

Speech at the “IV Conference for Financial Professionals - Borsadiner”

## **Juan Asúa: “The restructuring of Spain’s financial system represents an excellent opportunity for BBVA to increase its market share”**

- **“BBVA’s unique response to the crisis can be attributed to the key role played by its distinctive management model, which is based on three pillars: its customer-oriented focus, risk management and efficiency”**
- **“Spanish banks weathered the first phase of the crisis very well due to a retail-focused business model and, consequently, more recurring income than investment banks”**
- **“Our financial system will have to face two challenges: a decrease in activity and increase in non-performing loans against a backdrop of macroeconomic decline and exposure to the real estate market”**
- **“We are confident Spain will resume the path to economic growth and job creation with everyone’s efforts”**

**“The consolidation and restructuring process already underway in Spain’s financial system represents an excellent opportunity for organic growth for BBVA, in terms of both its market share and its number of customers. This is because of its financial strength and the power of its sales networks,”** Juan Asúa, BBVA director of Spain and Portugal said today during a speech he delivered at the “IV Conference for Financial Professionals - Borsadiner” held in Barcelona. Mr. Asúa, who sat on a panel of experts that debated the “Prospects for Spain’s Banking Sector,” pointed out that although the Spanish financial system had withstood the first phase of the crisis very well, two major challenges lie ahead: a decrease in activity and increase in non-performing loans. Against the current backdrop, the executive highlighted the fact that BBVA is one of the financial institutions that has best weathered the crisis, thanks to a unique management model based on three pillars: a customer-oriented focus, risk management and efficiency.

Juan Asúa, BBVA director of Spain and Portugal, began his speech by revisiting the origins of the current global crisis, which he described as different from previous crises for several reasons: “because of its origin, which was essentially financial in nature; its unique virulence;

and its global reach, whereby financial globalisation and foreign commerce have served to spread economic decline.”

In this connection, he explained the three clearly distinct phases being undergone by the crisis. The first phase was characterised by the liquidity crisis, which began in 2007 and can be deemed nearly over. The second phase, however, which involves the economic crisis and is the phase in which we currently find ourselves, will loom over the sector for the next few years. A third phase of industrial reconstruction will touch each and every sector, particularly the banking sector, and "we do not know how long it will last. It may also be different depending on the country, but it will definitely require sweeping changes in technology and business.”

After noting that the latest data on the world’s leading economies, in addition to the latest reports by the European Central Bank (ECB), Organisation for Economic Co-operation and Development (OECD) and International Monetary Fund (IMF), show signs of economic recovery and indicate that the worst of the crisis is over, he spoke on the climate of the Spanish economy. “Logically –he explained– we have not been able to avoid the current situation outside of the country but we also are facing a faster, sharper adjustment due to our heavier dependence on the real estate sector and the higher level of debt assumed by companies and households.”

### **A changed sector after the crisis**

In Mr. Asúa’s opinion, “our economy’s adjustment must necessarily see the continuation of the private sector’s de-gearing process, the reshaping of the real estate sector and the correction of the foreign deficit to be able to get on the path to recovery and begin creating jobs again.”

At this point in his speech, Mr. Asúa proceeded to examine the crisis’ effect on the financial sector. He noted that a radically different financial system will emerge from the crisis.

“The institutions that make it through the second phase of the crisis will have to face major technological and social changes prompted by the demands of customers and the banks themselves. While customers will seek more personalised service, banks will be developing new business models that are more flexible and efficient. They will evolve into service-based companies using technology to turn information into knowledge,” underscored Mr. Asúa.

“In short –he stated– we are moving toward a new global financial system formed by stronger, more solvent institutions that is more heavily regulated, more prudent and subject to a larger role played by the public sector. That said, it is everyone’s job to follow the ground rules to avoid excessive regulation and to deem the public sector’s presence somewhat temporary.”

And how is Spain’s financial sector responding to the crisis? “Despite Spain being hit harder by the crisis than its European neighbours and the decline in activity and risk quality seen by financial institutions, our financial sector weathered the first phase of the crisis very well.

This is in part owed to a universal retail-focused business model based on relationship banking and, consequently, more recurring income than investment banks. It is also owed to the strict regulation and oversight imparted by the Bank of Spain," noted the BBVA director of Spain and Portugal.

Nevertheless, he pointed out that "Spain's financial sector has grown at an accelerated and excessive rate and the weakness of certain institutions and excess capacity in the sector are dragging down recovery and future growth." In this connection, he underscored two major challenges to be faced by the Spanish financial system: the decrease in activity and increase in non-performing loans against a backdrop of macroeconomic decline and exposure to the real estate market, which will not affect all institutions the same.

"This will force some institutions to carry out capital increases or initiate M&A transactions. It may also cause the demise of some institutions. We are clearly moving toward a sector with fewer players: ones that are stronger and on sound footing," he said.

### **Unique model**

According to Mr. Asúa, "the consolidation and restructuring process already underway in the Spanish financial system represents an excellent opportunity for organic growth for BBVA, in terms of both its market share and its number of customers. This is due to its financial strength and the power of its sales networks."

Emphasising these strengths, Mr. Asúa highlighted the fact that BBVA is one of the financial institutions that has best withstood the crisis. He added that it is one of five private banks worldwide that has not required government aid and that it has been the only large group to not need a capital increase since the crisis began. In addition, BBVA has benefited from its sound footing, diversification and focus on retail business, which accounts for 90% of the group's net margin, and moved up from eleventh place in 2008 to second place this year in worldwide earnings rankings. This achievement displays the company's clear leadership in profitability and efficiency compared to its main competitors.

Key to BBVA's performance has been the unique management model used by the group, which according to Mr. Asúa, is based on three essential pillars:

1. Customer-oriented focus. "BBVA applies a segmented approach for each type of customer in conjunction with specific distribution networks and sales forces that know our customers inside out and can therefore offer them a unique service that pivots on a value proposition suited to their individual needs"
2. Risk management. By adhering to a policy based on prudence and anticipation, we can be sure we will be in a very solid position in terms of financial order and hedges. We can also do this by ensuring our non-performing loan rate is lower-than-average compared to other banks and savings banks in Spain.
3. Efficiency. BBVA launched an ambitious Transformation and Innovation Plan a little over two years ago that is already yielding significant results concerning the

efficiency of our production and distribution models in terms of how to produce and sell more and in a more efficient manner.

“At BBVA, we like to say, because we are convinced of it, that crises are always excellent opportunities to grow more and strengthen our leadership position, differentiating ourselves from the competition. As such, we are completely optimistic about the exciting future that lies ahead and we are confident, moreover, that Spain will resume the path to economic growth and job creation with everyone’s efforts,” Mr. Asúa said in closing.