UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

IN RE BARCLAYS BANK PLC SECURITIES LITIGATION	Master File No. 1:09-cv-01989-PAC
	ECF Case
This Document Relates to: All Actions	

DECLARATION OF RICHARD DOYLE

I, Richard Doyle, declare and state as follows:

1. I am a Managing Director in Europe, Middle East and Africa Capital Commitments in the Global Capital Markets group at Merrill Lynch International. I submit this declaration in support of the Underwriter Defendants' Motion for Summary Judgment.

2. Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") served as an underwriter and joint lead underwriter in connection with the April 2008 offering by Barclays Bank Plc ("Barclays") of $2.5 billion of 8.125% non-cumulative callable dollar preference shares, Series 5 (the "Series 5 Offering"). At the time of the Series 5 Offering, I was employed as a Managing Director in Global Transaction Management at Merrill Lynch International. The facts set forth herein are based on my personal knowledge and review of relevant information relating to Merrill Lynch's role as an underwriter in the Series 5 Offering, and are true and correct to the best of my recollection.

I. Merrill Lynch Has a Longstanding Relationship with Barclays

3. Prior to the Series 5 Offering, Merrill Lynch participated in and performed due diligence in connection with the following offerings conducted by Barclays:

- an offering of 100,000 US Dollar 6.278% non-cumulative callable preference shares of $100 each in June 2005 (the "Series 1 Offering");
- an offering of 30 million US Dollar 6.625% non-cumulative callable preference shares of $25 each in April 2006 (the "Series 2 Offering"); and
- an offering of 46 million US Dollar 7.75% non-cumulative callable preference shares of $25 each in December 2007 (the "Series 4 Offering").

4. In addition to the due diligence performed in connection with the transactions listed above, Merrill Lynch conducts, and conducted at the time of the Series 5 Offering, regular and continuous due diligence on Barclays and its business. The nature of this continuous due diligence includes, for example, publishing and reviewing analyst reports covering Barclays, examining periodic and other filings made by Barclays with the SEC, monitoring media reports, market alerts and news reports relating to Barclays, reviewing credit agency reports covering Barclays and circulating internal updates covering Barclays and the financial services industry.

5. Merrill Lynch's due diligence in connection with the Series 5 Offering drew upon and was informed by its due diligence in connection with these prior offerings by Barclays and its continuous due diligence of Barclays.

6. For example, in November 2007, in advance of the Series 4 Offering, Merrill Lynch performed due diligence concerning Barclays' exposure to sub-prime assets and related writedowns announced by Barclays the same month. This due diligence included, among other things, circulation and review of internal updates and market updates covering Barclay's November 2007 writedown of sub-prime related assets.

7. Attached hereto as Exhibit 1 is a true and correct copy made and kept in the regular course of business at Merrill Lynch of a November 12, 2007 internal e-mail distribution received by my colleague Elisabeth Grennon noting speculation that Barclays

may provide disclosure to investors about potential writedowns the same week. The circulation and review of this and similar e-mail distributions is consistent with regular practice at Merrill Lynch in connection with Merrill Lynch's ongoing due diligence of securities issuers.

8. Attached hereto as Exhibit 2 is a true and correct copy made and kept in the regular course of business at Merrill Lynch of a November 15, 2007 e-mail sent by an employee from Merrill Lynch's Debt Capital Markets group, which my colleague Elisabeth Grennon received, announcing Barclays' November 15, 2007 writedown of sub-prime related mortgage assets. This e-mail was circulated consistent with regular practice at Merrill Lynch in connection with Merrill Lynch's monitoring of Barclays and global financial markets.

9. Attached hereto as Exhibit 3 is a true and correct copy made and kept in the regular course of business of a November 19, 2007 e-mail from my colleague Julien Roman circulating an article from the publication *Credit Sights* addressing of the exposure of European financial institutions, including Barclays, to CDO's. That article noted that Barclays' November 2007 writedown and the CDO exposures disclosed by Barclays were consistent with *Credit Sights*' own modeling. This e-mail and attachment were circulated consistent with regular practice at Merrill Lynch in connection with Merrill Lynch's ongoing due diligence of securities issuers.

10. Merrill Lynch's due diligence of Barclays in advance of the Series 4 Offering also included the circulation and review of reports prepared by Merrill Lynch and credit ratings agencies covering Barclays. These reports addressed, among other things, Barclays' exposure to sub-prime related assets and Barclays' November 2007

writedown. Attached hereto as Exhibit 4 is a true and correct copy made and kept in the regular course of business at Merrill Lynch of a November 27, 2007 e-mail from my colleague Lisa Grennon to recipients in Merrill Lynch's Financial Products group attaching: (i) a trading update published by Barclays PLC on November 27, 2007; (ii) an October 8, 2007 report prepared by Merrill Lynch covering Barclays; (iii) a November 2, 2007 report prepared by Merrill Lynch covering Barclays; (iv) two November 15, 2007 reports prepared by Merrill Lynch covering Barclays; (v) a November 27, 2007 report prepared by Merrill Lynch covering Barclays; (vi) a November 16, 2007 comment published by Moody's Investors Service discussing Barclays' November 15, 2007 writedown; (vii) an October 23, 2007 credit opinion prepared by Moody's Investors Service covering Barclays; (viii) a November 12, 2007 report prepared by Standard and Poor's covering Barclays; (ix) a November 16, 2007 report prepared by Standard and Poor's covering Barclays' November 15, 2007 writedown; (x) an October 10, 2007 credit analysis prepared by Fitch Ratings covering Barclays; and (xi) a November 15, 2007 report prepared by Fitch Ratings covering Barclays' November 15, 2007 writedown. This e-mail and attachments were circulated consistent with regular practice at Merrill Lynch in connection with Merrill Lynch's ongoing due diligence of securities issuers.

11. Merrill Lynch's due diligence of Barclays in advance of the Series 4 Offering also included review and consideration of public remarks made by officers at Barclays and affiliated entities concerning Barclays' exposure to sub-prime assets. For example, attached hereto as Exhibit 5 is a true and correct copy made and kept in the regular course of business at Merrill Lynch of a November 27, 2007 e-mail from me to several colleagues attaching and discussing, among other things, remarks made by Robert

E. Diamond Jr., then-President of Barclays PLC, at a financial services conference. At the conference in question, Mr. Diamond discussed Barclays' exposure to sub-prime assets and steps taken by Barclays to mitigate this exposure.

II. Due Diligence Performed by Merrill Lynch in Connection with the Series 5 Offering

12. Citigroup Global Markets Inc. ("Citi") served as the lead underwriter in connection with the Series 5 Offering. Consistent with industry practice, Citi performed certain due diligence in connection with the Series 5 Offering on behalf of the underwriting syndicate, including Merrill Lynch. Merrill Lynch monitored the due diligence performed by Citi in connection with the Series 5 Offering and at no point had any reason to believe that the due diligence performed by Citi was inadequate, nor did it have any reason to believe that additional due diligence was necessary. In addition, Merrill Lynch independently undertook its own due diligence efforts in connection with the Series 5 Offering. These independent due diligence efforts are described below.

13. In addition to Citi, Merrill Lynch's due diligence efforts in connection with the Series 5 Offering were undertaken in collaboration with numerous other parties familiar with Barclays and its business. These other parties included Linklaters LLP ("Linklaters"), who served as designated counsel to the underwriters; Sullivan & Cromwell LLP ("S&C"), who served as United States counsel to Barclays; Clifford Chance LLP ("Clifford Chance"), who served as English counsel to Barclays; PricewaterhouseCoopers LLP ("PwC"), who served as Barclays' independent auditors; and the other members of the underwriting syndicate management team. These underwriters included Barclays Capital Securities Limited ("BCSL"), UBS Securities LLC ("UBS"), Wachovia Capital Markets, LLC ("Wachovia"), Morgan Stanley & Co.,

Incorporated ("Morgan Stanley"), RBC Dain Rauscher Incorporated ("RBC") and Banc of America Securities LLC ("Banc of America Securities").

14. Merrill Lynch assembled a team of individuals familiar with Barclays and its business to participate in the Series 5 Offering. Below are the individuals at Merrill Lynch who participated in the Series 5 Offering. The chart indicates in the columns labeled "Series 4" and "Series 2" whether each individual was also staffed on the Series 4 Offering and/or Series 2 Offering, respectively. Merrill Lynch's staffing of the Series 5 Offering with personnel that worked on these prior offerings enhanced Merrill Lynch's due diligence in connection with the Series 5 Offering, allowing Merrill Lynch to more readily build upon its prior due diligence for purposes of the Series 5 Offering.

Name	Title	Series 4	Series 2
FIG CM&F Europe			
Siddharth Prasad	Managing Director, Head of EMEA CM&F FIG		X
Matthew Pass	Managing Director	X	X
Julien Roman	Vice President	X	X
Robin Palmer	Senior Analyst	X	
FIG CM&F US			
Eric Wilson	Managing Director, Joint Head of US CM&F FIG	X	X
Christine MacDonald	Analyst, FIG CM&F Americas	X	
Lisa Grennon	Director, US Retail Syndicate	X	X
Ed Eighmey	Associate, US Retail Syndicate		
Chris Cote	Analyst, US Retail Syndicate		
New Product Development			
Alvaro Camara	Director		X
Sarah Davis	Vice President		
Global Transaction Management			
Rick Doyle	Managing Director	X	X
AJ Davidson	Director		

Name	Title	Series 4	Series 2
Office Of General Counsel			
Joseph DiCapua	Vice President, Senior Counsel		

15. Merrill Lynch participated in each of the due diligence calls held in connection with the Series 5 Offering. These calls are listed below:

- an April 3, 2008 business due diligence call with representatives of Barclays' management team (the "Business Due Diligence Call");
- an April 3, 2008 accounting due diligence call with Barclays' auditors, PwC (the "Accounting Due Diligence Call");
- an April 8, 2008 pre-pricing bring down due diligence call with representatives of Barclays' management team (the "Pre-Pricing Due Diligence Call");
- an April 8, 2008 financial due diligence call with Jonathan Britton from Barclays (the "Financial Due Diligence Call");
- an April 11, 2008 pre-settlement bring down due diligence call with representatives of Barclays' management team (the "Pre-Settlement Due Diligence Call"); and
- an April 22, 2008, greenshoe pre-settlement bring down due diligence call with representatives of Barclays' management team (the "Greenshoe Pre-Settlement Due Diligence Call").

16. Merrill Lynch was satisfied with the responses provided on each of the due diligence calls. None of the responses provided during the course of these due diligence calls caused Merrill Lynch to believe that additional due diligence was necessary or that Barclays' public disclosures in connection with the Series 5 Offering were misleading or incomplete.

17. Merrill Lynch reviewed interim and final drafts of the prospectus supplement (including the base prospectus) filed in connection with the Series 5 Offering and any documents incorporated by reference therein.

18. Merrill Lynch reviewed and relied upon legal opinion letters provided by Linklaters, S&C and Clifford Chance to the Series 5 underwriters. These legal opinions included:

- An April 11, 2008 validity opinion provided by S&C;
- An April 11, 2008 disclosure opinion provided by S&C;
- An April 22, 2008 bring-down validity opinion letter provided by S&C;
- An April 11, 2008 disclosure opinion provided by Linklaters;
- An April 11, 2008 validity opinion provided by Linklaters;
- An April 22, 2008 bring-down validity opinion provided by Linklaters;
- An April 11, 2008 validity opinion provided by Clifford Chance;
- An April 11, 2008 tax opinion provided by Clifford Chance;
- An April 22, 2008 bring-down validity opinion provided by Clifford Chance; and
- An April 22, 2008 bring-down tax opinion provided by Clifford Chance.

19. Merrill Lynch reviewed interim and final versions of the comfort letter and bring-down comfort letter provided by PwC in connection with the Series 5 Offering. These comfort letters provided SAS 72 comfort for Barclays' unaudited financials from January 1, 2008 through April 8, 2008.

20. PwC's comfort letter noted that Barclays' profits before tax ("PBT") for January and February 2008 had decreased by 9.4% as compared to the same period in 2007. Merrill Lynch discussed this decline in PBT and concluded that it was comfortable with the magnitude of the decline in Barclays' PBT. Attached hereto as Exhibit 6 is a true and correct copy made and kept in the regular course of business at Merrill Lynch of an April 8, 2008 e-mail from my colleague discussing this issue. This e-mail was sent

consistent with Merrill Lynch's regular practices in connection with Merrill Lynch's due diligence of securities issuers.

21. Merrill Lynch relied on PwC as to the accuracy of Barclays' 2007 audited financial statements, including its opinions as to the accuracy of the company's consolidated financial statements and the effectiveness of the company's internal control over financial reporting. Merrill Lynch did not believe and had no reason to believe that the audited financial statements for 2007 were inaccurate or incomplete.

22. Merrill Lynch relied on PwC with respect to the expertised portions of the Series 5 prospectus supplement, base prospectus and any documents incorporated by reference therein (the "Series 5 Offering Materials") and believed that the auditors' expertised statements were truthful and stated all material facts. With respect to non-expertised portions of the Series 5 Offering Materials and based on its extensive knowledge of Barclays and the due diligence that it performed in connection with the Series 5 Offering, Merrill Lynch believed that all other statements in the Series 5 Offering Materials were true and correct and did not omit to state a material fact.

23. In addition to the foregoing due diligence, Merrill Lynch performed additional due diligence relating to the possibility that Barclays may need to take additional writedowns and due diligence regarding Barclays' capital adequacy. For example, personnel involved in the Series 5 Offering circulated and reviewed research reports prepared by Merrill Lynch discussing these issues. Attached hereto as Exhibit 7 is a true and correct copy made and kept in the regular course of business at Merrill Lynch of an April 3, 2008 e-mail from my colleague Robin Palmer to me and others attaching a series of research reports prepared by Merrill Lynch and covering Barclays.

24. Merrill Lynch also discussed internally and with Citi whether additional disclosure may be required by Barclays concerning writedowns on sub-prime related assets. Attached hereto as Exhibit 8 is a true and correct copy of an April 3, 2008 e-mail from me to Jack McSpadden at Citi informing Mr. McSpadden that Merrill Lynch intended to ask about this issue on the Business Due Diligence Call scheduled for later that day.

25. During the Business Due Diligence Call, my colleague Matthew Pass posed a question to Barclays' management as to whether Barclays intended to make any announcements regarding writedowns outside of their normal reporting cycle and how frequently Barclays updated its asset valuations. Chris Lucas responded that, depending on the complexity of the valuation process, Barclays updated its valuations on a daily, weekly or monthly basis, and that Barclays did not, at that point, plan to make any off-cycle announcements regarding writedowns. In his response, Chris Lucas also made clear, however, that Barclays would make an off-cycle announcement regarding writedowns if such writedowns were determined to be material.

26. Merrill Lynch reviewed and relied upon an April 11, 2008 certification provided by Barclays' management team that stated, among other things, that Barclays' management had "carefully examined" the Series 5 Offering Materials and that they "did not include any untrue statement of a material fact and did not omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading." Merrill Lynch also reviewed and relied upon an April 22, 2008 bring-down certification provided by Barclays' management team that reaffirmed the statements made in the April 11, 2008 certification.

27. I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed on October 20, 2016 at London, United Kingdom.

Richard Doyle

Richard Doyle

From: Fregona, Stacey (London)
Sent: Monday, November 12, 2007 1:52 AM
Subject: EARLYCALL >>>

"This information has been compiled from and is based upon publicly available sources"

US Market Summary
DJIA -1.69% (13042.74) **Nasdaq** -1.43% (2627.94) **S&P** -1.43% (13869.82)
Volume DJ 1.8B Nasdaq 3B
WTI Crude Oil +.9% @ $96.32 (US cls), Current $95.07
Currency US$ Euro 1.4637

US Market Sector Highlights
The carnage continues with mkts ending on the lows in heavy trade. Tech the underperformer once again with financials finally seeing some bottom-fishing. $ weak again w/bonds better, 10Y +17/32, -7bps @ 4.22%.
FED fund futures now @ 98% of 25bps cut vs 90% on Thursday. VIX +9% @ 28.5%.
Macro: Trade balance narrows @ -$56.5B vs -%58.5B cons. U of M Confidence @ 75 vs 80 xptd, a 2Y low. Gold -.3% @ $834.70, Copper -1.8%, Silver +.2%.
Oil +.9% @ $96.32, Gasoline +.6%, Natural Gas +2.4%, Heating Oil +.5%.
Qualcomm -4.2% cut frcsts hits techs: **Apple -6%, Google -4.2%, Microsoft -3%, Cisco -3.5%, Intel -3.2%, IBM -5.1%, Oracle -5.1%, Yahoo -3.6%, Amazon -5.6%.**
Financials super volatile -2.6% @ the low, +2.4% @ the high, ending +.1%. Stories: Barclays ADRs -3.6% on rumored £10B writedown, **Fannie Mae** -1.6% on bad #s, **Wachovia +.9%** (-5.6% low) says $1.1B drop in CDO value, etc.
Broker changes: **3M -4% (GS), Retailers -3.2% (BS), AMAT +4.5% (Citi & JPM).**
Good #s: **Priceline +23%, Cephalon +4.2%, Hutch Tech +14.7%, Spectrum +3.8%.**
Bad #s: **Disney -2.6%, Clearwire -25%, Leap Wireless -37%, Six Flags -16.4%.**

US After Hours
E*Trade Financial -14.4% (-.1%) cuts profit forecast citing more write-downs on securities.
Citadel Broadcasting +10% (-37.8%) after falling 38% during regular trading on 3Q loss.
Visa files to raise up to $10B through IPO.
Boeing wins $6.1B order from Qatar Airways for 787s & 777s.
Airbus wins $31B aircraft order from Emirates.
Intel to start selling chips tomorrow that are 20% speedier and use 30% less power, seeking to extend its lead over AMD.
Wachovia says mortgage related losses may total $1.7B this quarter. Bk of America & JPMorgan also warn of declines.

US Earnings due
Before the Open
Blackstone Eps Mle 0.27 Cons 0.31
EchoStar Eps Mle 0.44 Cons 0.43
Tyson Foods Eps Mle 0.10 Cons 0.1
After the Close
Cinemark Eps Mle 0.25 Cons 0.23

US Economics due
Nothing Scheduled

Asia
NKY -2.48% Topix -2.54% Hang Seng -3.58% Shanghai -3.17% Taiex -3.35% Kospi -3.37% ASX -1.38%
Asian stocks lower on speculation that **HSBC -3.1%** will report increased losses on its subprime-related securities. The company will reveal the extent of its losses when it announces Q3 results for its US business this week. **Mitsubishi UFJ -4.7% DBS Group Holdings -3.4% Industrial and Commercial Bank of China -1.9%** and **Bank of China -2.0%** also traded lower on the news. Exporters had another tough session as the Yen continued to strengthen against the

dollar. **Nintendo -6.2%** and **Honda -4.1%** particularly suffered, as both companies rely heavily on the North American market for sales. Elsewhere, a slight dip in crude oil brought **PetroChina -6.2%** and **Woodside Petroleum -5.8%** back slightly, and **Rio Tinto +5.5%** advanced further after rejecting BHP Billiton's latest takeover offer. **China Mobile -5.1%** and **Hong Kong Exchanges & Clearing -6.3%** also down on the day. Hong Kong's Hang Seng was set for its lowest close since Oct. 4th after Credit Suisse said today that a plan by China to allow some of its citizens to invest directly in Hong Kong will be postponed until at least the second quarter of 2008.

European Earnings Due (ML est)
Aeffe Spa Q3 ML (e) Revenues:ג,¬92.1m; EBITDA:ג,¬16.0m; EBIT:ג,¬13.3m
Autogrill S.p.A. Q3 ML (e) Operating Revenue:ג,¬3,457m; PBT:ג,¬249m; EPS:ג,¬0.53
Rheinmetall AG Q3 ML (e) Sales:ג,¬949m; EBIT:ג,¬60.2m; PBT:ג,¬36.2m
Telefonica Q3 ML (e) Total Revenues:ג,¬13,980; Total EBITDA:ג,¬6,796m
Television Francaise One Q3 ML (e) Revenue:ג,¬1,970.3m; EBITDA:ג,¬340.0m; Net Income:ג,¬183.1m; EPS:ג,¬0.86
THALES Q3 Revenues ML (e) Total Sales:ג,¬2,388m

Also reporting: Acea; Aedes; Cassa Di Risparmio Di Firenze; Terna 9 Months Results; FASTWEB; Polynt SpA
Events:
Shareholders' Meeting - Renault, Sanofi-Aventis, TeliaSonera
Analyst Day - Deutsche Wohnen, QSC AG, Wacker Chimie, Washtec AG, Wincor Nixdorf AG
Trading Statement - Premier Foods

European News
UK qly inflation report on Wed could point to Dec 25bp rate cut to 5.5%. ג€“ Weekend Pres
HSBC - Is set to reveal more write-downs from its US sub-prime biz (Independent on Sunday). WSJ reports that analysts expect the banks to increase sub-prime writedowns by $2.4bn to $4.5bn.
Barclays Plc will give detailed financial information about the performance of its investment banking unit in order to quell market rumors, the Sunday Times
Barclays - May bring forward its trading stmt (due end Nov) to this week to suppress speculation over write-offs (The Observer).
NRK former Abbey chief Arnold in rescue bid- S Times
RSL: Standard Life's ҐЈ4.7 bn offer is in doubt after its shares sink to new lows
Land Sec to announce radical plans for a three-way break-up S Times
Vallourec: Alisher Usmanov, the Russian billionaire stalking Arsenal, has launched a move
RIO: China State Bank understood to have taken secret stake- Telegraph. RIO may consider tieup with AAL if BLT does not increase its offer (Mail).
BLT considers sale of BHP Petroleum to finance offer (S Times) BLT lines up $70bn package from Citigroup to aid bid for Rio- Independent
SBRY: Tchenguiz tells Sainsbury to sell stores and buy back shares
MAB considering becoming first UK pubs group to admit REIT status and has received backing form Tchenguiz - FT
British Airways and TPG may slash ҐЈ2.3bn bid for Iberia- Mail on Sunday
Standard Chartered has sold $5 billion of assets since August from Whistlejacket, its structured investment vehicle, the Sunday Telegraph
Cable & Wireless - is expected to publish plans for a full demerger of its British and international businesses within six months (The Times).
Diageo - is in talks to buy as much as 13 percent of India's United Spirits Ltd., the Economic Times reported,
Rolls Royce - Has benefitted from an Emirates spending spree, winning an $8.4bn order for engines (DJW).
Arcandor (-14.07% ytd): co plans to sell all real-estate holdings this month citing CEO Middelhoff in an interview; co is in exclusive negotiations with an unidentified group that plans to pay about EUR 800mln (WamS)
Dt Telekom (+2.67% ytd): co will soon begin offering prepaid mobile service at its low-cost Congstar brand (EAMS)
Porsche (+78.03% ytd): co may have a record profit of ``more than 4 billion euros'' in the last business year citing sources; the profit gain is primarily the result of Porsche's Volkswagen holding (FAZS)
Porsche (+78.03% ytd): co to hold its supervisory board meeting today
RWE (+14.50% ytd): co is against suggestions of breaking up German energy companies as a way to control prices (Bild)
TUI (+39.43% ytd): co said travel bookings and sales at its German unit increased during the first two weeks of the winter season; bookings climbed 11%, while revenue gained 8% (BN)
VW (+108.78% ytd): co aims to push car sales to more than 10 million a year by 2018 from about 6 million now citing unidentified sources (DSP)
UBS (-31.2% ytd) has informed its investment bankers and traders that 2007 cash pay will be capped at $ 750'000. More of their compensation will come from stock than in previous years, WSJ reported

Syngenta (21.98% ytd) has made a technological breakthrough that could significantly improve the economics of biofuels by streamlining the way corn is converted into ethanol, FT reported
Jelmoli (7.82% ytd) should become an investment company and reject minority shareholders motions to pay a superdividend or buy back shares, Finanz und Wirtschaft citied majority shareholder Georg von Opel.
Huber & Suhner (38.00% ytd) licenses tyco to sell its fiber optic connectors
Kaba (-1.87% ytd) confirms target for 2007, interview with CEO in Finanz & Wirtschaft
Advanced Digital Broadcast (-53.75%ytd) holds investor day in Brussel
EADS (-14.6% ytd) won an order from Emirates for aircraft valued at as much as $31 bln, including 70 A350 airliners and 11 double-decker A380s.
Rhodia (-15.2% ytd) has become ``less sensitive'' to the dollar's weakness and is able to compensate for higher oil prices (Le Journal des Finances).
Carrefour (+3.4% ytd) plans to open wholesale stores in India on its own after talks with Indian partners failed (the Economic Times), expected to start operations by 2009.
Publicis (-20%ytd) : CEO Levy says there is not enough advertising revenue to support growing number of new media companies. FT
Euler Hermes (-18.9% ytd) Credit insurer Q3 Operating +23% to λ,¬131.8m as demand jumped.
Spanish Construction sector: main companies in Spain to present bids to participate in the extension of the Panama Canal worth EUR 3.8bn. Main Spanish bidders **ACS**, **FCC** and **Acciona** (Bloomberg)
Renta 4: to set up final price for its IPO, range 8.5-10.5 (All press)
Pirelli (+7.87%ytd) board approved λ,¬0.154 extraordinary dvd, likely to be paid in mid march. Board also gave mandate to Tronchetti forpossible buy-back of 38.9% stake in Pirelli Tyre. Tronchetti
said buyback of co shares an option being evaluated (24ore)
Banca italease (-71.11%ytd) λ,¬700m cap hike starts today. 21 new shs each 25 held @ 9.1 strike price. Rights traded from today till nov 23.
Aem (+11.61%ytd) EDF is ready to renew its shareholder agreement in Edisonwith AEM, (giornale)

ML Roadshow
Premier Oil - Houston; **Afren -** London; **Man Group -** London; **Punch Taverns -** London; **SAP -** London; **Yell Group -** Glasgow/Edinburgh

ML Research
Monte Dei Paschi di Siena - Antonio Guglielmi.Downgrade neutral to sell.MPS has announced that it has agreed to buy Antonveneta from Santander (without Interbanca) for λ,¬9bn cash, implying 17.5x 2008E P/E and 2.2x BV (pre synergies). The company has announced that it foresees financing the deal with excess cash and disposals, and a rights issue. We estimate the deal to be accretive in 2009E based on our new MPS stand alone numbers embedding recent perimeter changes. ROI stands at 10% in 2010E. We downgrade MPS to SELL with a new theoretical fair value of λ,¬3.7 based on 2008 PF SOTP.

Santander - JP Crutchley.Reiterate buy, PT Eur 17.2, up from Eur 16.3.In a surprise move, Santander announced the sale of Antonveneta to Monte de Paschi for λ,¬9bn in cash compared to the ascribed value of λ,¬6.6bn within its offer documents for ABN AMRO. While we believe the sale price made such a transaction attractive to Santander, we also think it highlights an increasing level of strategic discipline at the group. It is clear that Santander has little interest in markets where it cannot get to a market leading position in its key product areas. In Italy, Antonveneta was a regional player in a consolidating market, meaning the investment to gain a leading position would have been significant for the group. By selling, the group effectively monetises the strategic position it obtained by acquiring a valuable asset but leaves the integration and franchise improvement work to somebody else.

Bayer - Sachin Jain.Reiterate buy, PT Eur 69.Phase III data for rivaroxaban (oral factor Xa inhibitor) from the RECORD 1 and 2 studies in hip surgery are available in abstracts published ahead of the American Society of Hematology (ASH) conference. Both studies showed that rivaroxaban significantly reduced the risk of a composite thrombosis/mortality endpoint versus Lovenox (injectable, Sanofi-Aventis) with no significant increase in bleeding rate. Overall, the data confirm the encouraging clinical profile of the drug seen in the presentation of the RECORD 3 study (knee surgery) at the International Society on Thrombosis and Haemostasis in June 2007 and underpin our 2012E sales forecast of λ,¬500m.

Beiersdorf - Robert Waldschmidt.Reiterate buy, PT Eur 59. Despite robust organic growth of 6.7% at group level, Germany posted a worrying c.6% decline in organic sales even after adjusting for the transfer of export sales. Management indicated that the operating environment had become more challenging in Germany with reluctant consumers opting for more heavily promoted offerings from competitors in certain instances leading to some market share loss in some categories. Additionally, while BDF delivered impressive gross margin expansion of 135 bps in Q3, marketing spend also rose 125 bps.

Telecom Italia - Jesus Romero.Reiterate buy, PT Eur 2.35.We still prefer the saving shares, currently trading at a discount of 18%. After a six months wait, TI's new shareholders are in control of the board (TEF owns 10% of the votes). We expect changes and positive catalysts in the next six months that will improve the performance of the stock.

Software AG - Raimo Lenschow.Reiterate buy, PT Eur 82.Software AG recently held Integration World 2007, their main customer event of the year. In conjunction with the event the company also held an analyst day. We attended the analyst day and used the event to speak with customers, employees and systems integrators

Punch - Ian Rennardson.Reiterate buy, PT 1500p.We have reduced our top of the range 2008e to 2010e PBT forecasts by an average of 7% to reflect the company's caution regarding the short term effects of the smoking ban and the prospects for the UK consumer as well as to reflect a higher depreciation charge. Half of the reduction is caused by this latter effect.

3i - Philip Middleton.Reiterate buy, PT 1250p.3i's H1 08 results were usefully ahead of our estimates, which we had already upgraded following the company's preclose. Book value per share, at 1007p, was 4% ahead of our estimates.For the first time since H2 04, 3i was a net investor. Midmarket buyouts continued to generate net cash; understandably, the new business lines, infrastructure and QPE, consumed cash, whereas the more mature businesses were roughly neutral.

Standard & Chartered - JP Crutchley.Reiterate buy, PT 2077p.In Singapore renewed economic momentum has led to a step-shift in the pace of Standard Chartered's growth. From being a mature, ex-growth business a year or so back, margin stabilisation and improving volumes is leading to a sharp acceleration in profit contribution.Meanwhile the pace of growth in the UAE shows no sign of diminishing. Oil prices of near US$100/barrel obviously provide cyclical support but what continues to be impressive is how both Dubai and Abu Dhabi continue to diversify their economies to reduce the dependence on oil, supporting a longer-term story.

Inmarsat - Wilton Fry.Reiterate buy, PT 530p.Inmarsat reported Q3 results in line with consensus. Revenue was $140m vs $140m est., EBITDA was $97m vs $96m est. Company confirmed FY on target.Inmarsat confirmed the AlphaSat project which will see Inmarsat and the European Space Agency (ESA) jointly develop the first of a new generation of satellites. The satellite is expected to launch in 2013 and will cost a total of ג,¬260m (after EU subsidies) spread over 2008-13. This is exactly in line with the company's comments at the recent investor day and was already in our model.

Capital Goods Weekly - Mark Troman.
http://research1.ml.com/CFCR/GetDoc.aspx?q=SKyczXC%2BNt3ltljEpqrEYA%3D%3D
Aerospace Weekly - Charles Armitage.
http://research1.ml.com/CFCR/GetDoc.aspx?q=fn4Ns0o0MILltljEpqrEYA%3D%3D

Reiterate neutral:Bank of Ireland, Invesco, Securitas, Aegon.

Barratt Developments:removed from the Europe 1 focus list, With the possibility of a UK interest rate cut seemingly pushed back to Q1 2008

Kind regards

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From: Cleary, Jackie (FIG-CM&F-Americas)
Sent: Thursday, November 15, 2007 8:51 AM
To: Taylor, Brad (Treasury, NY); Thurlow, John (Treasury, NY); Thorburn, Jack; Gupta, Ashish (Treasury, NY); Shashaty, Evan (Treasury, NY); Debel, Marlene (Treasury, NY); Huebsch, Keith (Treasury, NY); Strudwick, Richard (London); Morehead, Melissa (Investor Relations); Heinzig, Krista (London); Lim, Albert (Japan); Nagel, Eric (Japan); Taylor, Brad (Treasury, NY); Thurlow, John (Treasury, NY); Thorburn, Jack; Gupta, Ashish (Treasury, NY); Shashaty, Evan (Treasury, NY); Debel, Marlene (Treasury, NY); Huebsch, Keith (Treasury, NY); Strudwick, Richard (London); Morehead, Melissa (Investor Relations); Heinzig, Krista (London); Lim, Albert (Japan); Nagel, Eric (Japan)
Subject: ML Morning Post 11/15/07

Merrill Lynch Treasury Team -

- This morning S&P has cut Bear Stearns rating to A and Negative outlook from A+ after the firm announced it would write down the value of subprime assets by $1.2 bn.
- Barclays has announced a $2.7 bn writedown due to US sub prime mortgage assets
- J C Penny reported profit decline as net income shrank to $261 mm
- Bernanke has announced he will publish more information about the outlook for economic growth
- CPI rose in the month of October but came in line with expectations. Jobless claims are a tad higher than expected
- Tone feels a tad heavier this morning

** Brokers **

LEH 123-133 MER 122-127 GS 77-82 BSC 142-152 MS 97-107 - the trend this morning is likely to gap wider as MS is now getting lifted at 104-109

** Banks **

BAC 56-61 C 70-80 JPM 56-61 WFC 50-60 WB 86-96
C 6.125% $4bn 17's which priced yesterday at T+190, were quoted at 190/188 this morning, now at 192/188

** Merrill Lynch Cash Bonds:

- MER 6.05% 12's trading at T+ 215 bps
- MER 6.45% 14's trading at T+188 bps
- MER 6.05% 16's trading at T+251 bps
- MER 6.40% 17's trading at T+ 225 bps
- MER 6.11% 37's trading at T+265 bps

(Source: Market Axess, levels from c.o.b yesterday)

Regards,

Jackie Cleary
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From: Roman, Julien (IBK EMEA)
Sent: Monday, November 19, 2007 8:40 AM
To: Roman, Julien (IBK EMEA); Roman, Julien (IBK EMEA); sanjaysofat@hbosts.com; gedhawley@hbosts.com; vishalsavadia@hbosts.com
Cc: Pass, Matthew (IBK EMEA); Palmer, Robin (IBK EMEA); richardshrimpton@hbosts.com; Pass, Matthew (IBK EMEA); Palmer, Robin (IBK EMEA)
Subject: RE: Credit Sights: CDO Losses For European Banks: Nov 19

Julien Roman
Merrill Lynch International
Capital Markets & Financing London
Financial Institutions Group
Work: 0207 996 5464
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-----Original Message-----
From: Roman, Julien (IBK EMEA)
Sent: 19 November 2007 13:35
To: 'sanjaysofat@hbosts.com'; 'gedhawley@hbosts.com'; 'vishalsavadia@hbosts.com'
Cc: 'richardshrimpton@hbosts.com'; Pass, Matthew (IBK EMEA); Palmer, Robin (IBK EMEA)
Subject: Credit Sights: CDO Losses For European Banks: Nov 19

Guys:

Thought you might find the attached interesting....

KEY POINTS:
Most European banks have been only marginally affected by the US sub-prime crisis, despite the perception of an industry in crisis

- But a few, mostly with large investment banking operations, have made substantial writedowns and face further significant losses in the fourth quarter
- Nonetheless, in general this should be an earnings (and possibly ratings) hit rather than a solvency problem
- Csights models super-senior CDO exposures and write-downs and identify UBS as the European bank facing the most painful end to the year

In other words, the negative sentiment that has depressed share prices and widened credit spreads has been driven largely by the losses at a small group of global investment banks and the rescue of three smaller banks.

Third quarter results were supposed to settle the markets as banks came clean about their risk exposures, but the opposite was true, as the market fretted that write-downs were not sufficient, against a background of deep uncertainty. Therefore, the extent of write-downs in 4Q07 will be key to restoring or further destroying confidence.

Kind regards,

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Credit Sights

CDO Losses For European Banks: What Lies Beneath
Date Published: 18 Nov 2007, 23:04

- Most European banks have been only marginally affected by the US sub-prime crisis, despite the perception of an industry in crisis
- But a few, mostly with large investment banking operations, have made substantial write-downs and face further significant losses in the fourth quarter
- Nonetheless, in general this should be an earnings (and possibly ratings) hit rather than a solvency problem
- We model super-senior CDO exposures and write-downs and identify UBS as the European bank facing the most painful end to the year

The name of the game in the European banking sector at the moment is trying to guess the potential size of sub-prime write-downs in the fourth quarter. The stakes have been raised by the rolling disclosure of US banks as they revise previous estimates. Barclays' disclosure on 15 November (see **Barclays Lifts The Subprime Veil**), including large write-downs in October, has added fuel to the fire. The market's main focus is on super-senior tranches of CDOs, an asset class that has started to feature in banks' disclosures only in recent weeks but which is now accounting for the bulk of their write-downs. Prior to that, they were considered virtually risk free, and the idea of write-downs was unimaginable. The trouble is that CDO originators and the rating agencies have grossly underestimated correlation risk on CDOs of ABS.

European banks' disclosure of their super-senior CDO positions is patchy and inconsistent, just as it is across the whole sub-prime related universe. **We have therefore devised a model that shows how adequate we think 3Q07 write-downs were, and estimates the potential write-downs that will be needed in 4Q07.** Where banks have disclosed their CDO exposure, we have used this as our starting point. Otherwise we have estimated their CDO exposure assuming the banks have retained a certain proportion of the CDOs of ABS they have issued in the past three years. This can only be a rough guide – UBS, for example, has retained significantly more CDO exposure than either Deutsche Bank or Credit Suisse – but in the absence of clear disclosure it is the best we can do. The exposures calculated by the model are very close to the actual exposures disclosed by Barclays and Crédit Agricole but are very different from those posted by UBS and Deutsche Bank. Ultimately, it will depend on how active banks have been in selling, closing or hedging their positions. From these exposure numbers (actual or estimated), we calculate a marked-to-market value, and thus the required write-down, by applying the TABX BBB index to super-senior CDOs of mezzanine ABS and a value derived from ABX AAA and AA indices to super-senior CDOs of high grade ABS. We think this is a reasonable proxy for fair value, although some banks appear to be using a marked-to-model methodology that produces a much more lenient result. In most cases, our estimated write-downs are more aggressive than those made by the banks so far. The rest of this report is organized into four sections, as follows:

Grouping the Banks - into three main categories by type of involvement
CDO Write-down Model - summary methodology, output and conclusions
Comments on Individual Banks - organised by specialisation and geography
How The Model Works – Detailed Explanation

Grouping the Banks

At this stage, we can basically divide European banks into three groups with respect to the fall-out from the US sub-prime crisis:

a) **The big investment banks**, which, in common with several US brokers and banks, are facing sizeable write-downs of positions in RMBS, CDOs and leveraged loans. This group mainly comprises **UBS, Credit Suisse, Deutsche Bank** and **Barclays**, and might encompass **Royal Bank of Scotland** as well.

b) **Banks that have been so severely hit by certain aspects of the sub-prime crisis that they have needed outside support.** So far, this group comprises **IKB**, **Sachsen LB** and **Northern Rock**. It is possible that other banks will run into serious trouble – German Landesbanks are the most obvious candidates – but there are no tangible signs of this so far.

c) **This leaves the vast bulk of European banks, which have been only marginally affected by the crisis,** and whose third quarter earnings included only minimal or limited write-downs on sub-prime and related exposure. So far, **SocGen** and **Crédit Agricole** have fallen into this category, although as the table shows, we think they could face more material write-downs in future if the CDO market fails to recover and they move away from their current modelled valuation approach towards a genuine mark-to-market.

In other words, the negative sentiment that has depressed share prices and widened credit spreads has been driven largely by the losses at a small group of global investment banks and the rescue of three smaller banks. We go into more detail on individual banks in a section below, including commentary about the major Italians, which have come under some suspicion, but genuinely seem to have fringe involvement in the CDO market. We have not gone into any detail on the Iberian and Nordic banking systems, which are not materially implicated.

There is understandable scepticism over the small size of write-downs announced by most banks, although if their disclosed exposures to US sub-prime mortgages are accurate, they do not suggest that there are significant hidden losses. The 'originate and distribute' model that has made the US sub-prime mortgage disease so contagious across the global banking system and beyond, via securitisation and structured credit, means that almost all major European banks have some exposure, but only a few have significant positions. Another factor is that much of the exposure, outside the main trading banks, is held on an 'available for sale' basis, so that changes in market value are taken directly to equity reserves rather than through the income statement. While this has the same ultimate economic effect, it avoids headline hits to earnings.

Nonetheless, sentiment towards the banking sector as a whole in the near term, in both equity and credit markets, will depend on the losses reported by the large US and European investment banks. The disclosure of additional and substantial write-downs by Citi and Merrill just weeks after their original estimates, and the collapse of IKB and Sachsen LB shortly after they made reassuring statements about their financial position, have understandably reduced market confidence in statements made by other banks. Poor and inconsistent disclosure remains a major stumbling block, leading to a lack of comparability between banks. **Third quarter results were supposed to settle the markets as banks came clean about their risk exposures, but the opposite was true, as the market fretted that write-downs were not sufficient, against a background of deep uncertainty.**

Therefore, the extent of write-downs in 4Q07 will be key to restoring or further destroying confidence. As mentioned above, most of the concerns currently surround banks' holdings of triple-A rated super-senior tranches of CDOs. These were, as indicated by their ratings, supposed to be virtually risk-free, largely because the subordination inherent in the liability structure of CDOs gave them such high 'attachment points' that it was inconceivable that losses on the portfolio could eat through all the tranches ranking behind them. Banks are now writing down their super-senior positions, but there are several problems for analysts: a) the write-down percentages vary enormously, b) the disclosure of exposure and write-downs remains generally poor and in any case is not standardised, c) CDOs cover a large range of underlying collateral, attachment points and vintages, and are likely to see large variations in loss levels, and d) CDOs are mostly marked-to-model rather than marked-to-market – market prices are difficult enough to obtain even in normal market conditions. We also know very little about how banks might have hedged their positions, although effective hedging is very difficult. **As the old saying goes, the only perfect hedge is in a Japanese garden.**

CDO Write-down Model

The first table shows super-senior CDO exposure, both as reported by the bank and as estimated by our model. In some cases, banks appear to have aggressively sold, hedged or closed positions, and this could account for some of the discrepancies between actual and estimated exposures. Deutsche Bank, for example, said that it reduced its CDO correlation book from around €10 billion at the beginning of the third quarter to less than €1 billion at the end. On the other hand, UBS has retained a much larger exposure than even our model predicted.

Super-senior CDO of ABS: exposures / potential exposures

Bank	Reporting currency	As reported by bank Local bln	US$* bln	Modelled US$ bln
UBS	CHF		$20.2	$12.4
Credit Suisse	CHF	CHF 3.7	$3.2	$6.1
Deutsche	EUR	€1.0	$1.4	$6.7
Barclays	GBP	£5.0	$10.2	$9.9
RBS	GBP	n.a.		$3.8
Dresdner	EUR	€2.8	$4.0	$2.8
WestLB	EUR	n.a.		$3.3
Crédit Agricole	EUR	€4.0	$5.7	$6.3
SocGen	EUR	€4.8	$6.9	n.a.

Source: company announcements, CreditFlux, CreditSights (see accompanying model explanation, and notes in the section headed "Individual banks" for details of "as reported" figures)

* US$ conversions at end-September 2007 FX rates

The second table, below, shows the write-downs required by using ABX and TABX indices to estimate market values of CDOs of high grade and mezzanine ABS and compares these with the actual write-downs announced so far. We have split these between pre-30 September and post-30 September. So far, Barclays is the only European bank to disclose write-downs for the period since 30 September, and it is notable that they were significantly higher in October than for the whole of the third quarter. It also switched to a more index-based valuation methodology, and its write-downs in October were fairly close to our model's estimate.

Super-senior CDO of ABS: write-downs

Up to end September	Reporting currency	As reported by bank Local mln	US$* mln	Modelled** US$ mln	Difference US$ mln
UBS	CHF		$1,650	$8,151	$6,501
Credit Suisse	CHF	CHF 367	$315	$1,276	$961
Deutsche	EUR	€ 465	$663	$764	$101
Barclays	GBP	£400	$819	$2,618	$1,799
RBS	GBP	n.a.		$1,542	
Dresdner	EUR	€ 364	$519	$1,651	$1,132
WestLB	EUR	n.a.		$355	
Crédit Agricole	EUR	€ 854	$1,218	$2,069	$851
SocGen	EUR	€ 230	$328	$2,619	$2,291
Post end September	**Reporting currency**	**As reported by bank Local mln**	**US$* mln**	**Modelled** US$ mln**	**Difference US$ mln**
UBS	CHF			$2,783	
Credit Suisse	CHF			$445	
Deutsche	EUR			$266	
Barclays	GBP	£700	$1,433	$1,605	$172
RBS	GBP			$487	
Dresdner	EUR			$575	
WestLB	EUR			$429	
Crédit Agricole	EUR			$886	
SocGen	EUR			$919	
Total Year to Date	**Reporting currency**	**As reported by bank Local mln**	**US$* mln**	**Modelled** US$ mln**	**Difference US$ mln**
UBS	CHF	0	$1,650	$10,934	$9,284
Credit Suisse	CHF	CHF 367	$315	$1,721	$1,406
Deutsche	EUR	€ 465	$663	$1,031	$368
Barclays	GBP	£1,100	$2,252	$4,224	$1,972
RBS	GBP	n.a.		$2,030	
Dresdner	EUR	€ 364	$519	$2,226	$1,707
WestLB	EUR	n.a.		$783	
Crédit Agricole	EUR	€ 854	$1,218	$2,955	$1,737
SocGen	EUR	€ 230	$328	$3,538	$3,210

Source: company announcements, CreditFlux, CreditSights (see accompanying model explanation, and notes in the section headed "Individual banks" for details of "as reported" figures)

* US$ conversions at end-September 2007 FX rates

** Modelled write-downs based on banks' reported exposure if available, or modelled exposure if none reported (i.e. RBS and WestLB)

The third table shows write-downs as a percentage of FY06 pre-tax profit and of shareholder's equity at the latest available date (either 30 September 2007 or 30 June 2007). As with the other tables, all amounts are translated into US dollars. Three banks are facing additional write-downs, according to our model, that are equivalent to more than 50% of their FY06 pre-tax profit: **UBS, Dresdner Bank** and **WestLB**.

Modelled v. actual write-downs in proportion to equity and 2006 pre-tax profit*

Bank	YTD Modelled Write-Downs			YTD Modelled Less Reported**		
	US$ mln	% Equity	% PTP	US$ mln	% Equity	% PTP
UBS	$10,934	26%	84%	$9,284	22%	72%
Credit Suisse	$1,721	5%	16%	$1,406	4%	13%
Deutsche	$1,031	2%	8%	$368	1%	3%
Barclays	$4,224	10%	28%	$1,972	5%	13%
RBS	$2,030	2%	11%	$2,030	2%	11%
Dresdner	$2,226	12%	94%	$1,707	9%	72%
WestLB	$783	8%	53%	$783	8%	53%
Crédit Agricole	$2,955	5%	30%	$1,737	3%	17%
SocGen	$3,538	9%	33%	$3,210	8%	30%

Source: company announcements, CreditFlux, CreditSights (see accompanying model explanation, and notes in the section headed "Individual banks" for details of "as reported" figures)

* pre-tax profit adjusted for large exceptional items

** Using zero for "Reported" if no information given (i.e. RBS and WestLB)

Conclusions
Our projected write-downs are higher (and in some cases substantially higher) than the write-downs so far disclosed. Part of the reason is that we do not know how much the banks have been able to hedge their exposure, although if their counterparties are the US monolines, they could be exposed to rising credit risk. **Even so, this looks like it will be an earnings question (and possibly a ratings threat) rather than a solvency problem.** Most banks, particularly the major trading banks, had an exceptionally strong first half of 2007, and it is unlikely that CDO write-downs will be large enough to wipe these out. But in some cases it could make a serious dent in FY07 profits, and this could put pressure on ratings in a handful of cases. **UBS** is by far the most vulnerable bank in absolute terms, reflecting its exceptionally high exposure to CDOs of mezzanine ABS and the relatively low write-downs it made in 3Q07. It has a cushion of strong earnings and capital but faces potentially huge further write-downs. While we do not expect it to make the additional $9 billion write-downs estimated by our model, we do not see how it can avoid further substantial losses. We think it faces a very uncomfortable fourth quarter and retain our **Underperform** recommendation (see **European Financials CDS Tracker: 90 Day Rock'n'Roll**). **WestLB** also continues to look exposed, but this is largely because of its weak earnings and capital rather than heavy CDO exposure. It has already announced it expects to report a pre-tax loss for FY07, and it has been downgraded by Moody's. On this basis, we think our estimated write-downs could be fairly accurate. On the other hand, **Deutsche Bank** and **Credit Suisse** look much better placed to weather the structured credit storm, as they have successfully managed down their CDO exposure, in Deutsche's case to a remarkable extent. The table supports their views that write-downs in 4Q07 will be limited. **Barclays** has said that BarCap's pre-tax profit for the first ten months of 2007 is ahead of 2006, an impressive performance given its large write-downs, although our model suggests there could be further write-downs to come, while we think **RBS** could also face large but nonetheless manageable write-downs.

Comments on individual banks

1. The "big three" investment banks

UBS
UBS has disclosed a super-senior CDO exposure of $20.2 billion (see **UBS 3Q07: Not So Super Any More**). This is much higher than our model would have assumed and suggests it has been retaining bigger positions than its competitors, possibly reflecting its aggressive build-up in the US, including the expansion of Dillon Read Capital Management. Around two-thirds of the exposure ($13.2 billion) is in the relatively more risky CDOs of mezzanine ABS, a much higher proportion than at Merrill Lynch (see **Merrill Lynch: 3Q07 Misses - Earnings/Ratings Whacked By CDO Sack**) or at Barclays, but around the same proportion as at SocGen (see below). We have used this two-thirds mezzanine/one-third high grade split as the benchmark when estimating the CDO exposure of other European banks if they have not disclosed their own

split. Write-downs on UBS's super-senior CDO portfolio in 3Q07 were $1.65 billion, a much smaller percentage than that applied by Merrill. However, the ratio (c.7.5%) was around the same as that used by Barclays in 3Q07. Barclays has since taken a much bigger write-down in October, increasing the overall percentage to 18%, on an ostensibly lower risk portfolio (i.e. it has a higher proportion of high grade ABS). Even on this basis, UBS would be facing extra write-downs of $2.3 bln on super-senior CDOs in October. We think UBS's mark-to-model methodology (which also seems to have been adopted by SocGen and Crédit Agricole) has been too optimistic, and write-downs should be much higher. Our model suggests that they should be very substantial in 4Q07, but in reality it will depend if UBS uses a model that is more lenient than using ABX and TABX indices.

Deutsche Bank

Deutsche said it reduced its CDO correlation book (which we have taken as a proxy for super-senior exposure) from around €10 billion ($14.3 billion) at the end of the second quarter to less than €1.0 billion ($1.4 billion) at the end of the third quarter (see **Deutsche Bank 3Q07: Managing Expectations**). How it managed this is something of a mystery, although there were opportunities to sell or close out positions, particularly at the beginning of the quarter, and this would support the view that Deutsche has long been smarter than its peers in structured credit. Its claim that it sees no need for further write-downs in 4Q07 is largely supported by our model. The exposure calculated by our model based on CDO issuance data is much bigger than the amount Deutsche says it has, but is less than the actual exposure at the start of the third quarter.

Credit Suisse

Credit Suisse has refused to disclose its sub-prime CDO exposure (see **Credit Suisse 3Q07: Pain Relief**) but says it is minimal. Instead, we have used the figure for retained interests in CDOs of CHF 3.7 billion, disclosed in a note to its 3Q07 accounts on variable interest entities (VIEs). This could well overstate its position, as we do not know how much is related to ABS or sub-prime. Credit Suisse also said that around one third of its 3Q07 structured credit write-downs of CHF 1.1 billion related to CDOs.

2. UK banks

Barclays

BarCap has released a relatively detailed overview of its sub-prime exposure ahead of its scheduled pre-close trading update on 27 November (see **Barclays Lifts The Subprime Veil**). The exposure to super-senior CDO exposure tallies quite closely with the results of our model, although we calculate it will need even higher write-downs. Interestingly, the write-downs it took in October are very close to those estimated by our model. Record revenues in 2007 have enabled BarCap to report a pre-tax profit of £1.9 billion for January through October 2007, which is higher than for the same period last year, although this includes fair value gains on its own debt issues.

Royal Bank of Scotland

There has been no disclosure so far, so we have based our exposure estimates on new issuance data. We are expecting better data than usual in its pre-close trading update on 6 December. The potential write-downs produced by the model are quite high, at $2.0 billion (£1.0 billion), but RBS has been fairly heavily involved in CDO issuance. It would be able to absorb write-downs of this magnitude quite comfortably. It can also breathe a sigh of relief that ABN AMRO does not feature on the issuance-based lists as having any significant exposure to ABS-related CDOs, although there has been no specific commentary from ABN's management, in the absence of 3Q07 results reporting.

3. German banks

Dresdner Bank

The figures for Dresdner in our main table are based on disclosure by its parent Allianz in its 3Q07 reporting. This showed super-senior CDO/CLO holdings of €2.8 billion at end-September, which is equivalent to US$4.0 billion and higher than our model's retention estimate of US$2.3

billion. However, it also said total sub-prime exposure, including super-senior, was around €2 billion, which comes closer to our model estimate, at a dollar equivalent of about US$2.8 billion. In any case, Allianz's CEO has acknowledged that further write-downs on the whole ABS trading book are likely in the fourth quarter, but should be smaller than those of the third quarter. This does not look so certain according to our model, which estimates a potential further US$575 million of CDO write-downs, compared with the US$519 million equivalent that Dresdner has already taken against CDOs/CLOs. Also, our model is not taking into account other, non-CDO/CLO exposure that Dresdner has revealed and partially written-down. As well as aggregate CDO/CLO amounts of €4.3 billion (including warehouses of €3.0 billion and "other" of €1.3 billion, it showed an additional amount of €3.6 billion for "CMBS/RMBS/Other ABS" (with write-downs so far of €52 million), giving a grand total ABS trading book exposure of €7.9 billion. Note that the table compares write-downs with equity and pre-tax profit for the Dresdner legal entity; if we were to take the Allianz group's consolidated figures, the proportions would be much smaller, with remaining modelled write-downs (post 3Q07) that are only 2% of Allianz group's equity and 12% of its FY06 pre-tax profit.

WestLB
WestLB has not disclosed its CDO exposure and has not yet reported 3Q07 earnings, but it has admitted it now expects to report a FY07 pre-tax loss in the low triple digits, i.e. more than €100 million. This is consistent with write-downs in the second half of the year of at least several hundred million euros, although these could also be losses associated with the SIVs and conduits it manages.

4. French banks

BNP Paribas and SocGen
We discussed the CDO disclosure from BNP Paribas and SocGen just after they reported, in **BNP and SocGen in 3Q07: Need-to-Know Trading Disclosures**. BNP annoyed analysts a little by refusing to give a precise figure for its CDO exposure because it is "negligible", but we are prepared to believe that this really is the case. SocGen's disclosure was better, but it has some meaningful risk in the area, without being one of the biggest players in the issuance tables. Our long-standing Underperform recommendation on SocGen was based largely on concerns about disclosure (see **SocGen 1Q07: Trading Mystery Deepens**). While these concerns have been partially alleviated, they have not gone away, so this and the model output - suggesting that further write-downs will probably be needed – mean that we are leaving the cautious recommendation in place. With remaining modelled write-downs equivalent to 30% of its FY06 pre-tax profit, SocGen is the only bank that occupies the middle ground in our survey, whereas most banks are closer to one of the extremes, with the rest showing remaining modelled write-downs either at 50%+ of pre-tax profit, or below 20%.

Crédit Agricole
The group features in the issuance league tables via its Calyon investment banking unit. Crédit Agricole's 3Q07 disclosure shows mezzanine CDOs of €0.2 billion and super senior tranches totalling €4.0 billion. Almost half of this (€1.9 billion) has attachment points above 50% (where we have assumed that the underlying is mezzanine), while the remaining €2.1 billion has attachment points below 40% (which we assume is high-grade underlying). Its super-senior CDO valuation is a modelling approach similar to SocGen's, which Crédit Agricole describes as an "application of credit loss scenarios (aggregate loss rate on 2006 production and 2007: 14%) on underlying mortgage loans". However, so far Crédit Agricole's write-downs have been more aggressive, including €308 million that was taken in 1H07 (but not identified in half-year reporting at the time), followed by another €546 million in 3Q07.

As an aside, Calyon has been growing rapidly and did have a risk management hiccup this year – see **(WW) Credit Agricole: Trading Hit to 3Q07**. The group showed a pop in maximum credit VaR to €220 million for 9M07, versus an average of €38 million and an end-September figure of €75 million.

5. Italian banks

Intesa Sanpaolo
The group says that it has no direct exposure to US subprime, and that its indirect exposure via ABS and CDOs is a net notional amount of only €11 million at end-September, after write-downs of €54 million in 9M07 (of which €49 million in 3Q07).

UniCredit
The group does not feature in our table because of its minimal issuance figures. With 3Q07 results it disclosed mark-to-market write-downs of €282 million within its structured credit operations. Management said that €67 million of this relates to SIVs, leaving €215 million for the rest of the "ABS/CDO portfolio", stressing that this was a genuine mark-to-market based on solicited bids. A table on exposure to US sub-prime shows a total of €246 million at September 2007 (both on- and off-balance sheet), of which €106 million is "US CDO with partial US subprime" and €103 million is "US subprime RMBS". We assume that some of the €282 million in write-downs related to non-sub-prime assets which are not included in the table, because the downward adjustment to the assets shown in the table is only €108 million between end-June and end-September. However, UniCredit's CDO issuance between 2005 and 2007 is not large enough, and there is not sufficient detail, for us to be able to estimate its overall retained exposure, beyond what is given in its table for sub-prime-related amounts.

How The Model Works – Detailed Explanation

Putting a price on CDOs of ABS
To generate an estimate of what a mark-to-market loss on banks' CDO portfolios might look like we started with CreditFlux's cash-flow CDO issuance database and selected only CDOs of ABS. Using this information, we split the deals into four categories based on collateral type – mezzanine tranches of ABS, high grade tranches, commercial real estate and general ABS. This last category relates to a mix of RMBS-, credit card- and auto loan-backed deals both high grade and mezzanine. But since our data is not explicit on whether the collateral is high grade or mezzanine ABS tranches, we added half of the CDOs classified generally as ABS to the mezz numbers and half to the high grade numbers.

We then assumed that banks have been retaining only the super senior portion of the deals they have arranged and have held more from this year than deals brought in previous years: some of the RMBS issuance in 2005 and 2006 may have been partially paid down and it may have been harder to place all of the 2007 deals.

Further, because the quality of the collateral in CDOs of high grade ABS is better, the subordinated tranches on those deals can be thinner and the super senior will represent more of the deal. To account for this we have assumed that banks have tended to retain less of the CDOs of mezzanine ABS – 40% of 2007 deals, 20% of 2006 and just 10% of 2007 – than of CDOs of high grade ABS – 60% for 2007, 30% of 2006 and 15% of 2005. These numbers will vary hugely across deals and across banks; as such we feel we tried to use sensible levels that are broadly in the middle of what we would expect.

The next challenge is to assign a mark-to-market value to these two portfolios of ABS CDO – mezzanine and high grade. To do this we used the tranched version of the tradable ABX index, TABX. Received wisdom tells us that the ABX price indices are not comparable to the market value of ABS and the tranched versions are priced well below where CDOs of ABS are trading. We admit that with only 20 all-RMBS assets, the ABX indices may exaggerate the losses that a CDO of ABS will really take. Nevertheless we still think the indices can give us insight as to the real mark-to-market value of CDOs of ABS. There are two reasons why the ABX and TABX indices would be trading below where the underlying reference entities are trading. The first is that holders of ABS or CDOs of ABS are shorting the index to reduce their exposure. But this begs the question, if the assets are trading above the indices, why not just sell the assets? The second possible reason is that hedge funds are shorting the indices on the expectation of further falls. But shorting the ABX and TABX indices is now hugely expensive – the super senior tranche of the ABX 2007 01 / 02 pays a coupon of 389 bp and is trading at 27.6 cents in the dollar. Assuming a duration of five years, the spread on the index is more than 1,800 bp – not including any Libor / Euribor funding component. If 27.6 cents in the dollar is really so far below where people really think it should be trading, why is no one taking the other side of those shorts and bringing prices back into line with reality?

However, a criticism we do agree with is that the ABX represents purely subprime RMBS mortgage assets whereas banks' CDOs hold a broader basket of ABS. In this respect it is definitely a more default-prone pool of assets than jumbo prime mortgage loans or credit card receivables. However, in defence of this methodology we point out that this is an attempt at marking to market and all CDOs of ABS are being tarred with the subprime brush. Nevertheless this means the write downs will be towards the more aggressive end.

Tranched Indices

Only the ABX BBB and BBB- indices are traded in tranched format. That is, only the two indices that represent 20 mid-triple-B tranches and 20 low triple-B tranches of RMBS have been sliced up into different layers of risk and are actively traded. We think the super senior tranche of the BBB index gives a reasonable estimate of where the super senior portion of a CDO backed by the mezzanine tranches of RMBS might be trading.

To assign a mark-to-market value to CDOs of high grade ABS we would like to use the tranched version of the AAA or AA ABX indices. Since these indices are not traded in a tranched format, we used the untranched ABX AAA and AA indices to synthesise an estimate for where a tranched version might be trading at the end of September and now. This suggests the super senior AAA tranche was trading at 94 cents in the dollar at the end of September and is trading at 86% of par now. In the case of the senior AA tranche, our calculations suggest it would have been trading at roughly 86 cents in the dollar at the end of September and 67 cents now. Though both these numbers may appear unreasonably low given that this is the super senior tranche of what is a basket of senior tranches, we would point out that in the current market it is difficult to imagine anyone exiting a position in even a CDO with the highest quality collateral at anywhere near par. In addition we would point out that the tranches in the AAA and AA ABX reference tend to be very thin and are the most subordinate AAA or AA tranches of the ABS.

We have only undertaken this exercise with respect to CDOs of ABS, excluding CRE CDOs. And so these proposed mark-to-market write downs do not include CLOs or synthetic CDOs. Our rationale for this decision is not only for the sake of ease; bank releases on provisioning appears to relate only to their CDO of ABS books. We do not think that banks are making large write downs on other assets as yet including CRE CDOs.

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