

Plan Made in / Made by Spain
Spain U.S. Business Sustainability Conference



“A sustainable financial system: the Spanish recipe”
New York, March 17th 2009

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1. Your Royal Highnesses, Prince and Princess of Asturias, Ministro Sebastián, ladies and gentlemen. Good morning everyone.
2. **It is a real pleasure to participate in this conference** organized by the Spanish Ministry of Industry, Tourism and Trade to launch the Made in / Made by Spain Campaign. Thank you for your invitation and the opportunity to share this moment with you all.
3. Today we are going to talk about sustainability and how to share the experience of both countries, helping us to tackle the challenges that lie ahead in a more successful manner.
4. Sustainability is not the exclusive job of governments. Business must also participate. In fact, today companies play an increasingly important role in society. Customers demand better products and services but they also want to see ethics, respect for the environment and support for economic and social development.
5. And banks play a leading role because they act as economic catalysts: they help private individuals and companies to implement their decisions on finance, savings and investment in a more efficient fashion. Therefore they contribute, in a very direct way, to economic progress and wellbeing.

6. **There can be no sustainable development without economic development and both are impossible without a sustainable financial system.** This simple observation becomes an issue of immediate and paramount importance when we consider the current complex economic environment.
7. The crisis, which started in mid-2007 triggered by subprime mortgages in the US, has deepened in recent months. What, at the start, appeared to be an isolated and local problem, was in fact a symptom of profound weakness in the international financial system.
8. Many banks, seeking short-term profits, turned their back on the basic principles of banking practice: transparency, prudence and in-depth knowledge of customers and products.
9. The fertile soil was provided by a long period of extremely low interest rates and abundant liquidity. This encouraged players to take unqualified risks and inflated asset prices.
10. In addition it exposed the serious shortcomings of the international regulation and supervision framework, which had failed to adapt to the complex and global nature of new markets.
11. The crisis had a devastating impact on the banking map and spawned the worse global recession since the Great Depression (in the 1930s). The current crisis is nothing like any

previous one because it is deeper, it affects the entire world, and because it started in the financial system.

12. And consequently, the financial sector ought to play a bigger role in its solution. A sound banking sector is absolutely essential for recovery of the entire economy.
13. In connection with the goal of this conference I would now like to share with you **the answer or, if you prefer, the “recipe” of Spanish banks for a sustainable financial system**. This recipe owes much to the good practice and prudence of our supervisor, the Bank of Spain.
14. I hope the Spanish experience can be of use to the USA and other countries, thus contributing to sustainability of the financial system and helping to resolve the crisis.
15. I am going to focus on four aspects of Spanish banking: the business model, banking products, risk consolidation and pro-cyclicality.
16. First, **the business model of Spanish banks is a universal model, focused primarily on retail banking**. In this type of banking the fundamental factors are proximity and in-depth knowledge of customers, and long-term relationships. Our payment system is also well ahead. We don't use checks and all payments are settled electronically.

17. The Spanish model contrasts from the so-called “originate-to-distribute” model developed by banks in other countries. In the latter model, risk is transferred and a vital element in banking business is lost: the information that allows us to adequately evaluate the borrowers.
18. For example, when Spanish banks securitize assets, they do not transfer all the risk entailed. They do it to obtain finance and not as a source of income. This is "originate-to-hold" rather than "originate-to-distribute”.
19. **The second aspect** I want to highlight refers to **the products marketed by Spanish banks.**
20. As you know, a large number of banks around the world developed highly complex structured products that were difficult to value and lacked transparency. The best-known of these were the high-risk (subprime) mortgage loans in America.
21. These products were valued using sophisticated models based on information the markets could not verify. The process was deficient and it led to wrong assessments of the risk entailed and to ignorance regarding the degree of exposure.
22. Many banks and investors took positions in products they did not properly understand.

23. In contrast, Spanish banks did not sell this type of products rather a variety of them, simple and ranging from deposits, mortgages, mutual funds, cards to loans, insurances, etc. Therefore risk management in our country functioned correctly.
24. **The third aspect** I want to share with you **is related to the consolidation of risk on the balance sheet.**
25. The originate-to-distribute model used by other banks is particularly supported by investment vehicles off the balance sheet (conduits and SIVs). This was a major factor behind the speed and breadth of the financial turbulence.
26. Such vehicles have no equity capital requirements and they are not subject to adequate supervision. It was the lack of supervision and the banks' pursuit of profit that caused these vehicles to proliferate.
27. Spanish banks were not exposed to them. Why? The Bank of Spain required that such vehicles had to be consolidated from both the accounting and capital adequacy points of view.
28. **Last but not least,** is the matter of a **reduction in pro-cyclicality through banking regulation.**

29. Spanish legislation establishes two types of provisions:

- ✓ **Specific** provisions linked to losses incurred in specific operations.
- ✓ **Generic provisions**, also known as anti-cyclical provisions, which are created to cover expected losses.

30. Thanks to this system Spanish banks overcame the first phase of the crisis. This put us in a better position to tackle the second phase: “economic deterioration” in which the recession of the real economy is leading to a sharp fall in business and increasing defaults.

31. So far, I have spoken about the nature of the business model and the regulation of Spanish banks. All these concepts apply to BBVA but, if you allow me, I will spend the last part of my talk by providing some brief details about our bank.

32. **BBVA** is an international financial group, working in 32 countries, with more than 48 million customers. We are the leaders in Spain, Mexico and Latin America, and we have a growing presence in Asia. In America we have a considerable footprint, particularly through **BBVA Compass**, which is one of the leading franchises in the Sunbelt, and we are among the top 20 banks nationwide by assets.

33. BBVA's performance in the crisis sets it apart. Despite everything, in 2008 we continued to generate profit in a sustained manner (more than 5.4 billion euros) — unlike most of our competitors who recorded sharp drops in profit and even losses. We ended the year as number two bank worldwide in terms of profit.
34. These results are not mere chance. They were generated by a business model built over several years. It is a winning model, even in times of crisis, and its roots can be found in a strategy based on three pillars: Principles, People and Innovation.
35. All three are essential but I would like to highlight the importance of Principles. Surely, the most valuable lesson we can learn from the crisis is that we must always stand by our principles.
36. Ethics, transparency and prudence should guide all our actions and decisions. We believe this is the only way to build long-term relationships with customers and shareholders, and to generate earnings in a sustainable fashion. Apart from Risk-adjusted Return we also applied Principles-adjusted Return..
37. As I mentioned, the three pillars support our sustainable business model, which focuses on retail banking and reflects our proven abilities in the management of risk, capital, liquidity and costs.

Thanks to this we have become one of the industry leaders in terms of profitability and efficiency.

38. BBVA's approach is different to other banks. Our vision sums it up: "BBVA, trabajamos por un futuro mejor para las personas" "**BBVA, working towards a better future for people**". We want to be a services company that delivers optimum solutions for people and for companies.
39. When this economic crisis winds up, we will address **the third stage of the crisis**: the industrial reconversion of the retail banking sector due to the technology revolution: the net as a new space, as a new platform. And here, we are again ahead of the pack.
40. To sum up: a stable and sound financial system is an essential prerequisite for recovery of the global economy. And banks must contribute to this. But that is not enough.
41. **All those concerned —governments, companies and social agents around the globe— must co-ordinate their efforts to combat the crisis.** The gravity of the situation demands nothing less.

42. And in this co-ordination **the role of the USA, as world leader, is essential. Its success will be shared by everyone. You can always count on the support of Spanish companies in this endeavor.**

43. Thank you very much.