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

Alicia Garcia Herrero
Chief Economist for Emerging Countries
BBVA

2008 CEIBS-HuaAn Ruizhi Finance Salon
Shanghai, September 20, 2008

Contents

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

Diagnosis

BBVA

1

Excessive leverage

2

Importance of liquidity overlooked

3

Good banking principles overlooked

4

Regulation lagging behind financial innovation

3

BBVA

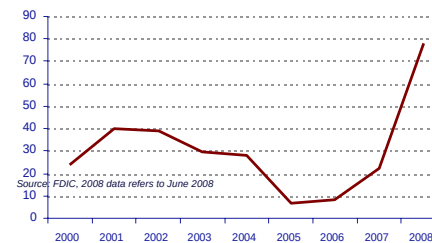
1

Deleveraging

Where are we?

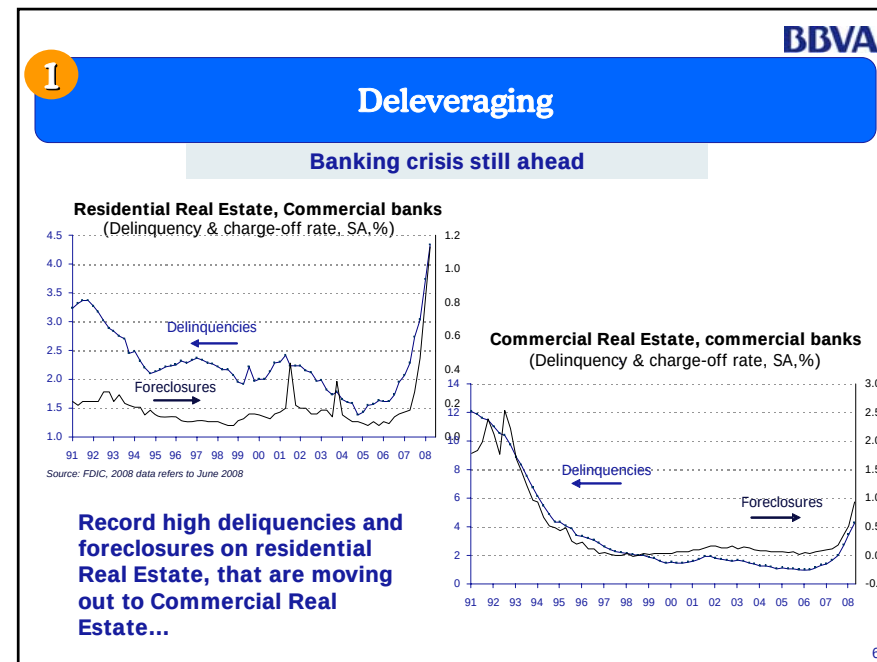
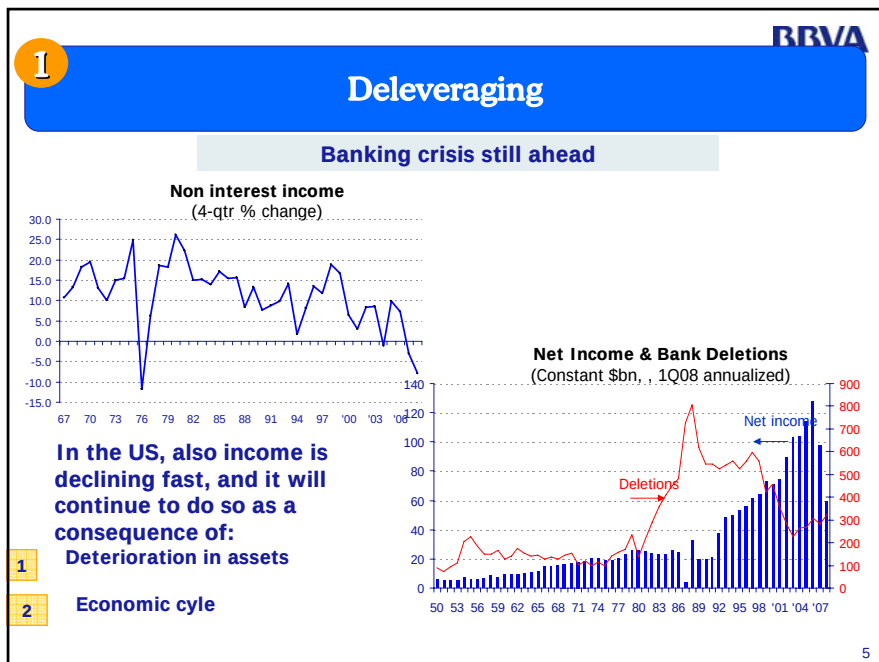
Banking crisis still ahead

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



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

4

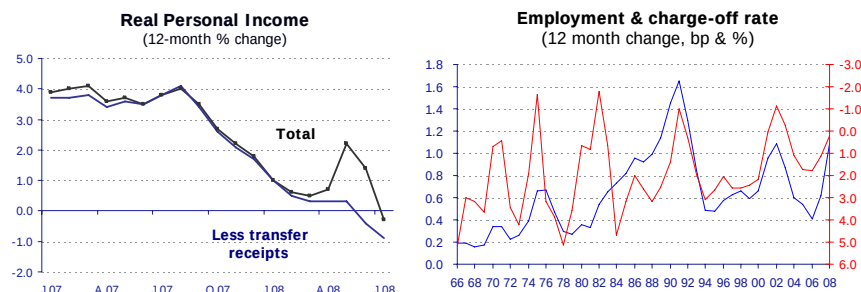


1

Deleveraging

Banking crisis still ahead

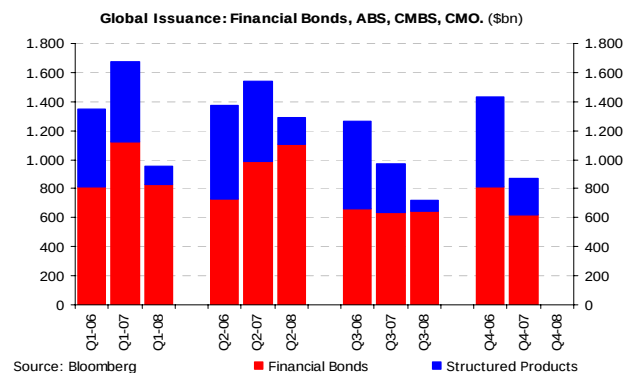
Indebted consumers are feeling the pain as real personal income declines. The increase in unemployment will continue to increase charge-offs in the coming months.



7

2

Liquidity



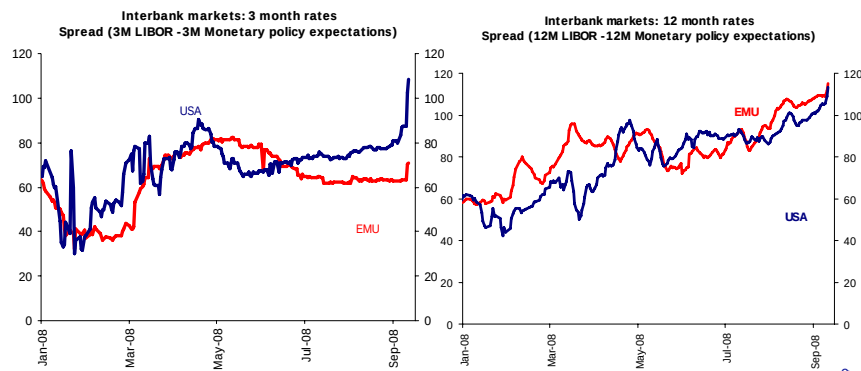
Security issuance by financials has fallen dramatically and will remain subdued. Business models that rely too much on markets will be harmed

8

2

Liquidity

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



3

Good banking principles overlooked

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

3

Banking practices and impact

BBVA

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%

Source: Bloomberg and Datastream

* National numbers are arithmetic averages

** Default probability using a recovery rate of 50%.

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

11

3

Banking practices and impact

BBVA

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%

Source: Bloomberg

■ 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

12

4

Regulation lagging behind financial innovation

BBVA

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

13

Contents

BBVA

▪ Diagnosis

▪ The way forward: winning models

▪ The case of BBVA

14

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

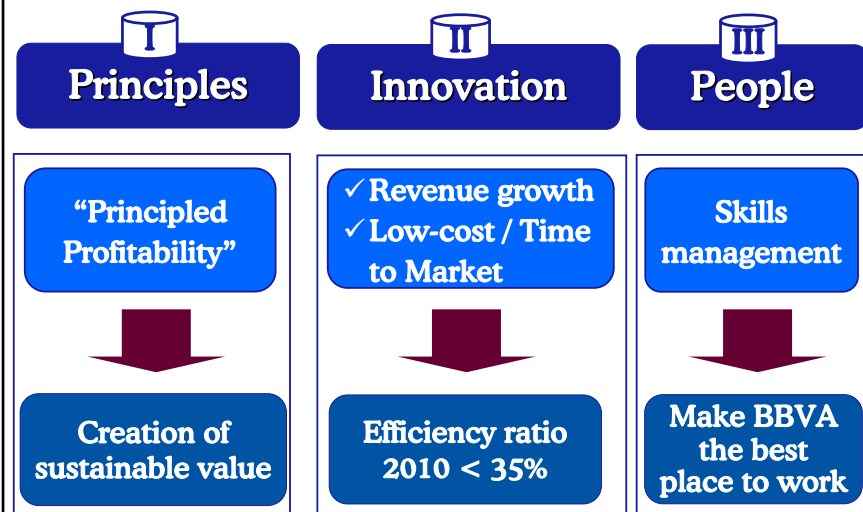
15

Contents

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

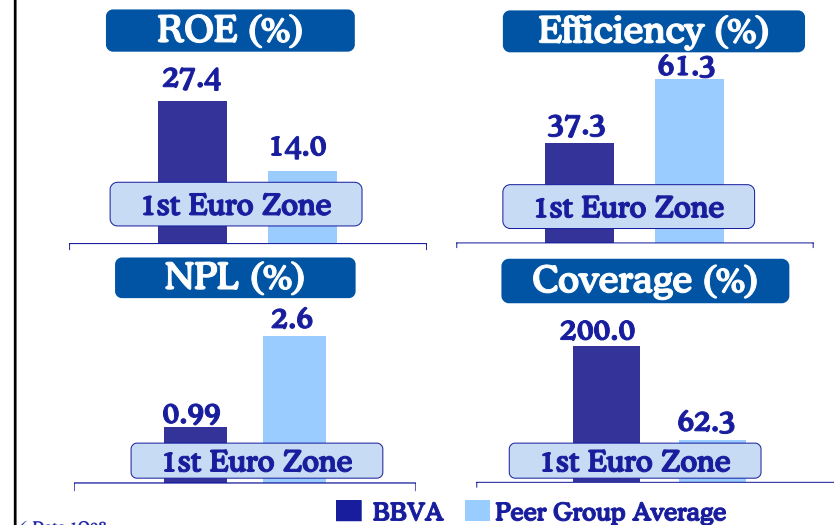
16

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



17

... and with solid "core" fundamentals BBVA



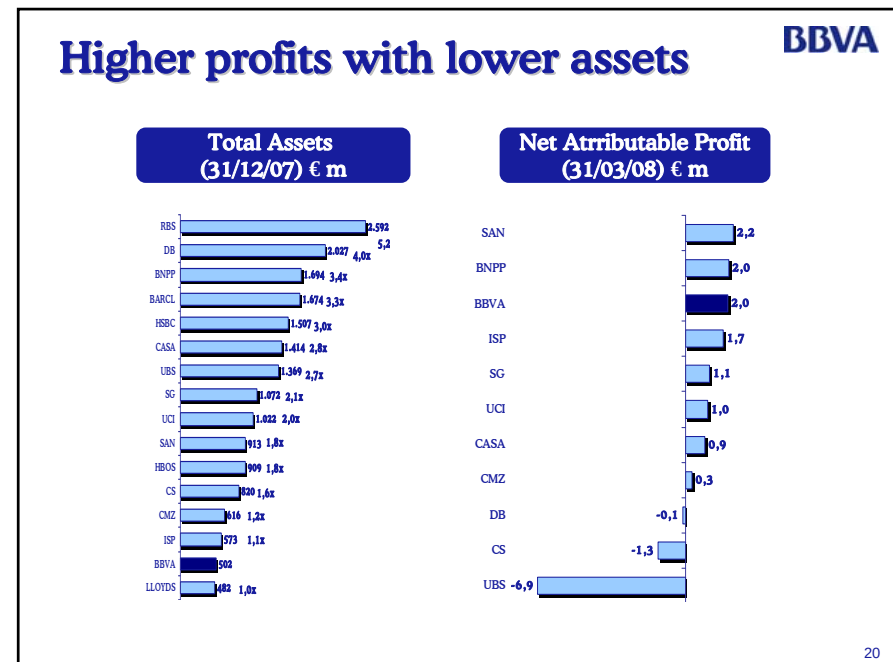
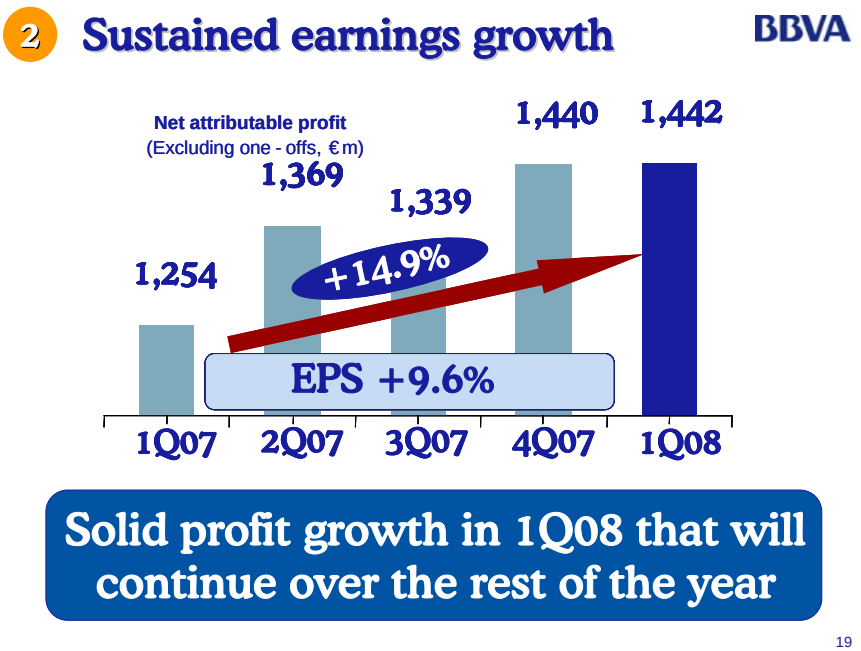
✓ Data 1Q08

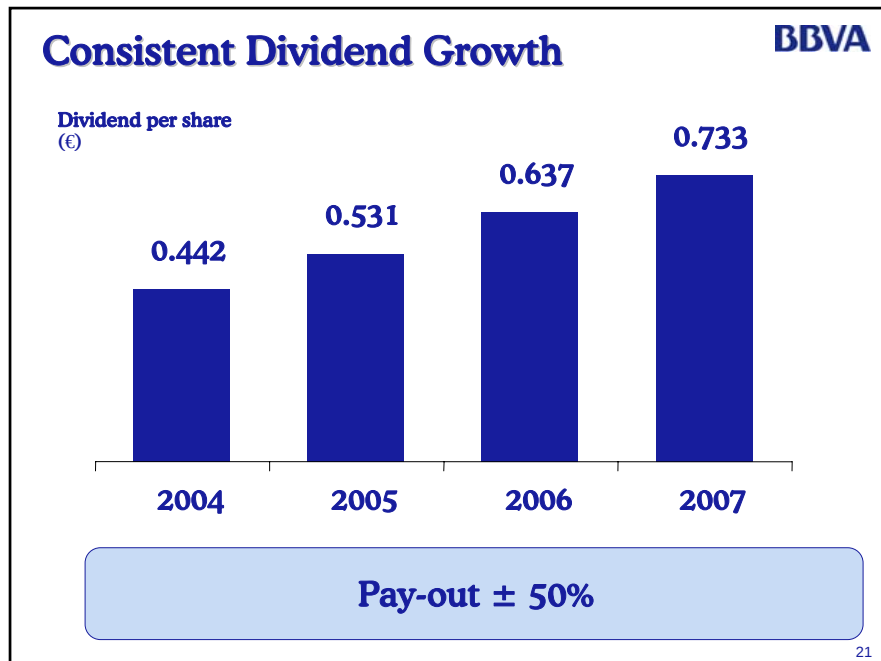
✓ Peer Group: Santander, Deutsche, BNPP, SG, CAsA, ISP, UniCredit, Lloyds, RBS, Barclays, HBOS, UBS y CS

✓ 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

18





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

22

**Thank you very much
for your attention**