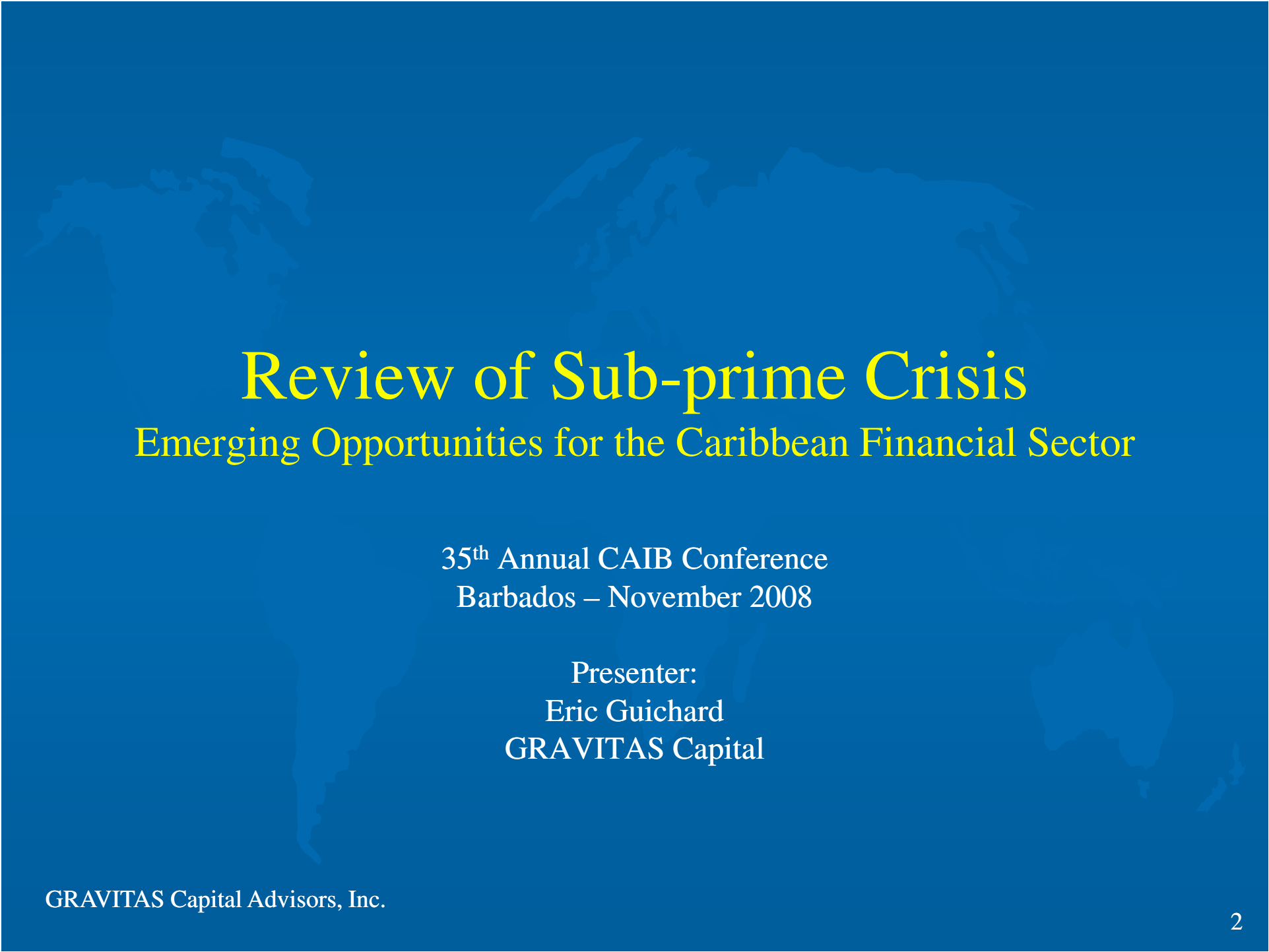


A faint, light blue world map is visible in the background of the slide, centered behind the main text.

GRAVITAS

The Advantage of Innovative Thinking



Review of Sub-prime Crisis

Emerging Opportunities for the Caribbean Financial Sector

35th Annual CAIB Conference
Barbados – November 2008

Presenter:
Eric Guichard
GRAVITAS Capital

Let's Recap...

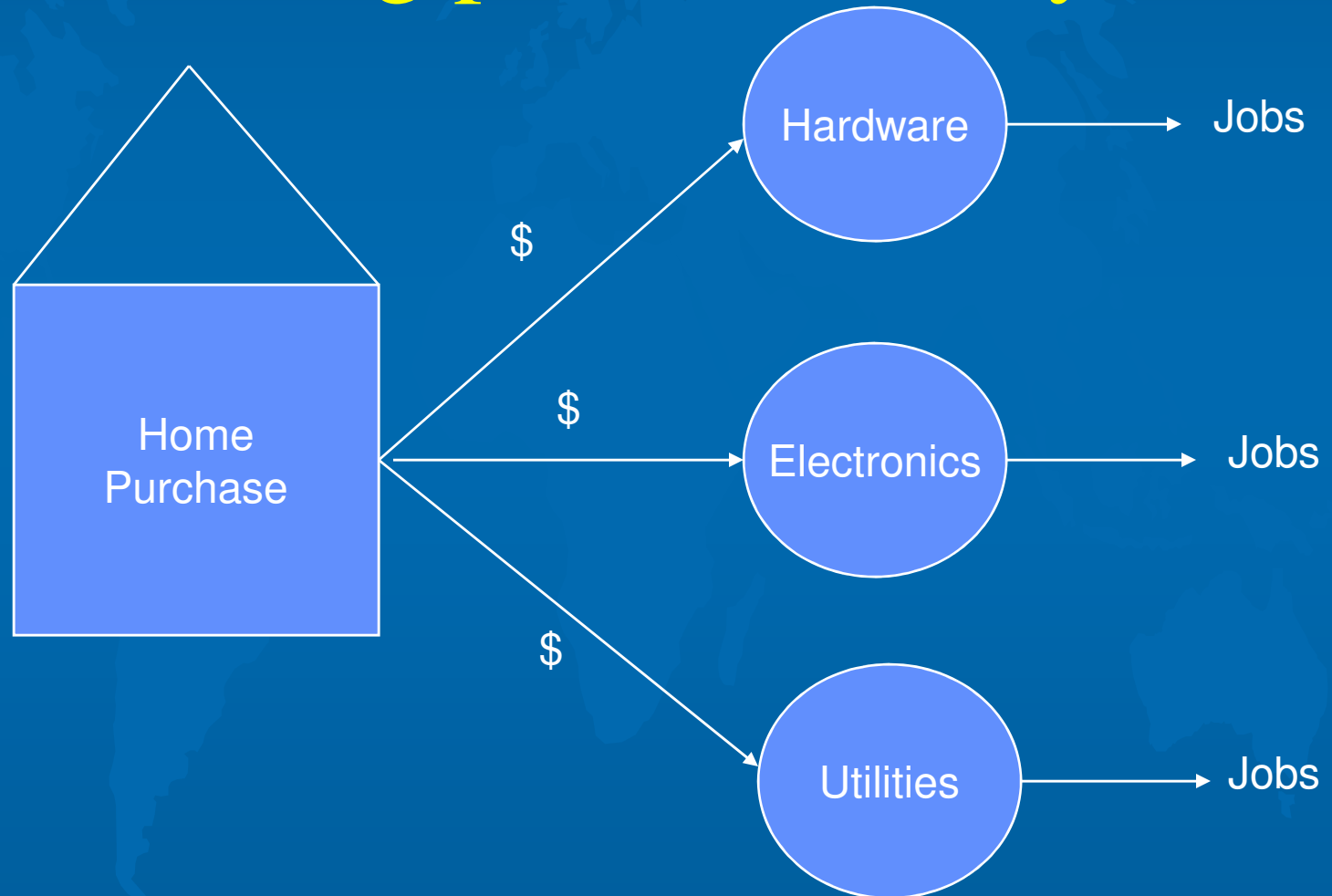
- ◆ Let's review the damage to date:
 - Citigroup has declared billions in value wiped out from its balance sheet (about to cut 50,000 jobs)
 - Merrill Lynch, Lehman, AIG, Bear Stearns no longer exist as independent going concerns
 - In total to date about US\$1+Trillion lost (corporates, hedge funds, insurance companies, pension funds, endowments...)
 - Foreclosure rates are at historical highs (+70% in Sept)
 - Global impact...recessions in US, Japan, Germany,...

A faint, light blue world map is visible in the background of the slide, centered behind the text.

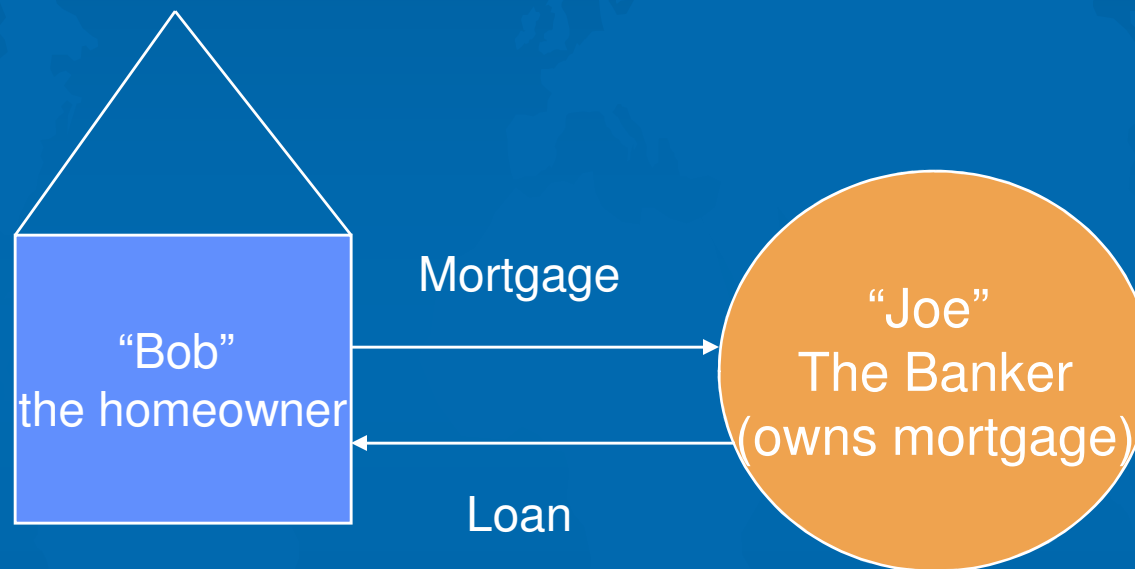
What is sub-prime?

“A picture is worth a 1000 words...”

Housing pulls Economy

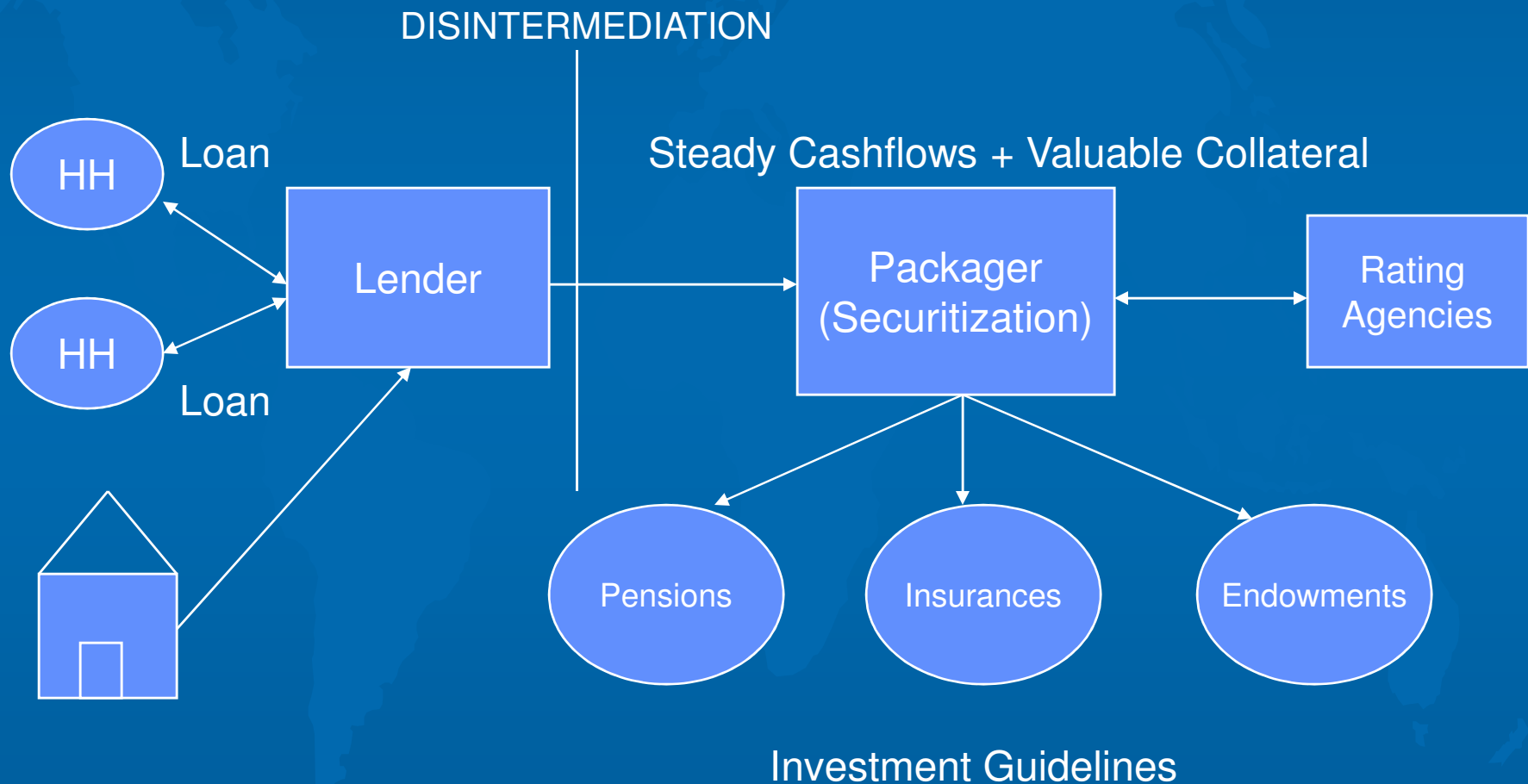


Old days of Relationship Banking

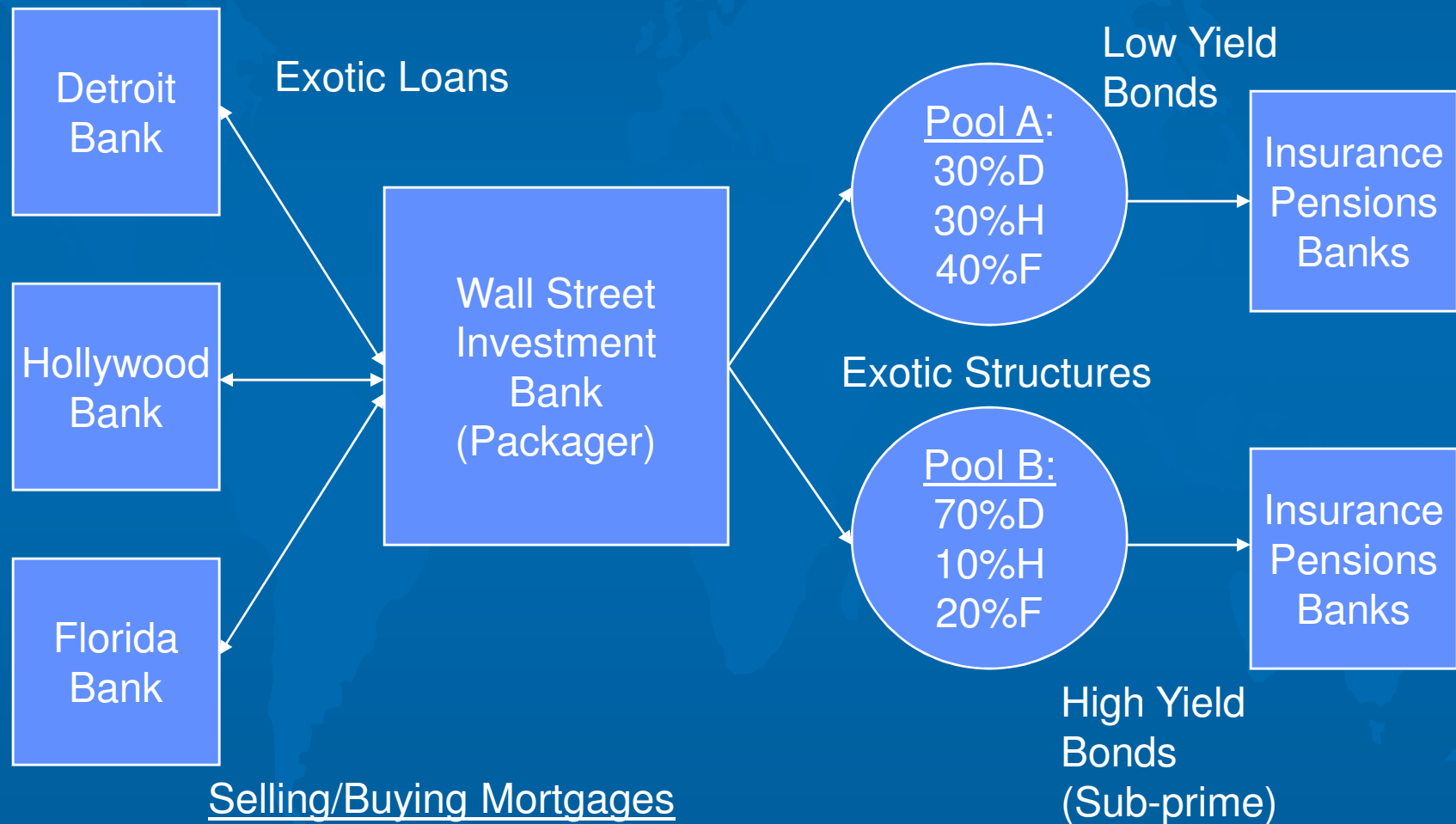


NB: Bank owns loan and knows client – is part of community

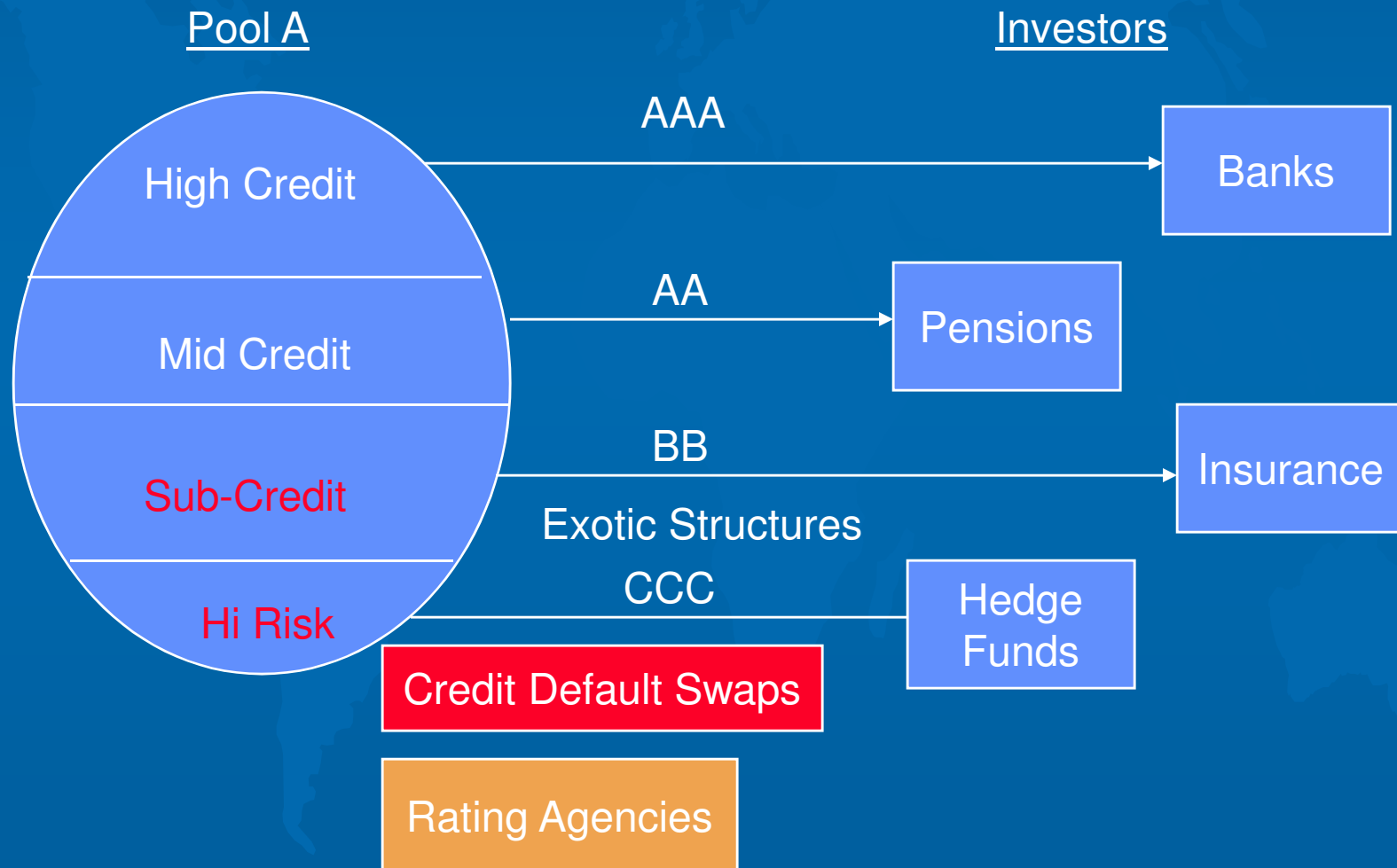
The Mortgage Market Today (A)



Securitization Process (A)



Securitization Process (B)



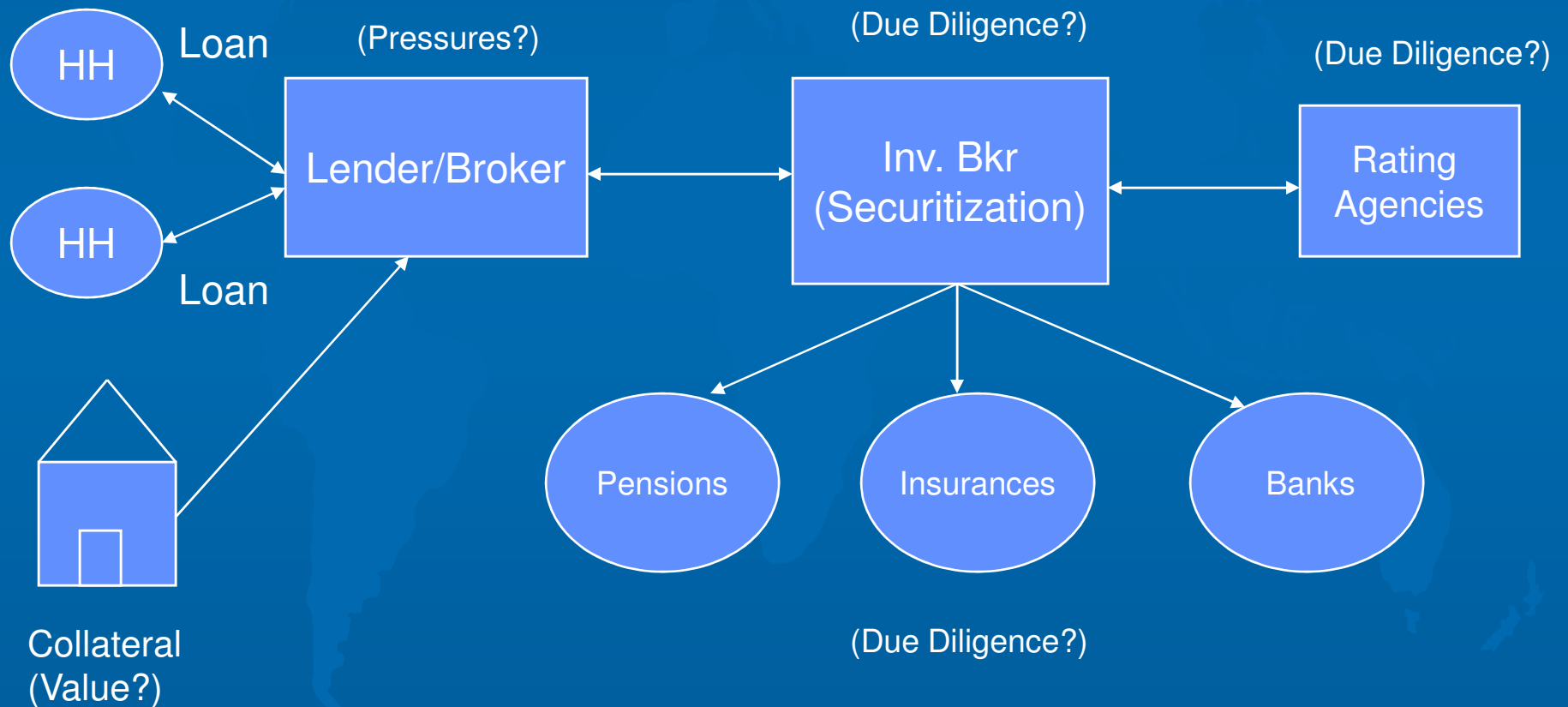
CRISIS!! HOME PRICES PLUMMET

Result:

- All Securities/Collateral are valueless
- Credit freezes/consumption collapses
- Corporate layoffs rise
- Dramatic shrinking of consumption
- Recession...Depression looms

Who's Fault??

(Credit Worthiness?)





Now what does this all mean for
Caribbean Financial Services?

Immediate Regional Implications?

- ◆ Capital Calls from HQ
 - Freezing of major projects
 - Higher cost of financing (corp. and sovereign)
- ◆ Slowing of Remittances
 - Mexico vs. Jamaica
- ◆ Fear of Contagion
 - Regulatory Clamp Down (innovation and cross-border)
 - Delays in regionalization (securitization initiatives)
- ◆ Late Effects
 - 2009 and beyond: Tourism

Evolving Regional Market

(What needs to be done?)

- ◆ G20 Initiatives for Reform (cf. Article)
 - Disparate application due to local politics
 - Macro vs. Micro Response
- ◆ The Fear of Contagion (cf. Article)
 - Is the dream of regionalization dead?
- ◆ Takeaway for the Caribbean Regulator:
 - Coordinated oversight (Regional SEC?)
 - Balance in Risk Taking (Boards - Incentives)
 - Cooperation with Private Sector (not adversarial)
 - Transparency
 - Consistency across jurisdictions (Easier here)

Opportunities?

- ◆ As normal sources dry up – seek alternative sources of finance:
 - Small Enterprise Assistance Fund (SME finance)
- ◆ New product development
 - Remittances based products
 - ☞ Building on counter-cyclicity and dependence
 - Community based financial services
 - ☞ Global Education Savings Fund

In Closing

- ◆ Difficult times ahead, but:
 - Regulators need seek balance NOT restrict
 - Boards should be more accountable (micro)
 - Regional market should stay alive
 - CAIB members should seek value in responsible innovation
- ◆ New G20 Regulatory Framework bound to create new inefficiencies
 - Watch for unintended consequences.