
***LESSONS FROM THE SUBPRIME CRISES:
PERSPECTIVES FROM FINANCIAL
INSTITUTIONS***

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- **The way forward: winning models**
- **The case of BBVA**

Diagnosis

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- 1 Excessive leverage
- 2 Importance of liquidity overlooked
- 3 Good banking principles overlooked
- 4 Regulation lagging behind financial innovation

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BBVA

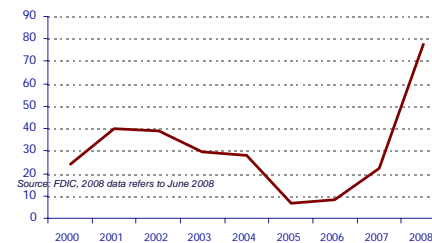
1

Deleveraging

Where are we?

Banking crisis still ahead

Assets FDIC-Insured Problem Institutions (US\$bn)



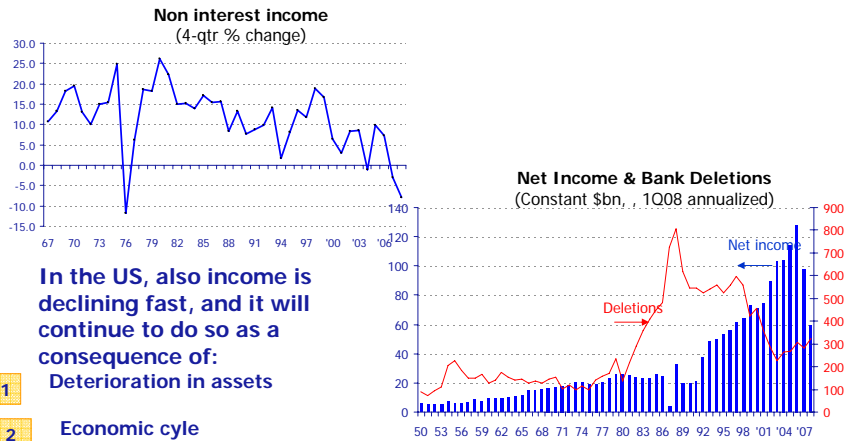
In the US, an increasing number of institutions are having problems according to the FDIC

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Deleveraging

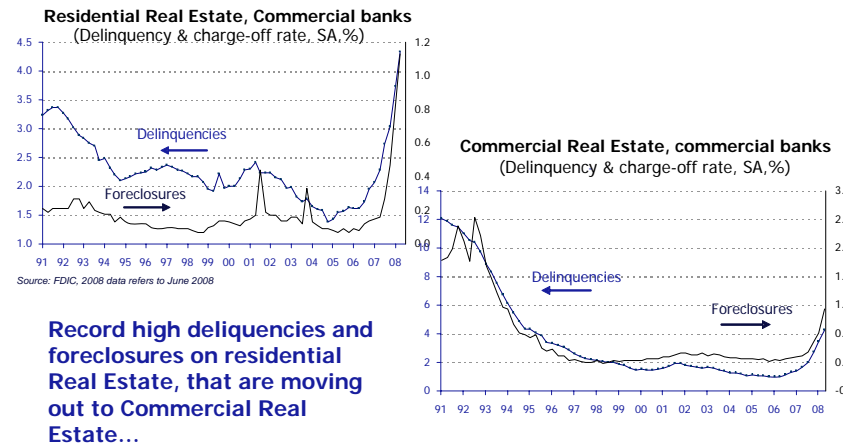
Banking crisis still ahead



1

Deleveraging

Banking crisis still ahead

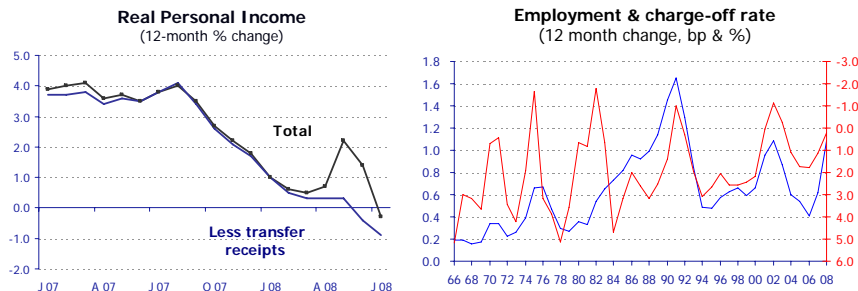


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Deleveraging

Banking crisis still ahead

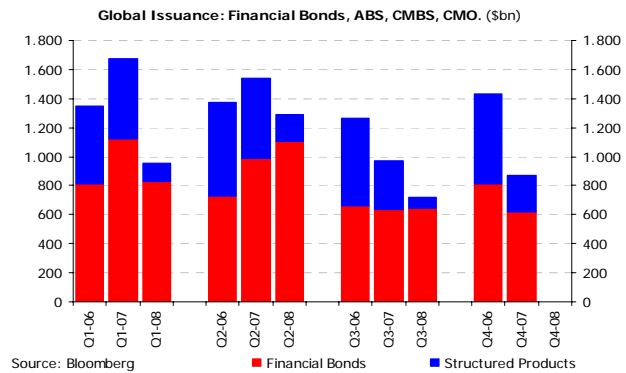
Indebted consumers are feeling the pain as real personal income declines. The increase in unemployment will continue to increase charge-offs in the coming months.



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Liquidity



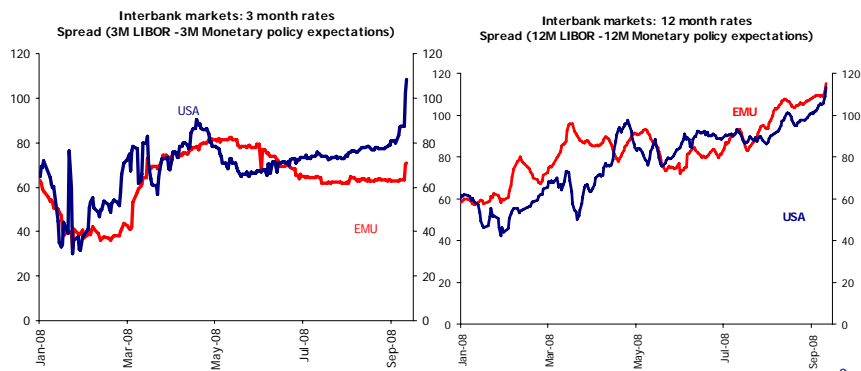
Security issuance by financials has fallen dramatically and will remain subdued. Business models that rely too much on markets will be harmed

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Liquidity

The cost of money is high even for longer periods (12 months)



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Good banking principles overlooked

- Not much transparency
 - Assets transferred to separate entities
- Lack of prudence
- Poor risk management

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Banking practices and impact



| Credit Default Swap 5yr Senior Debt (bps) * | | | |
|---|------------|------------|-----------------|
| | Var. 1 day | | |
| | (bps) | 15/09/2008 | Default prob.** |
| European Banks | 31 | 122 | 12% |
| UBS | 40 | 174 | 16% |
| ING | 37 | 137 | 13% |
| Credit agricole | 35 | 131 | 12% |
| Credit suisse | 34 | 124 | 12% |
| Deutsche Bank | 34 | 117 | 11% |
| Fortis | 33 | 153 | 14% |
| Societe Generale | 29 | 122 | 11% |
| BBVA | 25 | 118 | 11% |
| Unicredito | 23 | 96 | 9% |
| Santander | 23 | 123 | 12% |
| BNP | 22 | 87 | 8% |
| Intesa | 20 | 82 | 8% |
| USA | 46 | 321 | 27% |
| Washington Mutual | 484 | 3231 | 96% |
| Goldman Sachs | 162 | 345 | 29% |
| Wachovia | 114 | 508 | 40% |
| Citigroup | 64 | 236 | 21% |
| Wells Fargo | 49 | 190 | 17% |
| JP Morgan | 48 | 176 | 16% |
| MSDW | 39 | 292 | 25% |
| BofA | 39 | 184 | 17% |
| Merrill Lynch | -102 | 313 | 0% |

Investment banking models have been the most penalized

Retail banks suffer, but less

However, US large regional banks remain under huge stress

Citigroup poses large risks

BoA, etc

Source: Bloomberg and Datastream
 * National numbers are arithmetic averages
 ** Default probability using a recovery rate of 50%.

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Banking practices and impact



| Europe Banks: stock return (%) | | |
|--------------------------------|--------------|-------------------------|
| | Sep 15th | From Aug-07 to Sep 12th |
| HBOS | -17.6% | -70.9% |
| Bradford & Bingley | -15.4% | -91.1% |
| UBS | -14.5% | -60.8% |
| Royal Bank Scotland | -10.0% | -52.9% |
| Barclays | -9.8% | -48.5% |
| S Generale | -9.6% | -45.5% |
| Credit Agricole | -9.2% | -46.4% |
| Commerzbank | -9.0% | -44.8% |
| Fortis | -8.4% | -62.8% |
| Anglo Irish bank | -7.7% | -63.2% |
| BNP | -7.2% | -21.0% |
| Santander | -6.9% | -18.5% |
| BBVA | -6.8% | -35.9% |
| ING | -6.7% | -31.6% |
| Alliance and Leicester | -6.7% | -71.5% |
| D Bank | -6.4% | -42.6% |
| Allied Irish bank | -5.9% | -58.5% |
| Credit Suisse | -5.9% | -34.3% |
| Lloyds | -5.4% | -48.1% |
| Bank of Ireland | -4.7% | -64.1% |
| Standard Chartered | -3.8% | -11.2% |
| HSBC | -3.3% | -3.4% |
| Unicredito | -3.1% | -40.3% |
| Intesa | -2.9% | -29.5% |

The situation is also very difficult for European banks, specially investment banks.

Banks more exposed to emerging countries (specially Asia) less affected

The median European bank has lost 46% of its market capitalization since August 2007*
 * For the sample which appears on the table

Source: Bloomberg

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Regulation lagging behind financial innovation

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- Regulation too procyclical
 - Too fast growth of assets on and off balance sheet
- Lack of consolidation of assets
 - Treatment of securitization very risky

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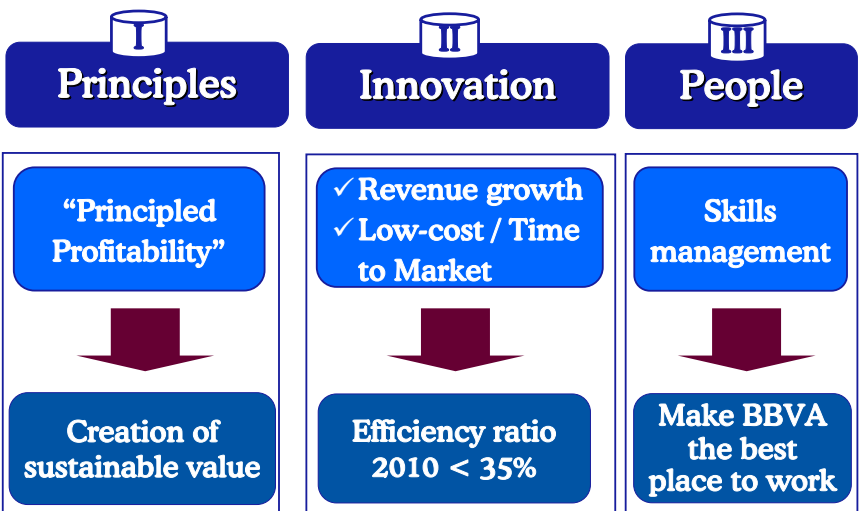
Business models

- Retail more than wholesale
- Growth markets more than mature markets
- Conservative more than risky
- Focus on efficiency and income
- Less procyclical regulation and full consolidation (Spain)
 - Dynamic provisioning
 - Consolidation of SIVs and unlike

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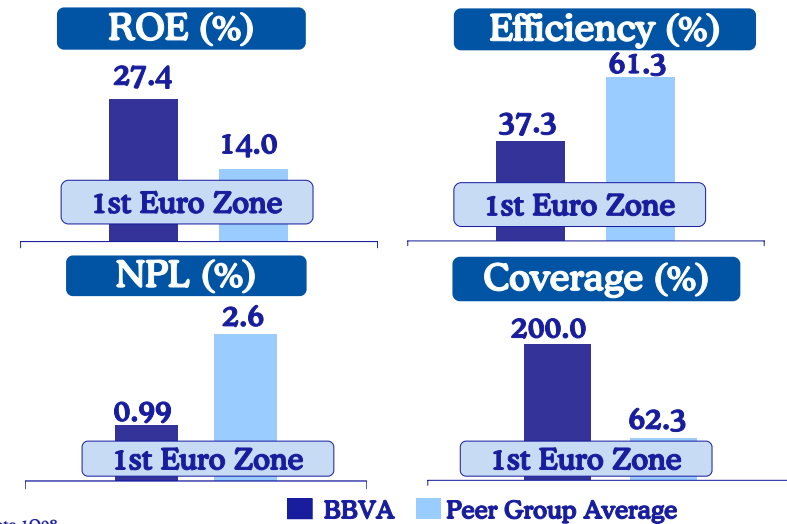
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I A strategy based on three pillars, ... BBVA



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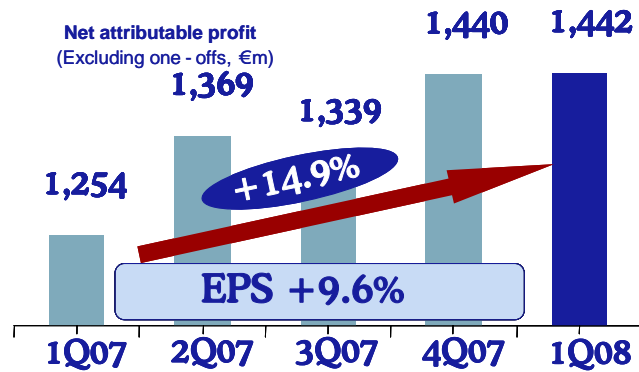
... and with solid “core” fundamentals BBVA



✓ Data 1Q08
 ✓ Peer Group: Santander, Deutsche, BNPP, SG, CASA, ISP, UniCredit, Lloyds, RBS, Barclays, HBOS, UBS y CS
 ✓ For ROE and Efficiency, banks with losses in 1Q08 are excluded as well as British banks which only publish results biannually
 ✓ NPL and Coverage: last available data

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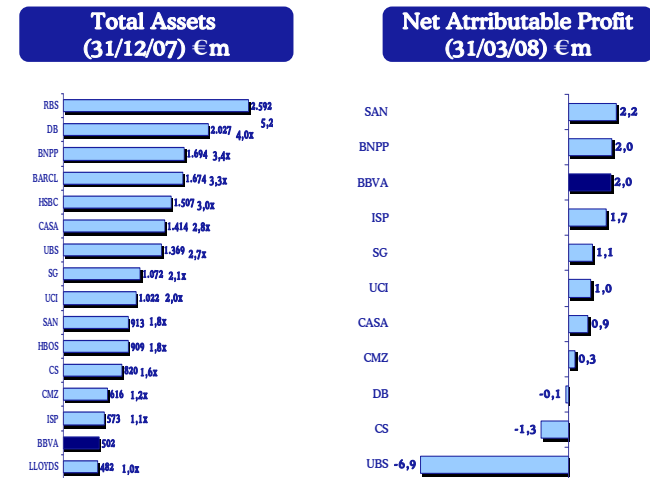
2 Sustained earnings growth BBVA



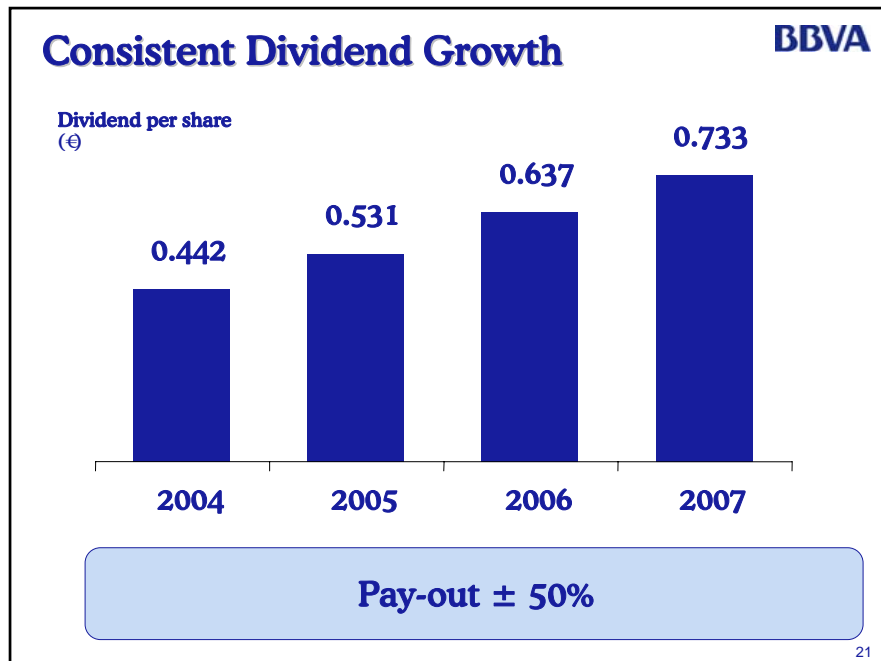
Solid profit growth in 1Q08 that will continue over the rest of the year

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Higher profits with lower assets BBVA



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In summary BBVA

- ✓ The world has changed
- ✓ Major restructuring in financial industry
- ✓ Winners will be those able to keep delivering earnings

**Because in the end ...
... it's all about Earnings**

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**Thank you very much
for your attention**