exception of authorities granted in sections 2(b)(5), 5 and 7, shall terminate two years from the date of enactment of this Act.
Sec. 10. Increase in Statutory Limit on the Public Debt.
Subsection (b) of section 3101 of title 31, United States Code, is amended by striking out the dollar limitation contained in such subsection and inserting in lieu thereof $11,315,000,000,000.

U.S. Treasury Widens Scope of Bad-Debt Plan Beyond Mortgages
2008-09-22 00:51:43.140 GMT
By Dawn Kopecki

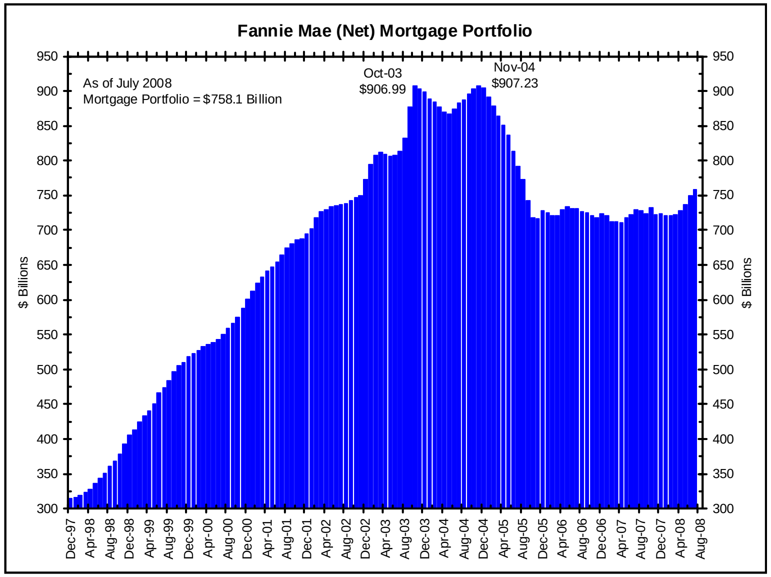
Sept. 21 (Bloomberg) -- The Bush administration widened the scope of its $700 billion plan to avert a financial meltdown by including assets other than mortgage-related securities.

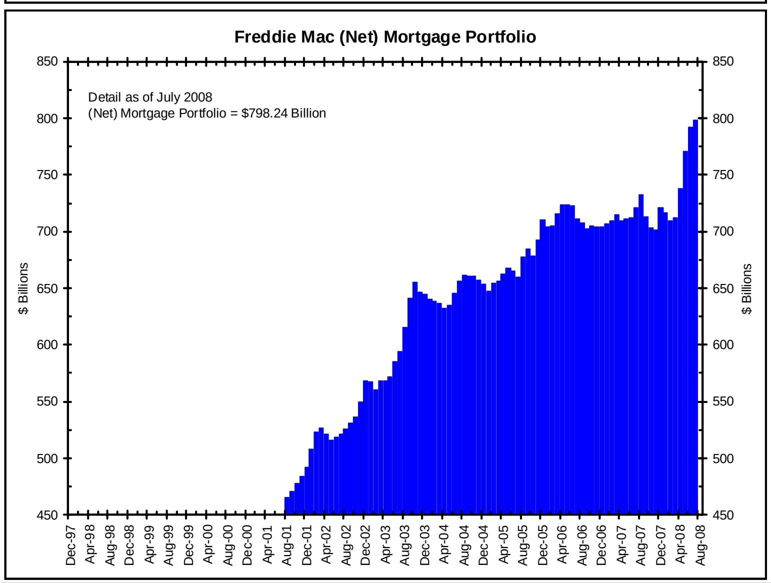
The U.S. Treasury submitted revised guidance to Congress on its plan, referring to its proposal to purchase so-called troubled assets, a change from its original plan for investments tied to home loans, according to a document obtained by Bloomberg News and confirmed by a congressional aide.

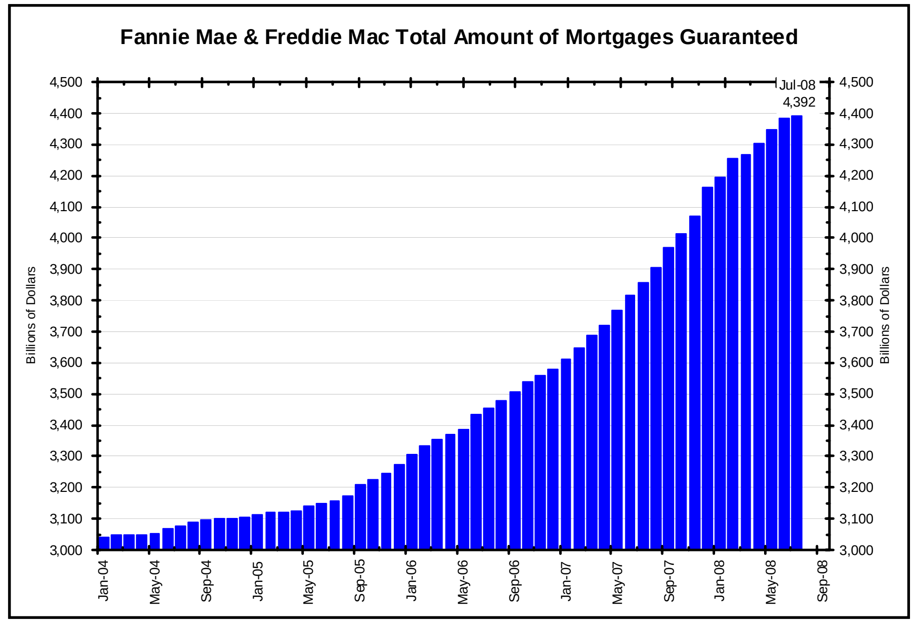
The change suggests the inclusion of instruments such as car and student loans, credit-card debt and any other troubled asset.

Firms that are headquartered outside the U.S. will now be eligible, in another change from the guidance sent to Congress yesterday, according to the document. The size of the plan remains unchanged.

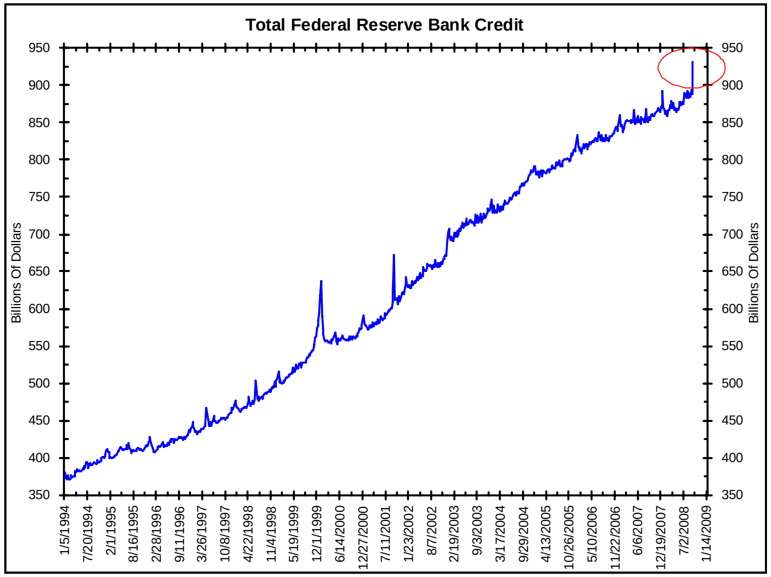
Treasury Has Two Other “TARPs” – Fannie and Freddie

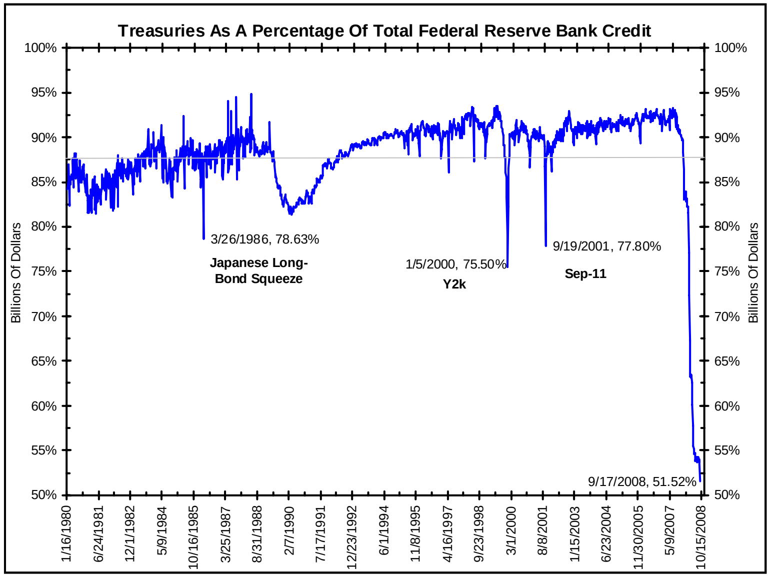


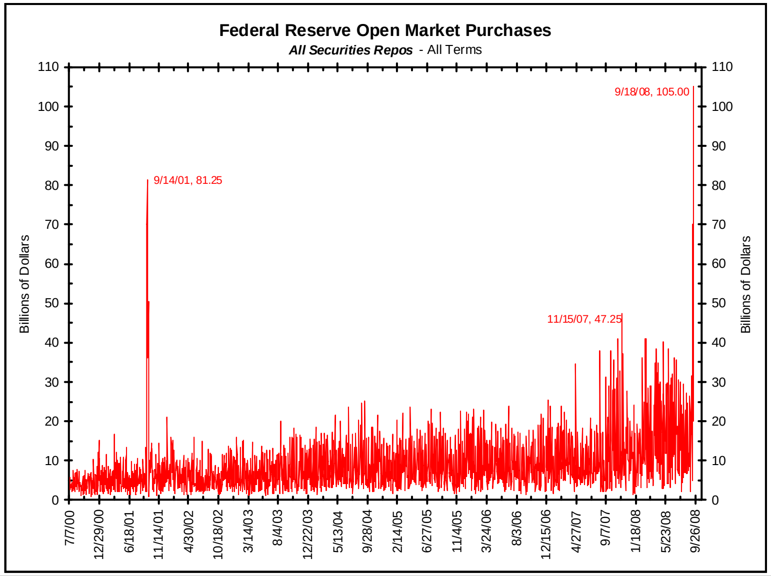


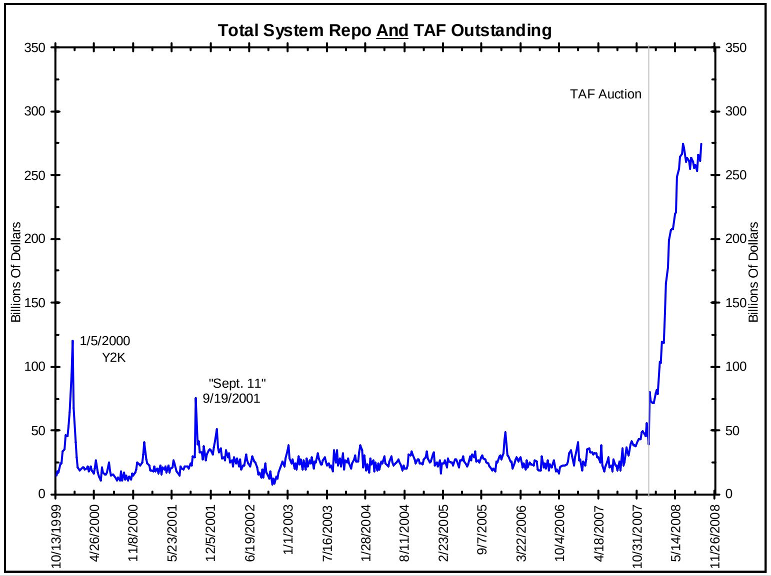


The Original "TARP" - Federal Reserve Credit

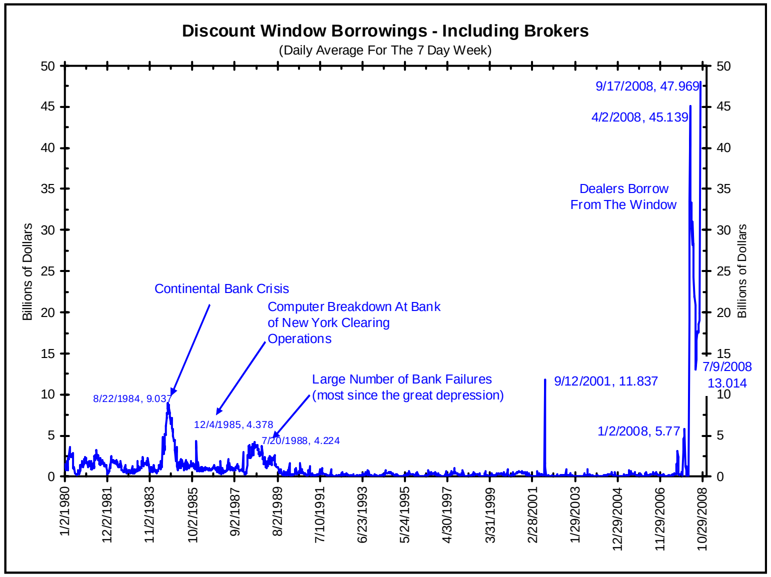


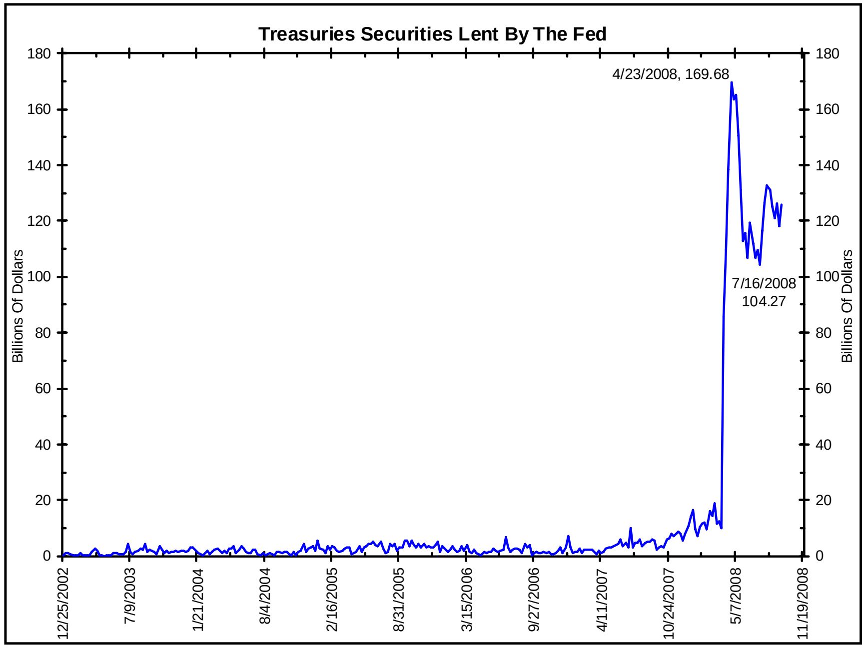


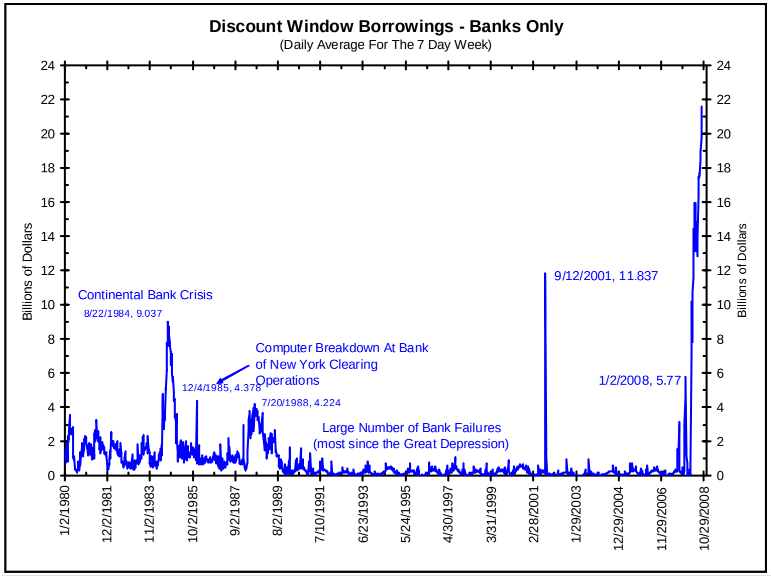




The Original "TARP" - Discount Window & Securities Lending







Past Unintended Consequences

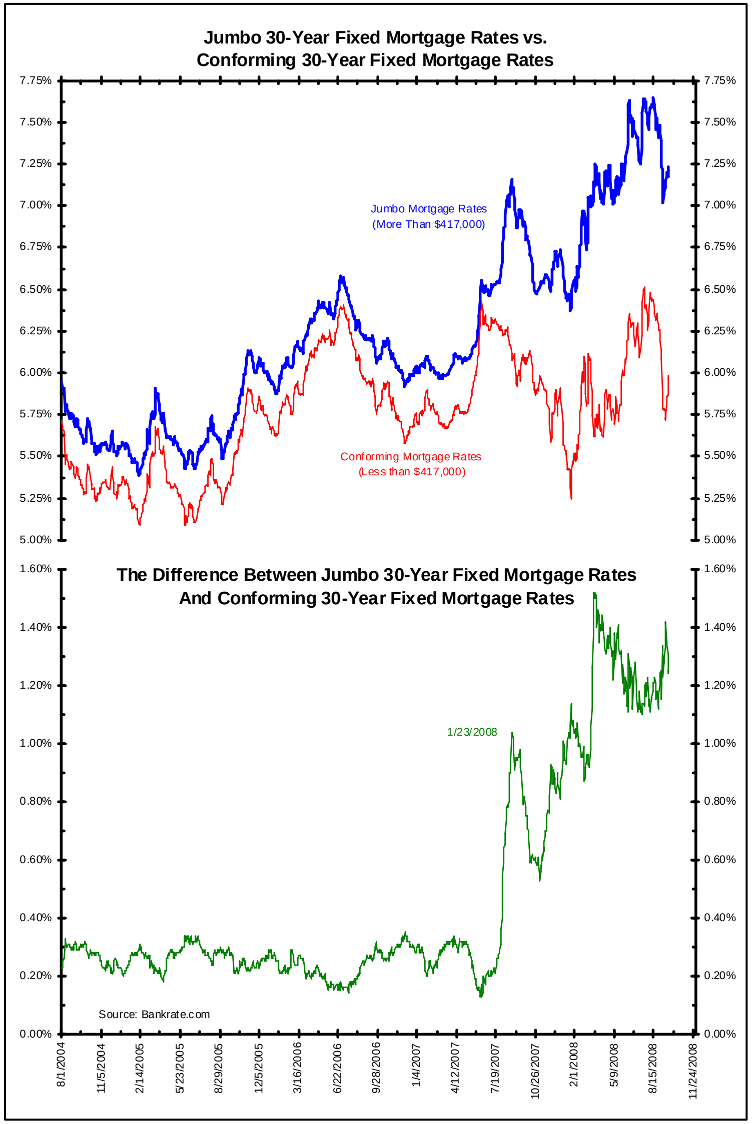
•**<u>Congress raises conforming limits on Fannie/Freddie to help unfreeze the mortgage market.</u>**
Result: agency spreads skyrocket, bringing down Bear and a host of hedge funds. Mortgage markets still remain frozen.

•**<u>Fed opens TSLF to unfreeze mortgage market</u>**
(chart on previous page)
Result: Carlyle goes bankrupt as people rapidly arbitrage the difference between holding MBS in firms that can and can't access the new credit facility. Mortgage markets remain frozen.

•**<u>GSE nationalization kills preferred stocks.</u>**
(Chart on page 6)
Result: crash of financial preferred stock market that accelerates Lehman’s demise.

•**<u>Lehman not bailed out.</u>**
Result: Liquidity squeeze that forced Merrill into the arms of BofA, AIG to go under and money fund break the buck that forces the Government to guarantee them.
Friday’s action has been described as the “mother of all bailouts”. Then it probably will result in the “mother of all unintended consequences.”

From Naked Capitalism
Richard Bookstaber discussed at length in his book, Demon of Our Own Design, this sort of unintended consequence is precisely what you'd expect to see in a tightly coupled system, such are our financial system. Tight coupling occurs when processes move from step to step so rapidly that intervention is well-nigh impossible. Bear Stearns and Lehman are classic examples. A downgrade of their debt beyond a certain level meant that their counterparties could no longer trade with them, because that exposure would get them downgraded too. Thus a move (or threatened move) beyond a trigger point kicked off a sequence of unstoppable events.



Potential Unintended Consequences

Guaranteeing Money Funds

The New York Times – (Sept 19) Rescue Plan for Funds Will Come at a Cost

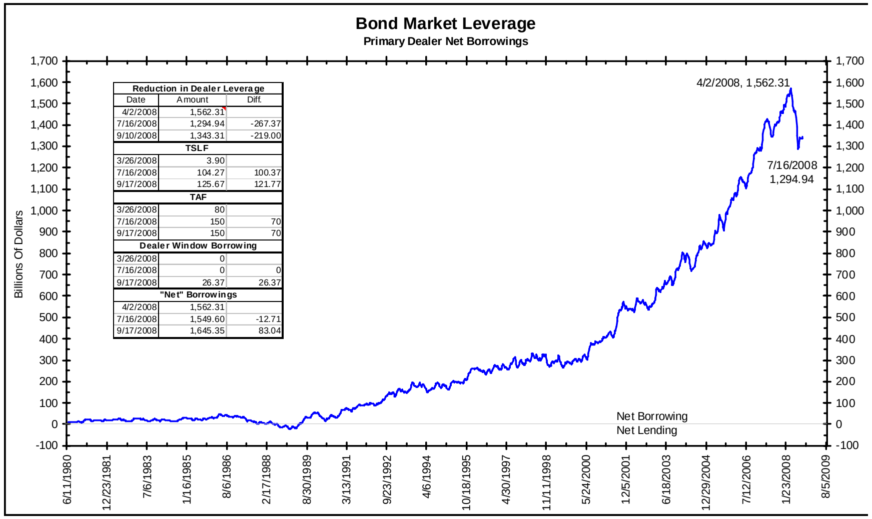
But the guarantee plan also drew immediate attack from the American Bankers Association, whose members compete with the money fund industry. The A.B.A.'s leaders warned that the plan could encourage investors to withdraw money from an already stressed banking system to seek higher yields in money funds while the guarantee is in place.

U.S. Treasury – (Sept. 22) Treasury Provides Further Clarity For Guaranty Program for Money Market Funds

The U.S. Treasury Department is continuing to develop the specific details surrounding the temporary guaranty program for money market funds that was announced on September 19, 2008.

3. The temporary guaranty program will be designed to provide coverage to shareholders for amounts held by them in such funds as of the close of business on September 19, 2008.

4. Further details on other aspects of the temporary guaranty program and the required documentation for funds to participate will be provided in the coming days



Ban On Short Selling

Barron's - Short-Sale Ban Hurts Hedgers

Until the government makes any decisions that would ease the short-selling ban, the options market will be a tough place for all but the most sophisticated investors to navigate. The ban already has caused a "massive disconnect" in stock indexes that include large percentages of financial stocks, says Jon Najarian, who once owned a major Chicago Board Options Exchange market-making firm, and now runs optionmonster.com, a trading advisory.

What If It Does Not Work?

CQ Politics - CQ Transcript: Treasury Secretary Henry Paulson Interviewed on ABC's "This Week with George Stephanopoulos"

STEPHANOPOULOS: It wasn't enough. And what if this new plan doesn't work? Someone who was briefed by your team said this plan was described as the last wrench in the tool box. What if it doesn't work?

PAULSON: Well, this is something that has to work. I very much believe it will work. You know, George, we work our way through these situations as a people. We always get through these situations, and we will get through these situations. And the key here is to get through this with as little negative impact on the American people as possible.

Chart: Preventing Deleveraging

The Problem Is Loss of Capital, Not Liquidity

Total Banking System Losses & Capital Raised
As of September 10, 2008
Billions of U.S. Dollars

Firm	Loss	Capital Raised	Difference
Citigroup	55.1	49.1	(6.00)
Merrill Lynch	52.2	29.9	(22.30)
UBS	44.2	27.7	(16.50)
HSBC	27.4	5.1	(22.30)
Wachovia	22.7	11.0	(11.70)
Bank of America	21.2	20.7	(0.50)
Washington Mutual	14.8	12.1	(2.70)
IKB Deutsche	14.4	11.9	(2.50)
Morgan Stanley	14.4	5.6	(8.80)
JPMorgan Chase	14.3	9.5	(4.80)
Royal Bank of Scotland	13.8	22.5	8.70
Lehman Brothers	13.8	13.9	0.10
Deutsche Bank	10.2	3.2	(7.00)
Credit Suisse	10.1	2.7	(7.40)
Wells Fargo	10.0	5.8	(4.20)
Credit Agricole	8.6	8.3	(0.30)
European Banks Not listed	8.2	2.9	(5.30)
Barclays	7.5	17.5	10.00
Fortis	7.0	6.8	(0.20)
Canadian Imperial (CIBC)	7.0	2.7	(4.30)
Bayerische Landesbank	6.8	0.0	(6.80)
HBOS PLC	6.6	7.0	0.40
ING Groep	6.5	4.6	(1.90)
Societe Generale	6.4	9.2	2.80
Mizuho Financial Group	6.0	0.0	(6.00)
Other Asian banks (excluding Mizuho, Nomura)	5.5	8.9	3.40
National City	5.4	8.9	3.50
Natixis	5.2	11.6	6.40
IndyMac	4.9	0.0	(4.90)
Lloyds TSB	4.6	4.8	0.20
LB Baden Wuerttemberg	4.6	0.0	(4.60)
West LB	4.5	7.2	2.70
Dresdner	3.8	0.0	(3.80)
BNP Paribas	3.8	0.0	(3.80)
Goldman	3.8	0.6	(3.20)
Etrade	3.6	2.4	(1.20)
Rabobank	3.4	0.0	(3.40)
Nomura Holdings	3.3	1.2	(2.10)
Bear Stearns	3.2	0.0	(3.20)
Bank of China	3.1	0.0	(3.10)
Other US Frims	2.9	4.7	1.80
HSH Nordbank	2.7	1.8	(0.90)
DZ Bank	2.6	0.0	(2.60)
Landesbank Sachsen	2.5	0.0	(2.50)
Unicredit	2.4	0.0	(2.40)
Commerzbank	2.2	0.0	(2.20)
ABN Amro	2.2	0.0	(2.20)
Royal Bank of Canada	2.1	0.0	(2.10)
Fifth Third Bankcorp	1.9	2.6	0.70
Mitsubishi UFJ	1.6	1.6	0.00
Dexia	1.6	0.0	(1.60)
Bank Hapoalim	1.5	2.4	0.90
Alliance & Leicester	1.4	0.0	(1.40)
Marshall & Ilsley	1.4	0.0	(1.40)
US bancorp	1.3	0.0	(1.30)
Caisse d'Epargne	1.2	0.0	(1.20)
Bank of Montreal	1.2	0.0	(1.20)
KeyCorp	1.2	1.7	0.50
Hypo Real Estate	1.1	0.0	(1.10)
Gulf International	1.0	1.0	0.00
Sovereign Bancorp	1.0	1.9	0.90
Sumitomo	0.9	4.8	3.90
Sumitomo Trust	0.7	1.0	0.30
National Bank of Canada	0.6	0.9	0.30
Other Canadian banks (excluding CIBC)	0.4	0.0	(0.40)
DBS Group	0.2	1.0	0.80
Total*	**511.7**	**360.7**	(151.00)

Source: Bloomberg L.P.

From A Recent Commentary

Worldwide Financial System Losses and Capital Raised
As of September 22, 2008
In Billions of Dollars

	Total		Q3 2008		Q2 2008		Q1 2008		Q4 2007		Q3 2007		Prior	
	Losses	Capital	Losses	Capital	Losses	Capital	Losses	Capital	Losses	Capital	Losses	Capital	Losses	Capital
America	**265.2**	**184.3**	**18.2**	**22.5**	**70.4**	**71.0**	**69.4**	**59.9**	**75.9**	**30.1**	**30.1**	**0.8**	**1.2**	**0.0**
Europe	**232.4**	**158.2**	**0.0**	**24.4**	**42.0**	**85.6**	**90.4**	**23.6**	**82.3**	**15.3**	**14.8**	**9.3**	**2.9**	**0.0**
Asia	23.9	22.1	0.0	4.9	3.5	13.8	9.4	3.4	10.7	0.0	0.3	0.0	0.0	0.0
Worldwide	**521.5**	**364.6**	**18.2**	**51.8**	**115.9**	**170.4**	**169.2**	**86.9**	**168.9**	**45.4**	**45.2**	**10.1**	**4.1**	**0.0**

Source: Bloomberg

Who Is <u>Not</u> On the List?

Keep in mind these losses are for financial intermediaries (banks and brokers) only. Not included on this list are "*Other financial firms*" such as:

- Fannie Mae and Freddie Mac,
- Monoline and other insurance companies (AIG),
- Finance companies (GE Capital and CIT),
- Hedge funds
- Private equity firms and,
- Other financial institutions such as pension managers and endowments.

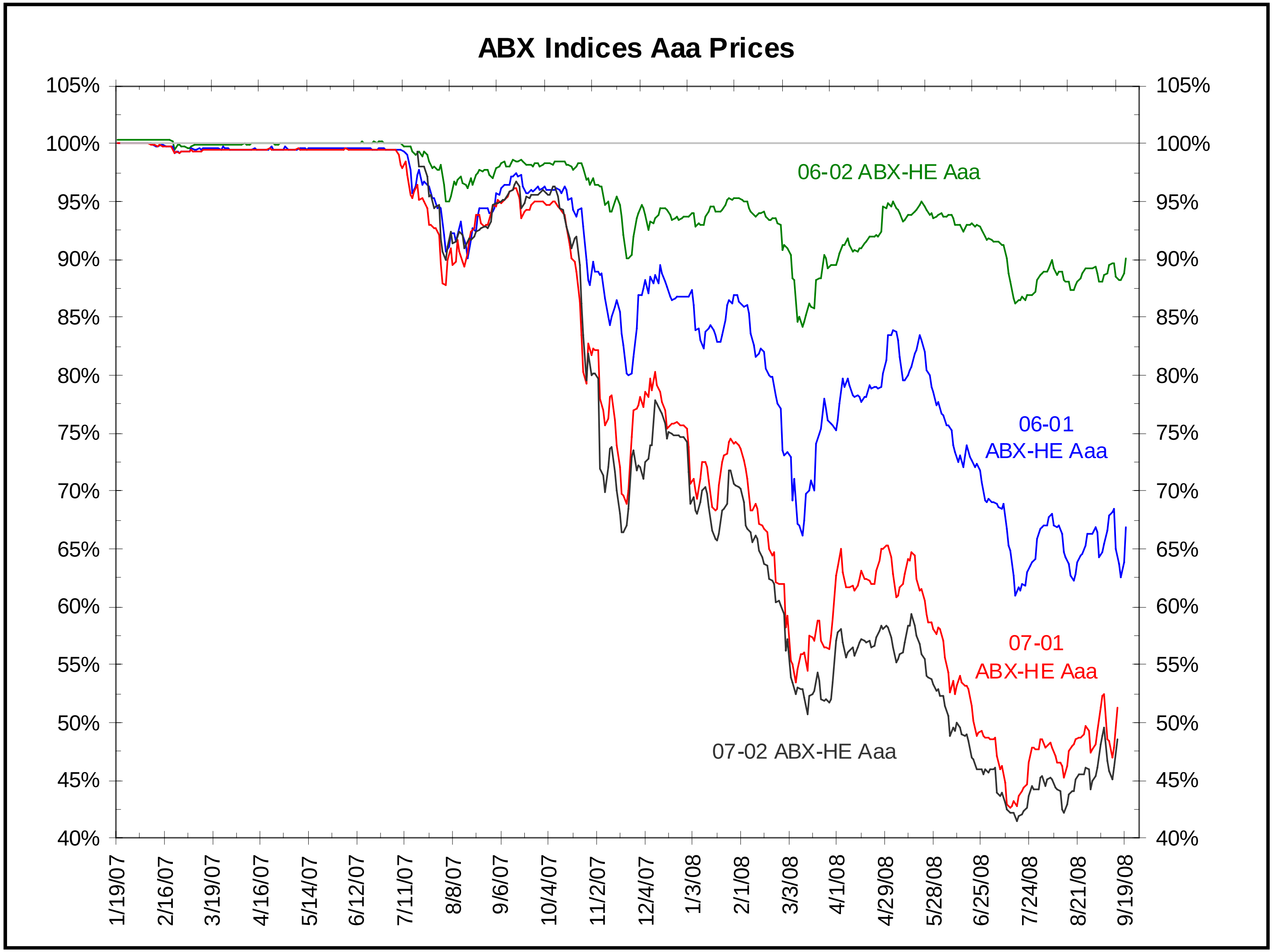
The list populating the table above has been restricted to financial intermediaries for purposes of consistency over time. Those firms not accounted for do not change the directional conclusion:

Combine the financial sector losses of $600 billion with another $200 billion for the *other financial firms* and **we estimate that $800 billion of losses have been booked already.**

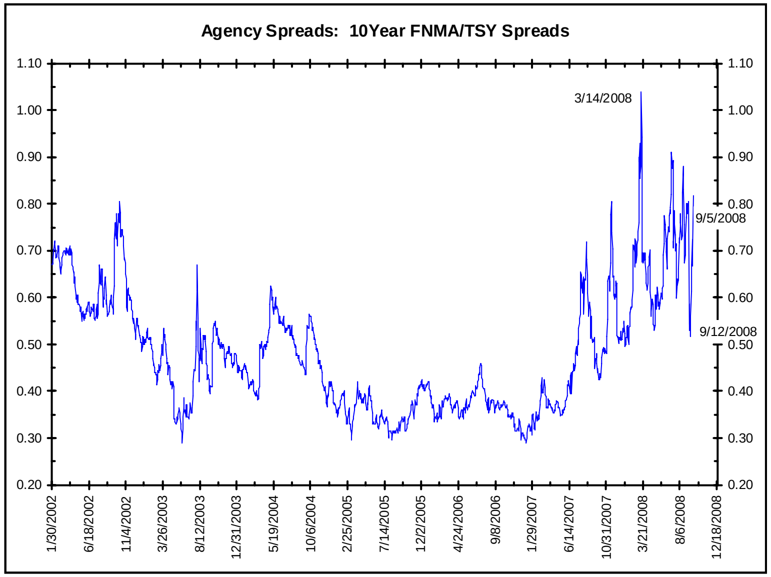
Non Bank/Broker Losses
As of 9/18/2008

Insitution	Billions
AIG	$36.3
Fannie Mae	$8.3
Freddie Mac	$7.9
MBIA	$7.9
Ambac	$7.5
XL Capital	$2.9
E*Trade	$2.2
FGIC	$2.0
Thornburg	$1.5
Hypo Real Estate	$1.2
Swiss Re	$1.2
GMAC	$0.5
Total	**$79.4**

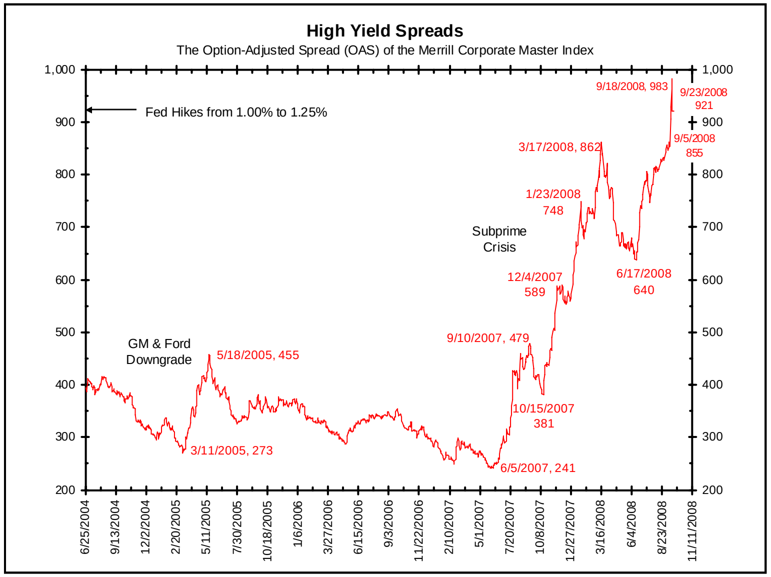
Will ABX Tell Us It Is Working?



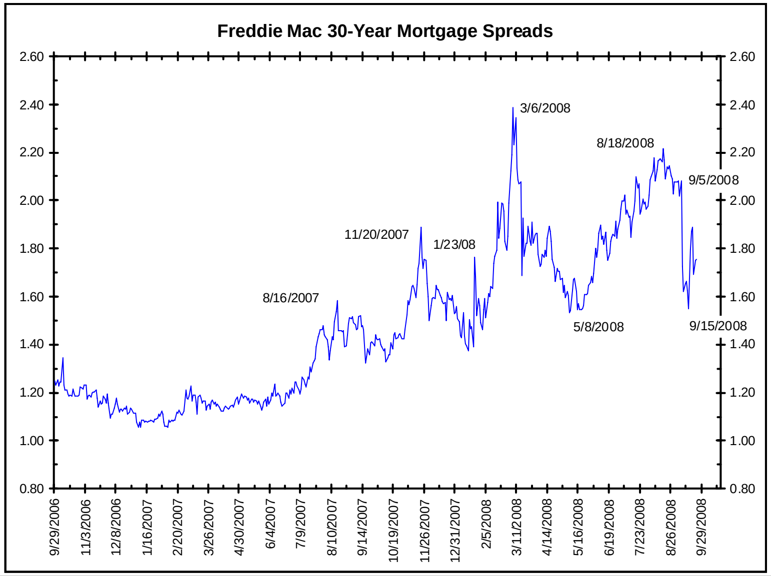
Will Credit Spreads Tell Us It Is Working?



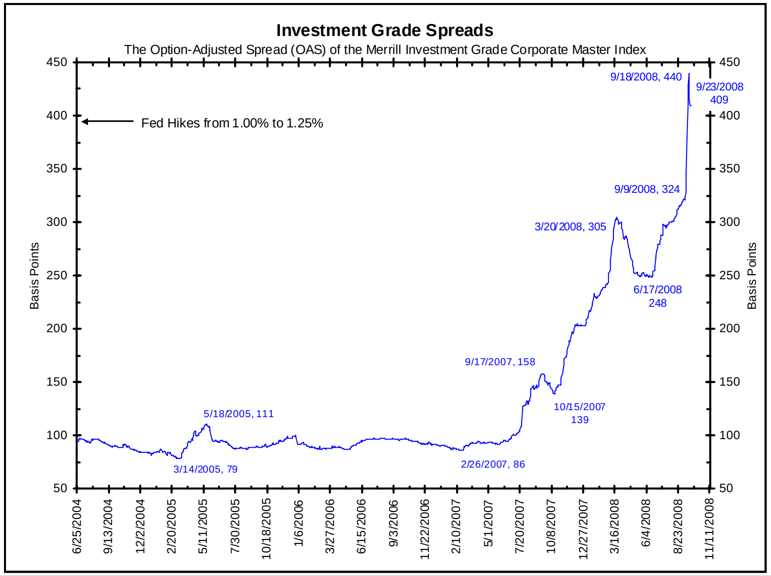
Agency Spreads: 10Year FNMA/TSY Spreads



High Yield Spreads

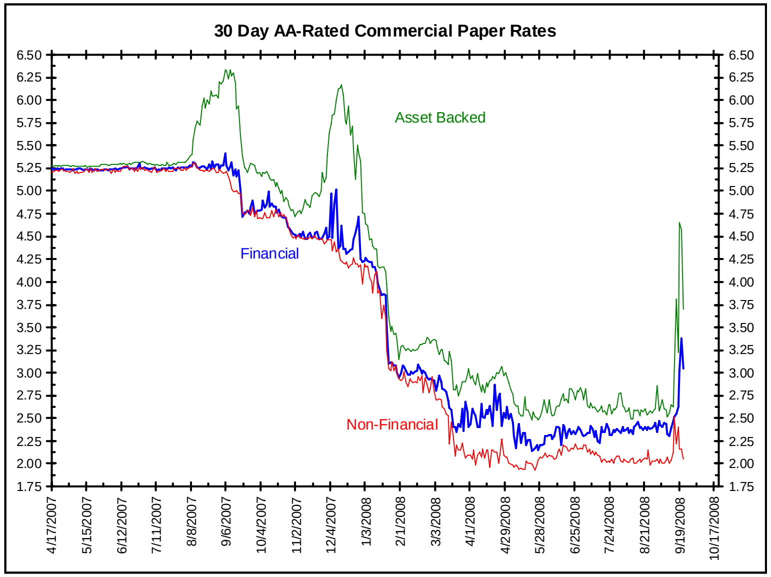


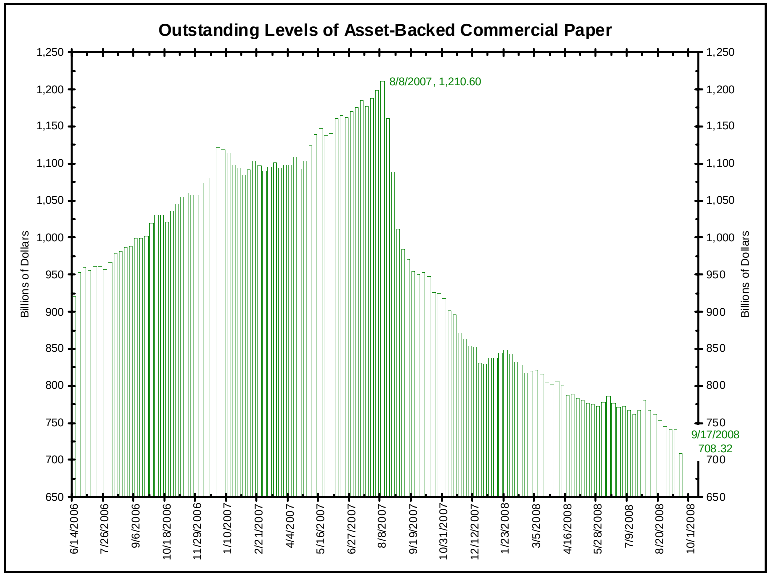
Freddie Mac 30-Year Mortgage Spreads

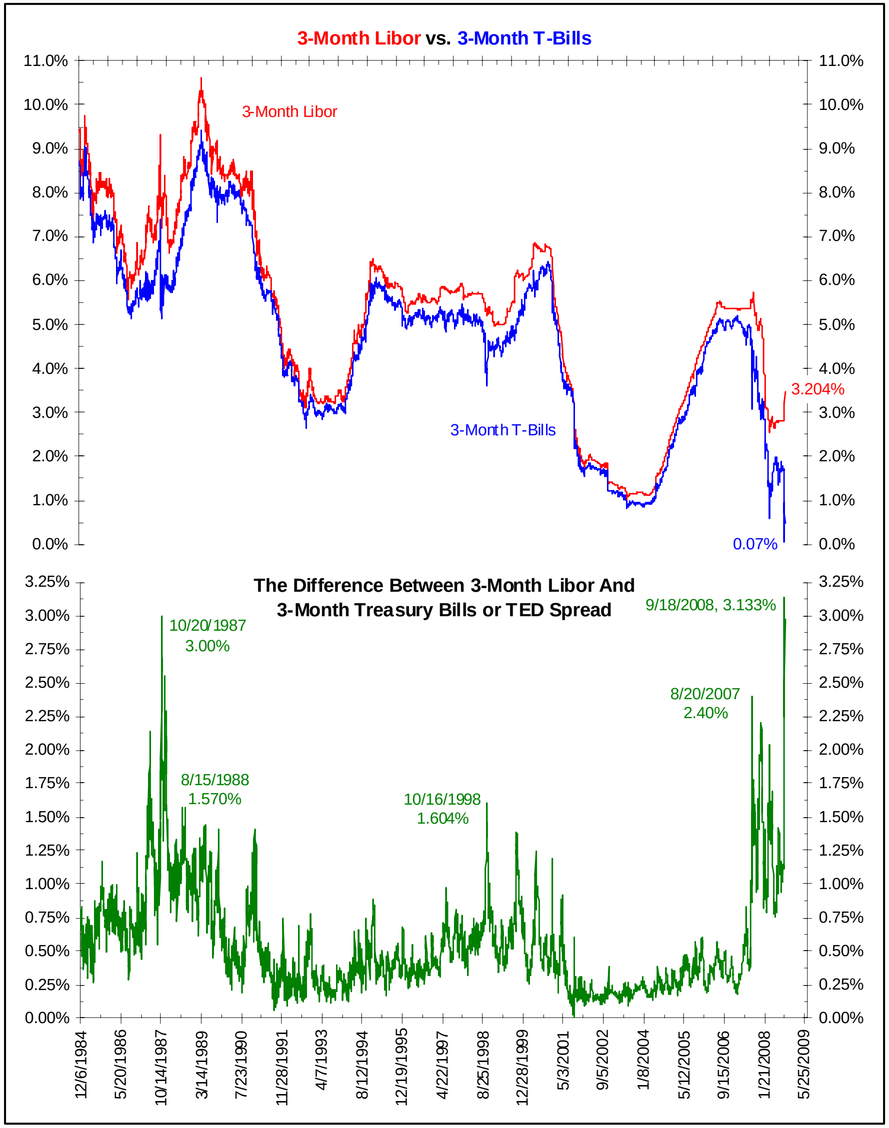


Investment Grade Spreads

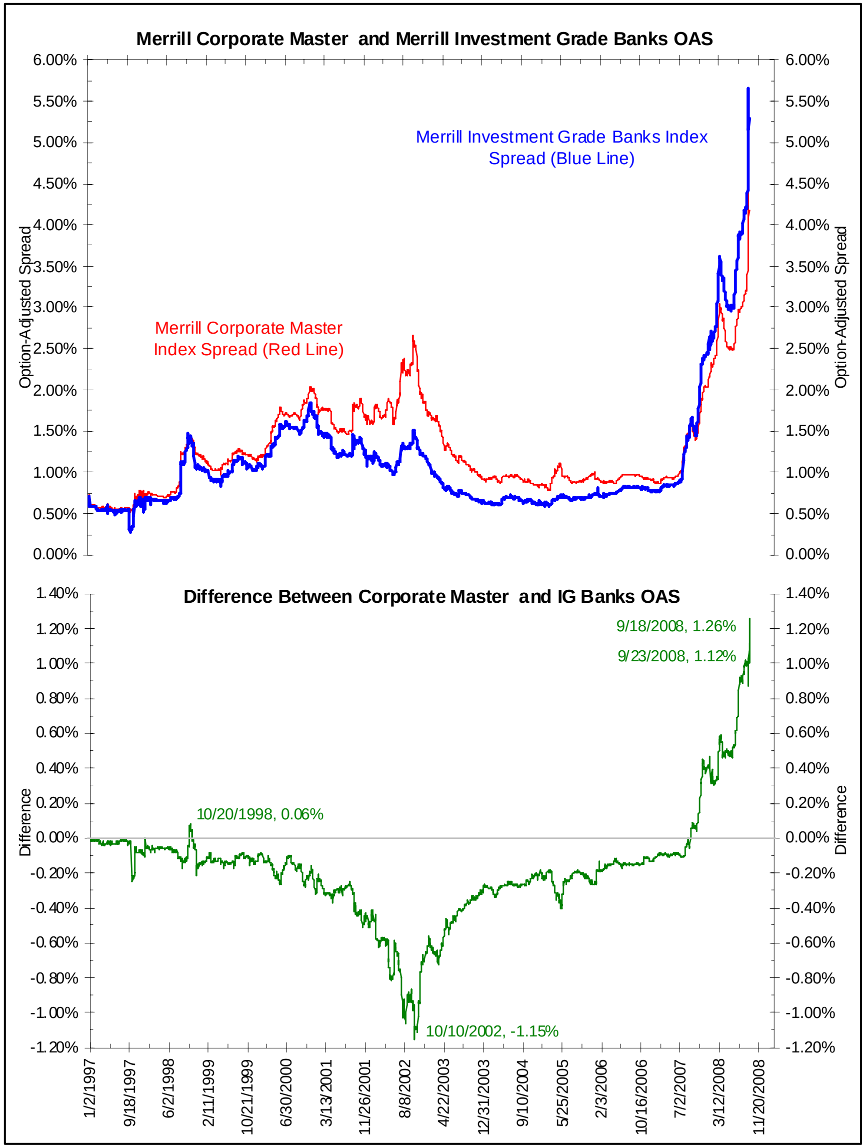
Will Funding Stresses Tell Us It Is Working?

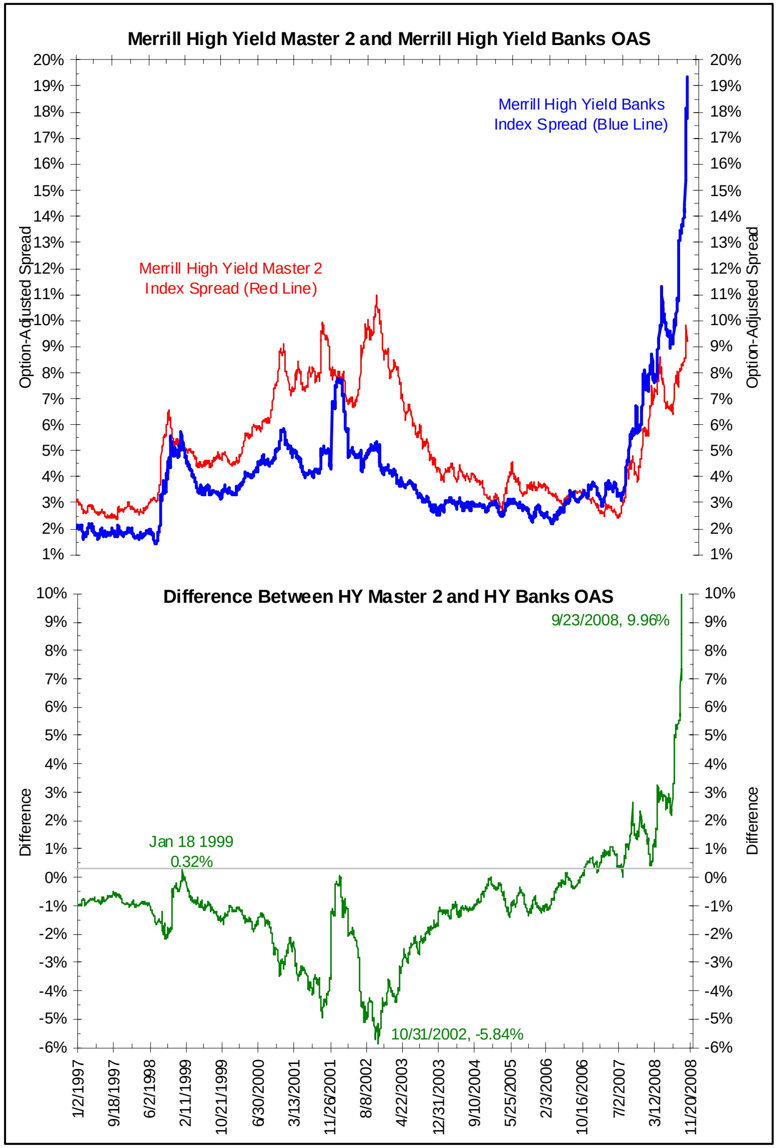




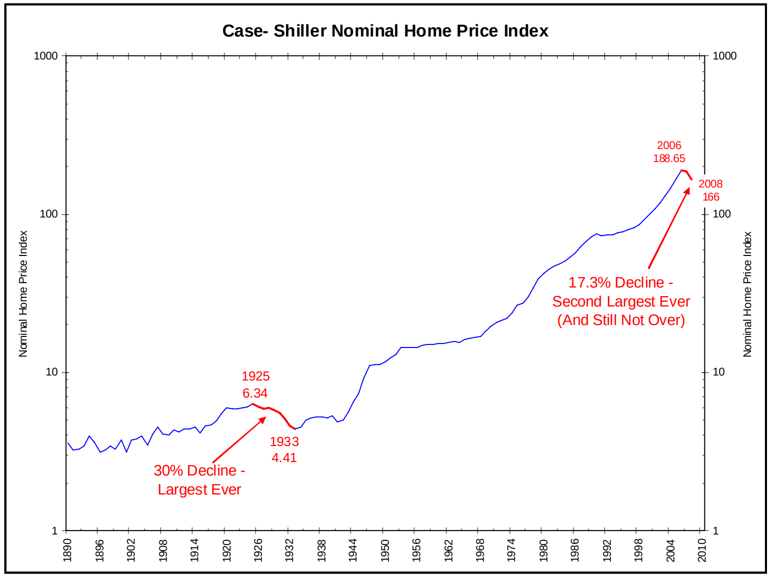


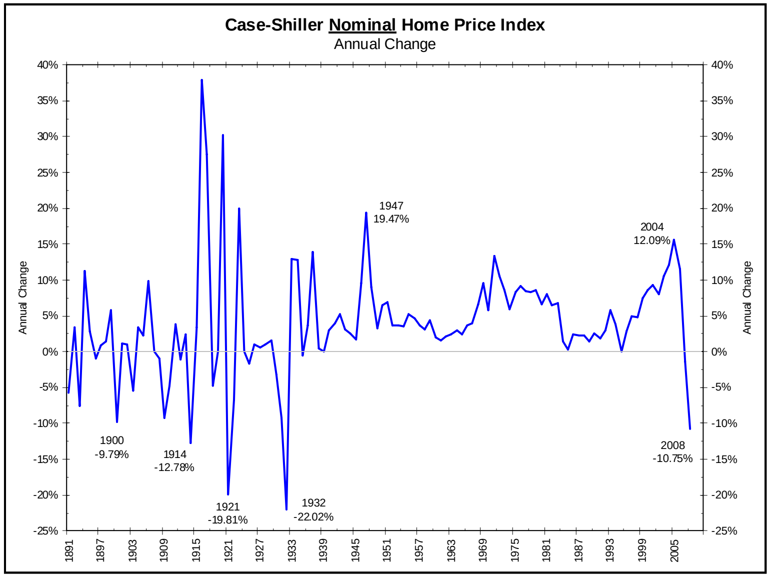
Will Bank Credit Tell Us It Is Working?

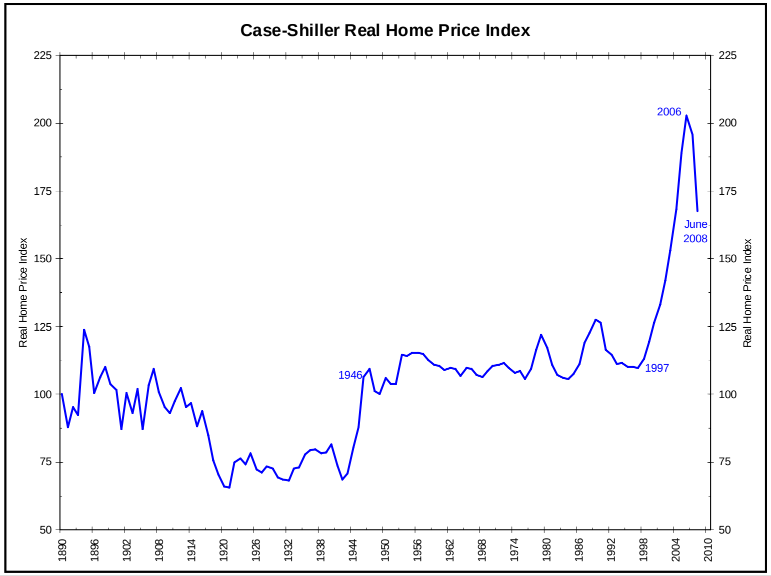


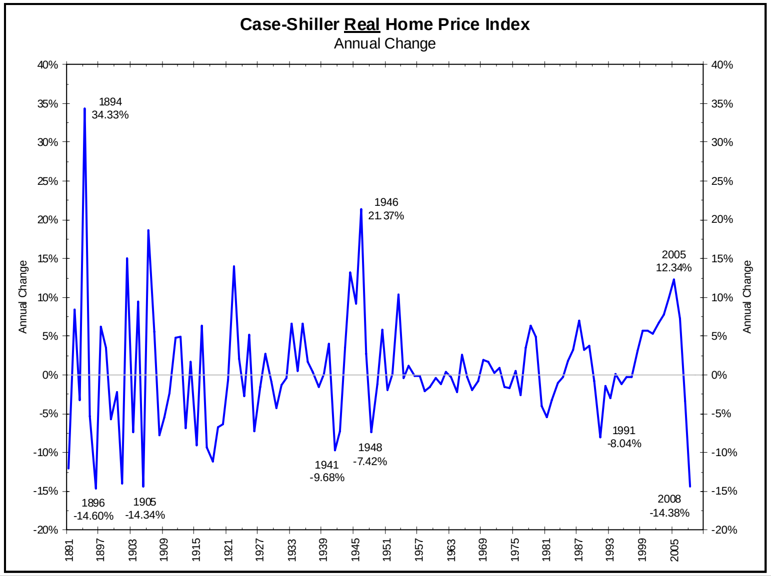


Worst Home Market Since The Depression

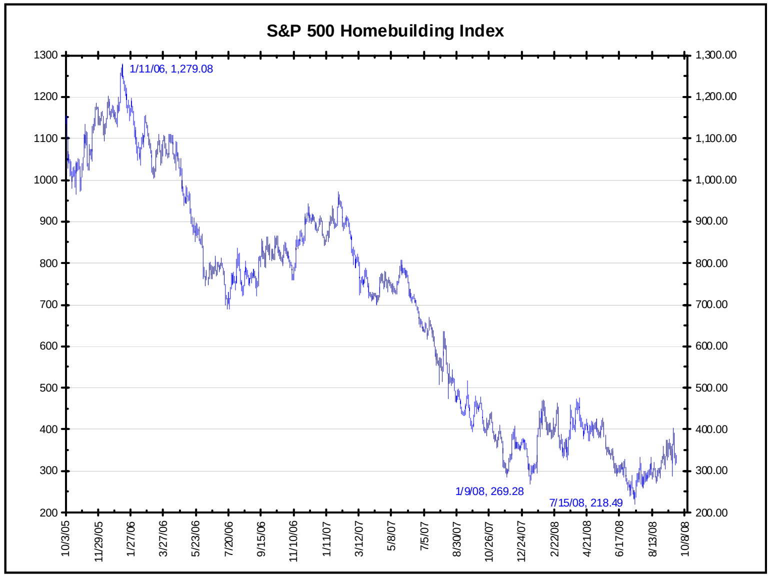


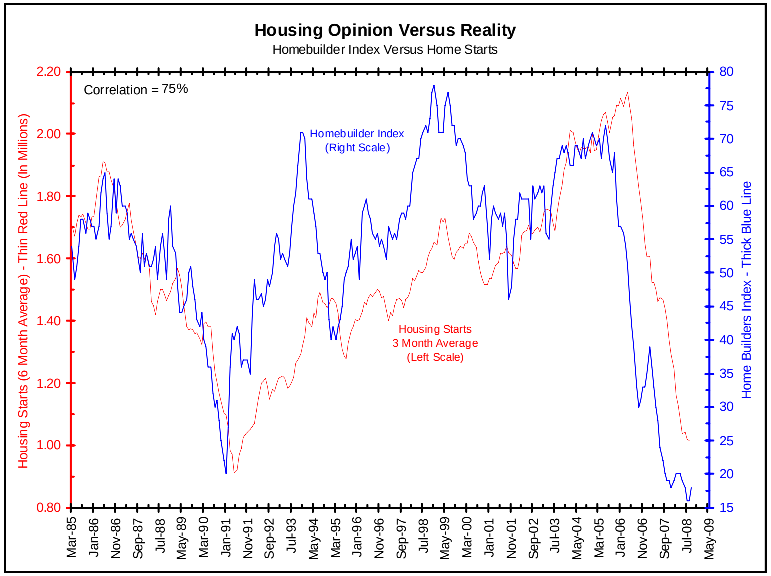


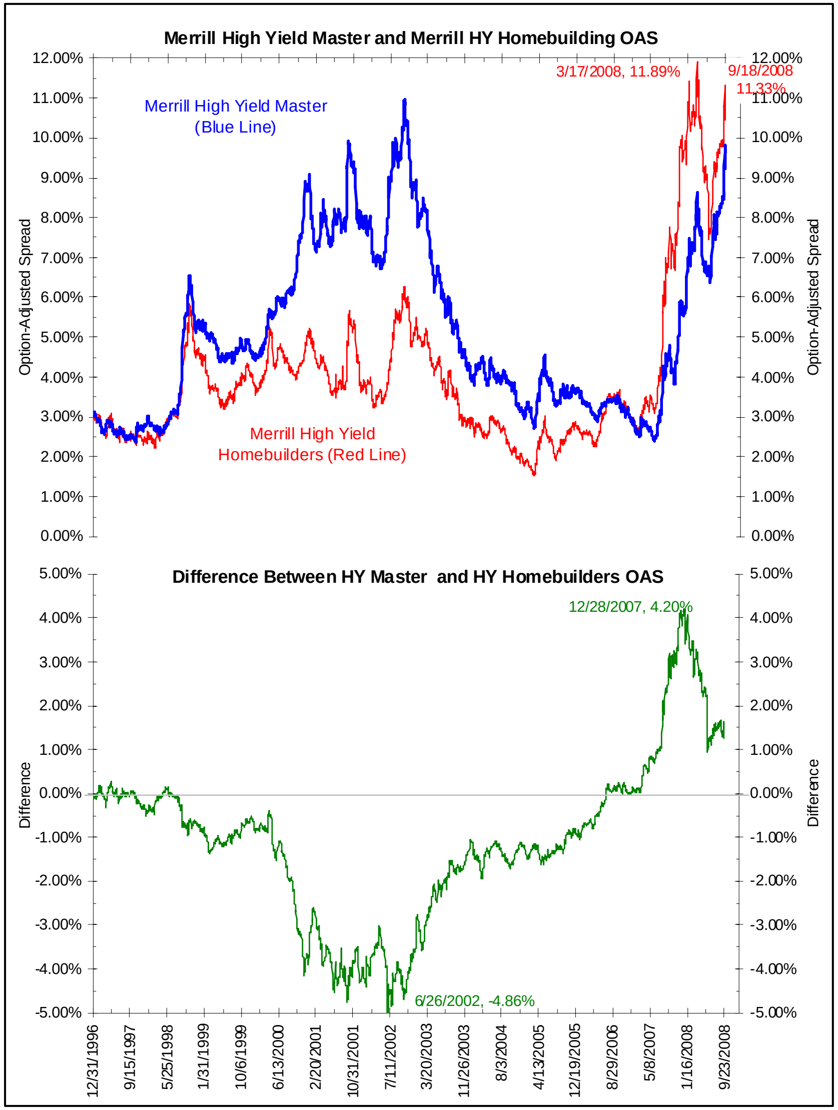




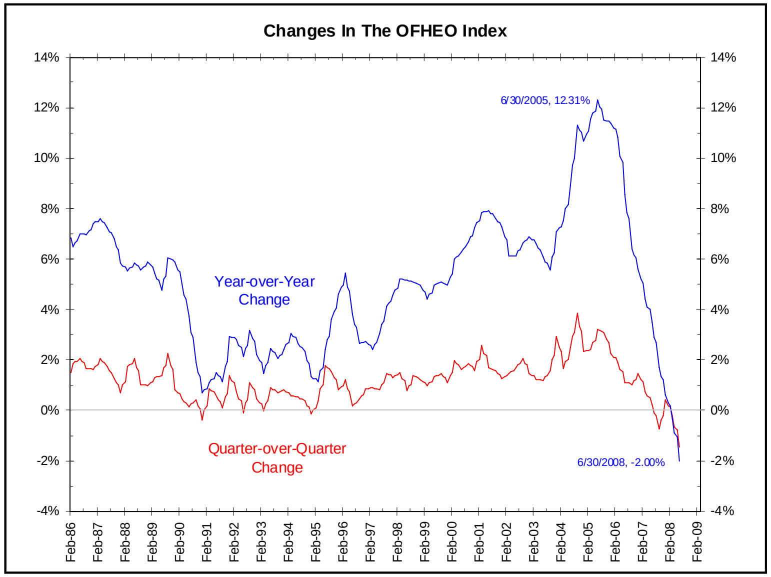
Measures That Might Lead A Bottom In Home Prices

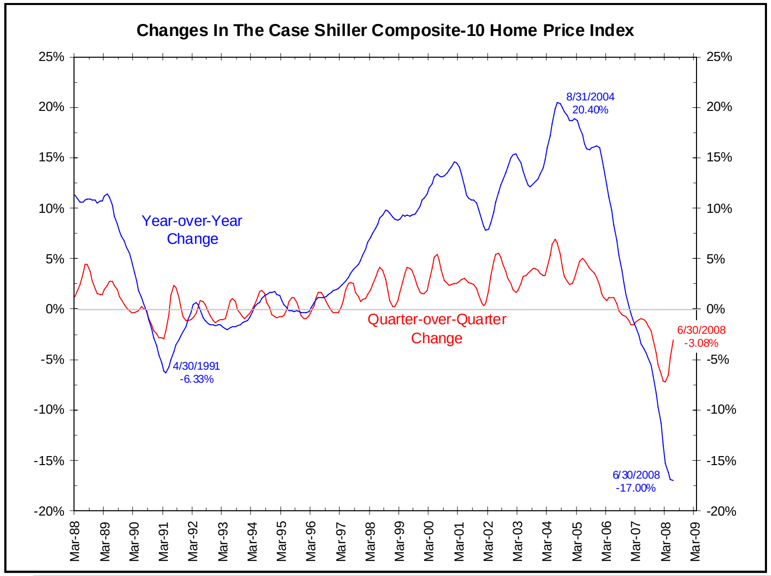


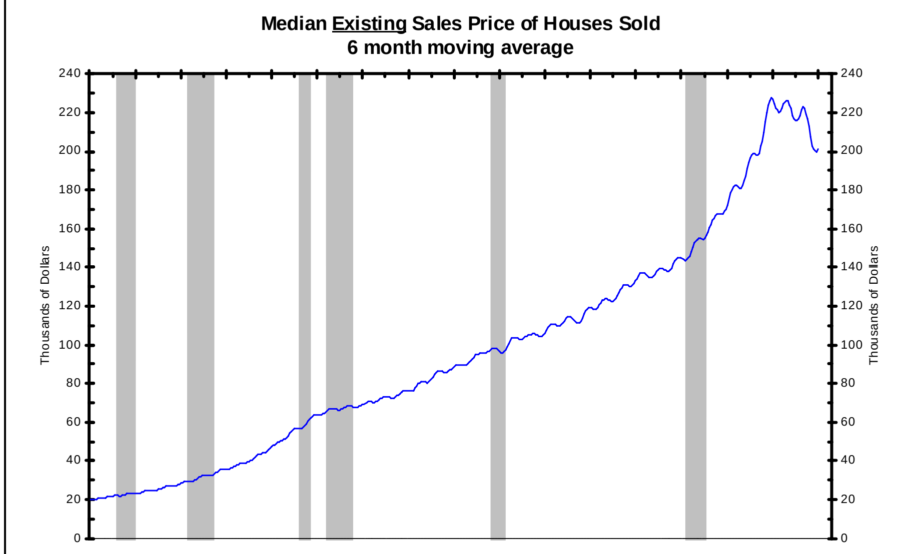


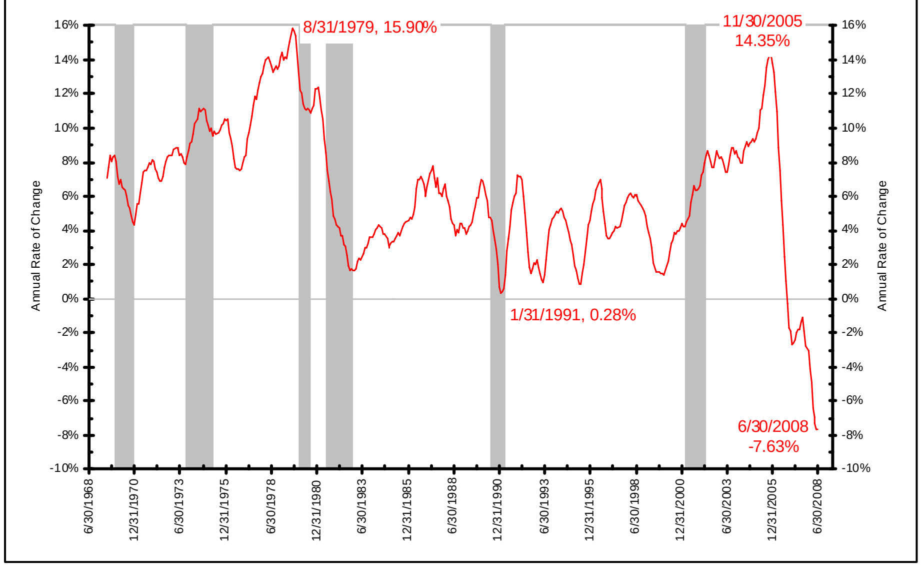


Measuring Home Prices









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