

**Remarks by the Chairman & CEO of BBVA at the X Latibex Forum****Francisco González: “This will be the first global crisis which will not push Latam into recession”**

- **“In the wake of the G-20 Summit, we are working towards an international financial system which, if we do our homework well, will be made up of stronger and more solvent entities”**
- **“Here at BBVA we are totally committed to Latin America. It is exactly when the going gets tough, like now, that we prove we are in it for the long haul”**

**Today in Madrid at the inaugural presentation of the X Latibex Forum, Francisco González expressed his conviction that “Latin America is better prepared to weather this crisis than in the past thanks to strengths developed in recent years which have enabled the region to head into the unfolding crisis from a position of far greater strength relative to the past”. BBVA’s Chairman and CEO issued the following upbeat message regarding outlook for the region: “I am convinced this will be the first global crisis which will not push Latam into recession”. In his speech, Mr. González analyzed the effects of the international financial crisis, making a positive reading of the recent G-20 Summit: “If we do our homework well, we are working towards an international financial system that will be made up of stronger and more solvent entities”.**

Francisco González kicked off his speech outlining the global economic and financial scene, highlighting how “what began as a contained problem related to the US housing sector, specifically subprime mortgages, has today developed into a full-blown global financial crisis which is having a major impact on the markets and is spreading like wildfire to the real economy, with the European and US economies clearly heading straight for recession”. He remarked that the Lehman Brothers bankruptcy in September “marks a before and after in this crisis, triggering the collapse of the debt markets and grinding interbank lending to a halt”.

He went on to remark how, “against this backdrop, we are living historic times in the banking sector. The crisis is proving the international financial system as we have known it unviable. The global banking landscape is currently being overhauled, with big names disappearing overnight, punctuated by major M&A transactions”. He underscored however how this process stands apart from earlier waves of concentration due to the leading role being played by the public sector in the form of a raft of rescue measures passed by governments worldwide.

Along these lines, he emphasized: “We are moving away from national initiatives, which have proven to have a limited effect, towards coordinated international measures, the ultimate example of which is the G-20 Summit held last weekend”.

### **Towards a new financial system**

“I think we can make a positive reading of the Summit. First of all because the world’s political leaders expressed their conviction that any reforms must be based on free market principles, the rule of law, respect for private property, open trade and investment and competitive markets” said BBVA’s Chairman and CEO, who went on to list specific milestones achieved at the summit:

- “Enshrined policy approach predicated on international cooperation and coordination
- Incorporation of emerging economies into the problem-solving effort
- Specific objectives for reforming the financial system, with clearly assigned tasks and deadlines
- Role for the IMF and World Bank reinforced”.

Summing up, Mr. González expressed his opinion that “if we do our homework well, we are working towards a new international financial system made up of stronger and more solvent entities. A more conservative system governed by more clearly defined rulebook that is shared by all. In order to make progress in this direction we have to concede the fact that the banking sector will become more closely regulated just as the involvement of the public sector will be higher”.

However, he stressed that in this transition, care needs to be taken to “prevent excessive regulation while public intervention should be devised as temporary in nature with a view to withdrawing it when the crisis wanes and the afflicted entities’ situation so allows”.

He then went on to analyze the situation in Latin America. Initially the impact on the region was minimal; however, once Lehman fell, investor confidence collapsed and the crisis spread to the region, generating mistrust in the financial institutions and prompting a slowdown in lending, which in turn hurt demand, thereby causing a downgrade in the outlook for the region from an economic slowdown to a gloomier recessionary scenario.

### **Positive growth**

Against this backdrop, a ‘flight to quality’ was observed, affecting emerging economies. This spread rapidly to developing economies and to Latin America in particular: sovereign risk premiums doubled and the international financing tap was shut off, a liquidity and credit crunch emerged and the Latam currencies depreciated sharply relative to the dollar.

Mr. González noted how “in recent weeks liquidity levels had stabilized within the banking systems, spreads on external borrowing had narrowed and the currencies had settled down. However, the outlook remains highly uncertain”.

Despite this situation, Francisco González remarked that “nevertheless, we can affirm that Latin America is better prepared to weather this crisis than in the past thanks to strengths developed in recent years which have enabled the region to head into the unfolding crisis from a position of far greater strength relative to the past”. In his opinion, these strengths are the following:

- The level of foreign borrowing, public and private, is lower than in previous episodes (on average short-term foreign borrowings account for almost 4% of regional GDP)
- The various economies have accumulated sizeable reserves during a period marked by high raw material prices (over 10% of regional GDP, over double short term borrowing requirements), notably Chile, Peru and Brazil.
- There are surplus fiscal and trade balances in most nations
- The financial systems are better prepared. They are better supervised, more solvent and there are no major maturity/currency mismatches as was frequent in the past, while the level of deposits is higher. In addition, and of great importance, they are backed by robust international financial entities which inject the system with significant stability
- The economic reforms undertaken in the 1990s have, in general, made the economies more open and left them playing a more active role in terms of private investment and the markets
- Meanwhile, with the passage of time, these reforms have contributed to greater macroeconomic discipline.

“For all these reasons, despite cutting our growth forecast for the region in 2009, we think Latin America will be one of the few regions of the world to remain in positive territory next year, registering estimated growth of around 2%. I am convinced this will be the first global crisis which will not push Latam into recession”.

Along these same lines, Francisco González stressed that, looking beyond the current situation, “BBVA believes that Latin America will remain a source of global economic growth long term”. This opinion is underpinned by three key factors:

- Demographics: the active workforce in Latin America is set to grow in the coming decades, driven by the youth of its population today and the incorporation of women into the workforce
- Improving education: the population joining the workforce in the coming years will be far more highly educated

- Availability of raw materials: growth across the developed world, especially in Asia, will result in higher demand for food, energy and industrial raw materials, driving income and foreign investment.

Nonetheless, he also made reference to certain significant weaknesses or risks which warrant a note of caution in relation to the analysis performed:

- “Exports are highly concentrated on few raw materials and some countries’ exports are also highly concentrated in terms of markets, notably the US, the epicenter of the crisis
- The informal economy remains significant, limiting access to financing by individuals and small companies
- The public services, especially those that directly affect the wellbeing of the most underprivileged, such as education, health and housing, do not work as they should
- Tax collection systems are also inadequate, with few taxpayers shouldering an excessive tax burden
- In some countries, the governments continue to meddle excessively in the markets, changing the rules of the game with frequency, thereby discouraging long-term investment”.

“It is necessary to continue to forge ahead with reform on all these fronts to enable Latin America to exploit its potential and steadily close the gap in terms of income and well-being relative to the developed economies”.

### **Commitment to the region**

Francisco González went on to review BBVA’s position in Latin America. Since the Group embarked on the continent in the 1970s, it has invested over \$14 billion. Today BBVA has 26 million banking customers and 5 million pension plan holders in the region. It employs over 66,000 people, almost 60% of the Bank’s total workforce, and has over 3,600 branches. Latin America currently represents over 40% of Group profit.

“But we are not stopping here”, he emphasized, “we think the region’s contribution to BBVA will continue to grow over the coming years, as will, naturally, our contribution to the region’s future”. This contribution will come first and foremost from the Group’s business activities: “We believe that the presence of a major entity such as ours injects stability into the regional economy and contributes to the development of the financial markets, as has been happening in the mortgage segment in recent years”.

Secondly, this contribution will be driven by a corporate responsibility standpoint, specifically intense philanthropic initiatives. The year the Group will earmark €28 million to its regional social action plan, equivalent to 1% of profits, and has endowed the BBVA Microfinance Foundation, set up in 2007, with €200 million.

“Here at BBVA we are totally committed to Latin America. It is when the going gets tough, like now, that we prove we are in it for the long haul”. We plan to continue to grow in Latin America. And the strength of the BBVA Group is an especially valuable asset for the region in the new paradigm”.

In the last part of his speech, Mr. González stressed the Bank’s unique strategy: “BBVA is emerging as one of the world’s most robust banks. This is evidenced in our earnings release three weeks ago, which showed 9% year-on-year growth in recurring earnings, just as most of our peers were reporting losses or steep declines in profits”.

### **Strategy reiterated**

“BBVA has demonstrated yet again its ability to generate profits in any environment, even one as extreme and complex as the current one. And this is thanks to a strategy which sets us apart. This strategy is today more relevant than ever, underpinned by three cornerstones: principles, innovation and people”, remarked Francisco González, who went on to explain how these cornerstones are understood at the Bank.

“The business principles are the true pillars of our project. We measure value not only using risk-adjusted profit measures, but also applying principle-adjusted indicators. As the new international financial order unfolds, going back to basics and principles will be vital”. He went on to deal with innovation, referring to “real, authentic innovation, devised to identify the best solutions for our customers and for people, and not the common misinterpretation of the concept, specifically the creation of extremely risky products that nobody understands, that are impossible to value and that have brought so many problems”.

Lastly, BBVA’s Chairman and CEO talked about the people, without whom the other two pillars would not function: “We work with people for people, which is why talent management, teamwork and the meritocracy concept are so important within our organization”.

Francisco González ended his speech on an upbeat note in terms of Latin America’s future: “On the one hand, we think we bring strength to the region. The presence in the region of multinationals such as BBVA, with a top class business model, contributes to stability in Latin America and drives regional growth. Meanwhile, Latin America is a growth driver for the BBVA Group, a source of medium and long-term growth. To this end, the region must continue to forge ahead with the discipline, reforms and efficient management already underway”.