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For convenience in the analysis of the information, the following tables describe, for the periods and dates indicated, information concerning the noon buying rate for euro, expressed in dollars per €1.00. The term "**noon buying rate**" refers to the rate of exchange for euros, expressed in U.S. dollars per euro, in the City of New York for cable transfers payable in foreign currencies as certified by the Federal Reserve Bank of New York for customs purposes.

Year ended December 31	Average(1)
2008	1.4695
2009	1.3955
2010	1.3216
2011	1.4002
2012	1.2908
2013 (through March, 22, 2013)	1.3220

(1) Calculated by using the average of the exchange rates on the last day of each month during the period.

Month ended	High	Low
September 30, 2012	1.3142	1.2566
October 31, 2012	1.3133	1.2876
November 30, 2012	1.3010	1.2715
December 31, 2012	1.3260	1.2930
January 31, 2013	1.3584	1.3047
February 28, 2013	1.3692	1.3054
March 31, 2013 (through March 22, 2013)	1.3098	1.2888

The noon buying rate for euro from the Federal Reserve Bank of New York, expressed in dollars per €1.00, on March 22, 2013, was $1.2996.

As of December 31, 2012, approximately 39% of our assets and approximately 38% of our liabilities were denominated in currencies other than euro. See Note 2.2.16 to our Consolidated Financial Statements.

For a discussion of our foreign currency exposure, please see "Item 11. Quantitative and Qualitative Disclosures About Market Risk—Market Risk Management—Market Risk in Non-Trading Activities in 2012—Structural Exchange Rate Risk".

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Relating to Us and Our Business

We are subject to substantial regulation, and regulatory and governmental oversight. Adverse regulatory developments or changes in government policy could have a material adverse effect on our business, results of operations and financial condition.

The financial services industry is among the most highly regulated industries in the world. Our operations are subject to ongoing regulation and associated regulatory risks, including the effects of changes in laws, regulations, policies and interpretations, in Spain, the European Union, the United States and the other markets where we operate. This is particularly the case in the current market environment, which is witnessing increased levels of government and regulatory intervention in the banking sector which we expect to continue for the foreseeable future. The regulations which most significantly affect us, or which could most significantly affect us in the future, include regulations relating to capital and provisions requirements, which have become increasingly stricter in the past two years, steps taking towards achieving a fiscal and banking union in the European Union and regulatory reforms in the United States. These risks are discussed in further detail below.

In addition, we are subject to substantial regulation relating to other matters such as liquidity. We cannot predict if increased liquidity standards, if implemented, could require us to maintain a greater proportion of our assets in highly-liquid but lower-yielding financial instruments, which would negatively affect our net interest margin. We are also subject to other regulations, such as those related to anti-money laundering, privacy protection and transparency and fairness in customer relations.

Adverse regulatory developments or changes in government policy relating to any of the foregoing or other matters could have a material adverse effect on our business, results of operations and financial condition. Furthermore, regulatory fragmentation, with some countries implementing new and more stringent standards or regulation, could adversely affect our ability to compete with financial institutions based in other jurisdictions which do not need to comply with such new standards or regulation.

Capital requirements

Increasingly onerous capital requirements constitute one of our main regulatory concerns. See "Item 4. Information on the Company—Business Overview—Supervision and Regulation—Capital Requirements."

As a Spanish financial institution, we are subject to the Bank of Spain Circular 3/2008 ("**Circular 3/2008**"), of May 22, on the calculation and control of minimum capital requirements, as amended by Bank of Spain Circular 4/2011 ("**Circular 4/2011**"), which implements Capital Requirement Directive III ("**CRD III**"). In addition, the Royal Decree-Law 24/2012 of August 31, 2012 established a new minimum requirement in terms of core capital on risk-weighted assets which is more restrictive than the one set out in Circular 3/2008, and that must be greater than 9%. This Royal Decree-Law came into force in 2013.

In addition, following an evaluation of the capital levels of 71 financial institutions throughout Europe (including BBVA) based on data available as of September 30, 2011, the European Banking Authority ("**EBA**") issued a recommendation pursuant to which, on an exceptional and temporary basis, financial institutions based in the EU should reach a new minimum Core Tier 1 ratio (9%) by June 30, 2012. This recommendation is still in place.

Moreover, we will be subject to the new Basel III capital standards, which will be phased in until January 1, 2019. Despite the Basel III framework setting minimum transnational levels of regulatory capital and a measured phase-in, many national authorities have started a race to the top for capital by gold-plating both requirements and the associated interpretation calendars. In particular, while the European transposition of these standards will be done through the Capital Requirements Directive ("**CRD IV**") that is expected to be approved in 2013 and to come into force during 2014, the Spanish Government anticipated certain requirements of Basel III in 2011 with the Royal Decree-Law 2/2011, of February 18, which was superseded by Royal Decree-Law 24/2012, by imposing stricter capital requirements. Additionally, the Mexican government introduced the Basel III capital standards in 2012 and the Basel III transposition in the United States is pending to be clarified. This lack of uniformity may lead to an uneven playing field and to competition distortions. Moreover, regulatory fragmentation, with some countries bringing forward the application of Basel III requirements or increasing such requirements, could adversely affect a bank with global operations such as BBVA and could undermine our profitability.

There can be no assurance that the implementation of these new standards will not adversely affect our ability to pay dividends, or require us to issue additional securities that qualify as regulatory capital, to liquidate assets, to curtail business or to take any other actions, any of which may have adverse effects on our business, financial condition and results of operations. Furthermore, increased capital requirements may negatively affect our return on equity and other financial performance indicators.

Provision requirements

Royal Decree-Law 2/2012, of February 3, and Royal Decree-Law 18/2012, of May 11 increased coverage requirements (which had to be met by December 31, 2012) for performing and non-performing real estate assets and required an additional capital buffer. Subsequently, requisites of both RD-L were included in Law 8/2012 of October 30, 2012 (“**Law 8/2012**”). There can be no assurance that additional provision requirements will not be adopted by the authorities of the jurisdictions where we operate (including Spanish authorities).

Steps taken towards achieving an EU fiscal and banking union

In June 2012, a number of agreements were reached to reinforce the monetary union, including the definition of a broad roadmap towards a single banking and fiscal union.

While support for a banking union in Europe is strong and significant advances will be done in terms of the development of a single-rule book through the CRD IV, there is ongoing debate on the extent and pace of integration. It has been decided that the European Central Bank (“**ECB**”) will play a key role in supervision; although a consensus on how to dovetail its central position with the role of national supervisors has not yet been agreed. Other issues are still open, such as the representation and voting power of non-eurozone countries, the accountability of the ECB to European institutions as part of the single supervision mechanism, the final status of the European Banking Authority, the development of a new bank resolution regimen and the creation of a common deposit-guarantee scheme.

European leaders have also supported the reinforcement of the fiscal union but continue negotiating how to achieve it.

Regulations adopted towards achieving a banking and/or fiscal union in the EU and decisions adopted by the ECB in its future capacity as our main supervisory authority may have a material impact on our business, financial condition and results of operations.

Regulatory reforms initiated in the United States

Our operations may also be affected by other regulatory reforms in response to the financial crisis, including measures such as those concerning systemic financial institutions and the enactment in the United States in July 2010 of the Dodd-Frank Act. See “Item 4. Information on the Company—Business Overview—The United States—U.S. Regulation—Dodd-Frank Act.” Among other changes, beginning five years after enactment of the Dodd-Frank Act, the Federal Reserve Board will apply minimum capital requirements to U.S. intermediate bank holding company subsidiaries of non-U.S. banks. Section 619 of the Dodd-Frank Act, also known as the Volcker Rule, is a key component of this effort. The Volcker Rule prohibits banking entities, which benefit from federal insurance on customer deposits or access to the discount window, from engaging in proprietary trading and from investing in or sponsoring hedge funds and private equity funds, subject to certain exceptions. In addition, in December 2012 the Fed published new draft regulation on Foreign Banking Organizations, covering issues such as solvency, liquidity, supervision and crisis management. Although there remains uncertainty as to how regulatory implementation of this law will occur, various elements of the new law may cause changes that impact the profitability of our business activities and require that we change certain of our business practices, and could expose us to additional costs (including increased compliance costs). These changes may also cause us to invest significant management attention and resources to make any necessary changes.

Memorandum of Understanding on the Spanish Financial Sector

On June 25, 2012, the Spanish government formally requested the European Union financial aid to recapitalize certain Spanish financial institutions. The details and conditions of the related Memorandum of Understanding on Financial-Sector Policy reached ("**MoU**") were announced on July 20, 2012. The MoU establishes a series of conditions to be met by all Spanish financial institutions, including those that have no capital deficits. Such conditions include the compliance with the EBA's Core Tier 1 ratio of 9%, early intervention and resolution measures including burden sharing measures from hybrid capital holders and subordinated debt holders in banks receiving public capital, and new financial reporting requirements on capital, liquidity and loan portfolio quality. The Spanish government implemented the agreements reached in the MoU through Royal-Decree Law 24/2012, of August 31, which was later replaced by Law 9/2012, of November 14, on restructuring and resolution of credit entities. See "Item 4. Information on the Company—Business Overview—Supervision and Regulation—Law 9/2012 of November 14, on Restructuring and Resolution of Credit Entities." As of the date of this Annual Report, we cannot predict the impact that the conditions set forth in the MoU or the implementing regulation may have on our business, financial condition or results of operations.

Withdrawals of deposits or other sources of liquidity may make it more difficult or costly for us to fund our business on favorable terms or cause us to take other actions.

Historically, one of our principal sources of funds has been savings and demand deposits. As of December 31, 2012, 2011 and 2010, time deposits represented 26%, 27%, and 29% of our total funding respectively. Large-denomination time deposits may, under some circumstances, such as during periods of significant interest rate-based competition for these types of deposits, be a less stable source of deposits than savings and demand deposits. The level of wholesale and retail deposits may also fluctuate due to other factors outside the Group's control, such as a loss of confidence (including as a result of political initiatives, including bail-in and/or confiscation and/or taxation of creditors' funds, in connection with the Eurozone crisis, as seen recently in Cyprus). Moreover, we cannot assure you that, in the event of a sudden or unexpected withdrawal of deposits or shortage of funds in the banking systems or money markets in which we operate, we will be able to maintain our current levels of funding without incurring higher funding costs or having to liquidate certain of our assets. In addition, if public sources of liquidity, such as the ECB extraordinary measures adopted in response to the financial crisis since 2008, are removed from the market, we cannot assure you that we will be able to continue funding our business or, if so, maintain our current levels of funding without incurring higher funding costs or having to liquidate certain of our assets or taking additional deleverage measures.

Our earnings and financial condition have been, and our future earnings and financial condition may continue to be, materially affected by depressed asset valuations resulting from poor market conditions.

Financial markets continue to be subject to significant stress conditions, where steep falls in perceived or actual asset values have been accompanied by a severe reduction in market liquidity, especially during 2012. In dislocated markets, hedging and other risk management strategies may not be as effective as they are in normal market conditions due in part to the decreasing credit quality of hedge counterparties. Severe market events have resulted in us recording large write-downs on our credit market exposures in recent years. Any deterioration in economic and financial market conditions could lead to further impairment charges and write-downs.

We face increasing competition in our business lines.

The markets in which we operate are highly competitive and we believe that this trend will continue. In addition, the trend towards consolidation in the banking industry has created larger and stronger banks with which we must now compete, some of which have recently received public capital from the European Stability Mechanism (the "**ESM**").

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We also face competition from non-bank competitors, such as: payment platforms; ecommerce businesses; department stores (for some credit products); automotive finance corporations; leasing companies; factoring companies; mutual funds; pension funds; insurance companies; and public debt (as a result of the high yields which are being currently offered as a consequence of the sovereign debt crisis, there is a crowding out effect in the financial markets).

We cannot assure you that this competition will not adversely affect our business, financial condition, cash flows and results of operations.

Our business is particularly vulnerable to volatility in interest rates.

Our results of operations are substantially dependent upon the level of our net interest income, which is the difference between interest income from interest-earning assets and interest expense on interest-bearing liabilities. Interest rates are highly sensitive to many factors beyond our control, including fiscal and monetary policies of governments and central banks, regulation of the financial sectors in the markets in which we operate, domestic and international economic and political conditions and other factors. Changes in market interest rates can affect the interest rates that we receive on our interest-earning assets differently than the rates that we pay for our interest-bearing liabilities. This may, in turn, result in a reduction of the net interest income we receive, which could have a material adverse effect on our results of operations.

In addition, the high proportion of loans referenced to variable interest rates (approximately 70% of our loan to customer portfolio as of December 31, 2012) makes debt service on such loans more vulnerable to changes in interest rates. In addition, a rise in interest rates could reduce the demand for credit and our ability to generate credit for our clients, as well as contribute to an increase in the credit default rate. As a result of these and the above factors, significant changes or volatility in interest rates could have a material adverse impact on our business, financial condition or results of operations.

We have a substantial amount of commitments with personnel considered wholly unfunded due to the absence of qualifying plan assets.

Our commitments with personnel which are considered to be wholly unfunded are recognized under the heading “Provisions—Funds for Pensions and Similar Obligations” in the accompanying consolidated balance sheets. These amounts include “Post-employment benefits”, “Early Retirements” and “Post-employment welfare benefits”, which amounted to €2,728 million, €2,758 million and €310 million, respectively, as of December 31, 2012, €2,429 million, €2,904 million and €244 million, respectively, as of December 31, 2011 and €2,497 million, €3,106 million and €377 million, respectively, as of December 31, 2010. These amounts are considered wholly unfunded due to the absence of qualifying plan assets.

We face liquidity risk in connection with our ability to make payments on these unfunded amounts which we seek to mitigate, with respect to “Post-employment benefits”, by maintaining insurance contracts which were contracted with insurance companies owned by the Group (see Note 26 to our Consolidated Financial Statements). The insurance companies have recorded in their balance sheets specific assets (fixed interest deposit and bonds) assigned to the funding of these commitments. The insurance companies also manage derivatives (primarily swaps) to mitigate the interest rate risk in connection with the payments of these commitments. We seek to mitigate liquidity risk with respect to “Early Retirements” and “Post-employment welfare benefits” through oversight by the Assets and Liabilities Committee (“**ALCO**”) of the Group. The Group’s ALCO manages a specific asset portfolio to mitigate the liquidity risk regarding the payments of these commitments. These assets are government and covered bonds which are issued at fixed interest rates with maturities matching the aforementioned commitments. The Group’s ALCO also manages derivatives (primarily swaps) to mitigate the interest rate risk in connection with the payments of these commitments. Should we fail to adequately manage liquidity risk and interest rate risk either as described above or otherwise, it could have a material adverse effect on our business, financial condition, cash flows and results of operations.

Risks Relating to Spain and Europe

Continuing economic tensions in the European Union and Spain, including as a result of the ongoing European sovereign debt crisis, could have a material adverse effect on our business, financial condition and results of operations.

The continuing crisis in worldwide financial and credit markets has led to a global economic slowdown in recent years, with many economies around the world showing significant signs of weakness or slow growth. In Europe, uncertainty regarding the budget deficits and solvency of several countries, together with the risk of contagion to other more stable countries, has further exacerbated the global economic crisis. In addition, the risk of default on the sovereign debt of certain EU countries and the impact this would have on the Eurozone countries, including the potential risk that one or more countries may leave the Eurozone—either voluntarily or involuntarily—has raised concerns about the ongoing viability of the euro currency and the European Monetary Union (the "**EMU**"). These concerns have been further exacerbated by the rise of Euro-skepticism in certain EU countries, including countries that decided not to enter the EMU such as the United Kingdom. These and other concerns could lead to the re-introduction of individual currencies in one or more EU Member States. The exit of one or more EU Member States from the EMU could materially adversely affect the European and global economy, cause a redenomination of financial instruments or other contractual obligations from the euro to a different currency and substantially disrupt capital, interbank, banking and other markets, among other effects, any of which could have a material adverse effect on our business, results of operations, financial condition and prospects. In addition, tensions among Member States of the EU, and growing Euro-skepticism in certain EU countries, could pose additional difficulties in the EU's ability to react to the ongoing economic crisis.

The Spanish economy contracted during 2012 and the Bank of Spain has predicted the recession to continue in 2013. Spain continues to be one of the focal points of the continuing sovereign debt crisis and concerns surrounding the ability of the Spanish government to service its debt or the health of the Spanish banking sector could lead, and/or the prospect of the continued contraction of the Spanish economy could lead, Spanish leaders to consider requesting financial assistance from the European authorities. Any such financial assistance could impose austerity measures and other restrictions on the Spanish government, including enhanced requirements directed toward Spanish banking institutions, which could make it difficult for Spain to generate revenues and raise additional concerns regarding its ability to service its sovereign debt. Any such restrictions, including additional capital requirements applicable to Spanish banking institutions, could also materially affect our financial condition. Furthermore, any such austerity measures could adversely affect the Spanish economy and reduce the capacity of our borrowers to repay loans we have made to them, increasing our non-performing loans.

Economic conditions remain uncertain in Spain and the European Union and may deteriorate in the future, which could adversely affect the cost and availability of funding for Spanish and European banks, including us, adversely affect the quality of our loan portfolio, require us to take impairments on our exposures to the sovereign debt of one or more countries in the eurozone or otherwise adversely affect our business, financial condition and results of operations.

We are dependent on our credit ratings and any reduction in our or the Kingdom of Spain's credit ratings could materially and adversely affect our business, financial condition and results of operations.

We are rated by various credit rating agencies. Our credit ratings are an assessment by rating agencies of our ability to pay our obligations when due. Any actual or anticipated decline in our credit ratings to below investment grade or otherwise may increase the cost of and decrease our ability to finance ourselves in the capital markets, secured funding markets (by affecting our ability to replace downgraded assets with better rated ones), interbank markets, through wholesale deposits or otherwise, harm our reputation, require us to replace funding lost due to the downgrade, which may include the loss of customer deposits, and make third parties less willing to transact business with us or otherwise materially adversely affect our business, financial condition and results of operations. Furthermore, any decline in our credit ratings to below investment grade or otherwise could breach certain of our agreements or trigger additional obligations under such agreements, such as a requirement to post additional collateral, which could materially adversely affect our business, financial condition and results of operations.

Since we are a Spanish company with substantial operations in Spain, our credit ratings may be adversely affected by the assessment by rating agencies of the creditworthiness of the Kingdom of Spain. Moody's, Fitch, Standard & Poor's and DBRS have downgraded Spain's sovereign debt rating since May 2012. In May 2012, DBRS was the first rating agency to downgrade the debt rating of both, the Kingdom of Spain to AH from AAL and the large Spanish banks. Following DBRS' rating action, Moody's and Fitch downgraded Spain's sovereign debt rating in June 2012 to Baa3 from A3 and to BBB from A, respectively. In June 2012, following their respective downgrade of the Kingdom of Spain, Moody's and Fitch downgraded all of the large Spanish banks, including us. In August 2012, DBRS further downgraded the rating of Spain's sovereign debt to AL from AH and the rating of the large Spanish banks. Standard & Poor's announced in October 2012 that it had lowered its long-term sovereign credit rating on the Kingdom of Spain to BBB- from BBB+ and the short-term sovereign credit rating to A-3 from A-2, with a negative outlook on the long-term rating. In October 2012, following its downgrade of the Kingdom of Spain, Standard & Poor's downgraded all of the large Spanish banks, including us. Any further decline in the Kingdom of Spain's sovereign credit ratings could, in turn, result in a further decline in our credit ratings.

In addition, we hold a substantial amount of securities issued by the Kingdom of Spain, autonomous communities within Spain and other Spanish issuers. Any decline in the Kingdom of Spain's credit ratings could also adversely affect the value of the Kingdom of Spain's and other Spanish issuers' respective securities held by us in our various portfolios or otherwise materially adversely affect our business, financial condition and results of operations. Furthermore, the counterparties to many of our loan agreements could be similarly affected by any decline in the Kingdom of Spain's credit rating, which could limit their ability to raise additional capital or otherwise adversely affect their ability to repay their outstanding commitments to us and, in turn, materially and adversely affect our business, financial condition and results of operations.

Since our loan portfolio is highly concentrated in Spain, adverse changes affecting the Spanish economy could have a material adverse effect on our financial condition.

We have historically developed our lending business in Spain, which continues to be our main place of business. As of December 31, 2012, business activity in Spain accounted for 57% of our loan portfolio. See "Item 4. Information on the Company—Selected Statistical Information—ASSETS—Loans and Advances to Customers—Loans by Geographic Area."

After rapid economic growth until 2007, Spanish gross domestic product ("**GDP**") contracted by 3.7% and 0.3% in 2009 and in 2010, respectively, grew by 0.4% in 2011 and contracted by 1.4% in 2012. Our Economic Research Department ("**BBVA Research**") estimates that the Spanish economy will contract by 1.1% in 2013. As a result of this expected contraction, it is expected that economic conditions and unemployment in Spain will continue to deteriorate.

In addition, GDP forecasts for the Spanish economy could be further revised downwards if measures adopted in response to the economic crisis are not as effective as expected or if public deficit figures force the government to implement additional restrictive measures. In addition to the tightening of fiscal policies in order to correct its economic imbalances, Spain has seen confidence erode because of the weaker economic activity and, above all, a deterioration in employment in 2012, which is expected to continue in 2013.

The effects of the financial crisis have been particularly pronounced in Spain given Spain's heightened need for foreign financing as reflected by its high public deficit. Real or perceived difficulties in making the payments associated with this deficit can further damage Spain's economic situation and increase the costs of financing its public deficit. The aforementioned may be exacerbated by the following:

- The Spanish economy is particularly sensitive to economic conditions in the rest of the Euro area, the primary market for Spanish goods and services exports.

- Spanish domestic demand in 2012 was heavily impacted by fiscal policy both directly, through the progressive contraction of public sector demand (as a result, among other reasons, of tighter fiscal targets), and indirectly, through the impact of the fiscal policy reforms on the consumption and investment decisions of private parties (as a result, for example, of the increases in various taxes, including income tax and value added tax (VAT), and the elimination of certain tax benefits (including tax benefits on the purchase of a home)).
- Despite the adoption of a labor market reform in early February 2012 which was intended to slow the amount of jobs lost in 2012, unemployment continued to increase in 2012 and is expected to remain above 25% during 2013.
- In 2013, the continued deterioration of the labor market may trigger a decline in the wage component of a household’s gross disposable income. Furthermore, the increase of fiscal pressures due to the country’s effort to meet the public deficit targets set for 2013 will continue to reduce the non-wage component of disposable income, despite the possible increase in the volume of unemployment benefits. Higher personal income taxes are also expected to have a negative effect. Households’ nominal disposable income remained constant in 2011, is estimated to have fallen by 3.3 % in 2012 and 1.5% in 2013.
- Net financial wealth is not expected to recover during 2013 as a result of the real estate sector adjustments and we expect these adjustments to continue for the coming years.
- Investment in residential real estate contracted by approximately 6.7% and 8.0 % in 2011 and 2012, respectively, and is expected to contract by 8.3% in 2013. Demand for real estate decreased in 2012, primarily as a result of the high unemployment rates, the elimination of tax benefits on the purchase of a home and the rise in the personal income tax.

Our loan portfolio in Spain has been adversely affected by the deterioration of the Spanish economy since 2009. Our total impaired loans to customers in Spain amounted to €15,152 million, €11,043 million and €10,954 million as of December 31, 2012, 2011 and 2010, respectively, principally due to the deterioration in the macroeconomic environment. Our total impaired loans to customers in Spain as a percentage of total loans and receivables to customers in Spain were 7.3%, 5.5% and 5.2% as of December 31, 2012, 2011 and 2010, respectively. Our loan loss reserves to customers in Spain as a percentage of impaired loans to customers is Spain as of December 31, 2012, 2011 and 2010 were 64%, 43% and 45%, respectively.

Given the concentration of our loan portfolio in Spain, any adverse changes affecting the Spanish economy are likely to have a significant adverse impact on our loan portfolio and, as a result, on our business, financial condition and results of operations.

Exposure to the Spanish real estate market makes us vulnerable to developments in this market.

In the years prior to 2008, population increase, economic growth, declines in unemployment rates and increases in levels of household disposable income, together with the low interest rates within the EU, led to an increase in demand for mortgage loans in Spain. This increased demand and the widespread availability of mortgage loans affected housing prices, which rose significantly. After this buoyant period, demand began to adjust in mid-2006. Since the last quarter of 2008, the supply of new homes has been adjusting sharply downward in the residential market in Spain, but a significant excess of unsold homes still exists in the market. Spanish real estate prices continued to decline during 2012 in light of deteriorating economic conditions. It is expected that housing demand will remain weak and housing transactions will continue decreasing in 2013.

We have substantial exposure to the Spanish real estate market and the continuing deterioration of Spanish real estate prices could materially and adversely affect our business, financial condition and results of operations. We are exposed to the Spanish real estate market due to the fact that Spanish real estate assets secure many of our outstanding loans and due to the significant amount of Spanish real estate assets held on our balance sheet, including real estate received in lieu of payment for certain underlying loans. Furthermore, we have restructured certain of the loans we have made relating to real estate and the capacity of such borrowers to repay such restructured loans may be materially adversely affected by declining real estate prices. Residential real estate mortgages to individuals represented 23.8%, 21.9% and 23.1% of our domestic loan portfolio as of December 31, 2012, 2011 and 2010, respectively. Our loans for the development of real estate and housing construction in Spain amounted to €15,358 million as of December 31, 2012, and represented 7% of our gross domestic lending as of December 31, 2012. Our non-performing real estate loans represented 44.4% of our real estate portfolio as of such date.

If Spanish real estate prices continue to decline or if changes currently debated in the Spanish Congress related to mortgage regulation favoring borrowers or if future changes in the simplified mortgage enforcement proceedings provided for under Spanish law lead to substantial changes in the current guarantee system of mortgage, our business may be materially adversely affected, which could materially and adversely affect our financial condition and results of operations.

Highly-indebted households and corporations could endanger our asset quality and future revenues.

Spanish households and businesses have reached, in recent years, a high level of indebtedness, which represents increased risk for the Spanish banking system. In addition, the high proportion of loans referenced to variable interest rates (approximately 70% of our loan portfolio as of December 31, 2012) makes debt service on such loans more vulnerable to changes in interest rates than in the past. Highly indebted households and businesses are less likely to be able to service debt obligations as a result of adverse economic events, which could have an adverse effect on our loan portfolio and, as a result, on our financial condition and results of operations. Moreover, the increase in households' and businesses' indebtedness also limits their ability to incur additional debt, decreasing the number of new products we may otherwise be able to sell them and limiting our ability to attract new customers in Spain satisfying our credit standards, which could have an adverse effect on our ability to achieve our growth plans.

Risks Relating to Latin America

Events in Mexico could adversely affect our operations.

We are substantially dependent on our Mexican operations, with approximately €1,821 million, €1,711 million, and €1,683 million of the profit attributable to parent company in 2012, 2011 and 2010, respectively, being generated in Mexico. We face several types of risks in Mexico which could adversely affect our banking operations in Mexico or the Group as a whole. Given the internationalization of the financial crisis, the Mexican economy has felt the effects of the global financial crisis and the adjustment process that was underway. While the Mexican economy is expected to grow in 2013, there are economic risks due to a possible lower demand from the U.S. In the second half of 2012, signs of weakness in external demand have been observed, among which a slowdown in manufactured exports and a decline in remittance flows to Mexico are particularly significant. In addition, growing social disruptions in Mexico could adversely affect growth.

As of December 31, 2012, 2011 and 2010, our mortgage loan portfolio delinquency rates in Mexico were 6.4%, 4.1% and 3.3%, respectively, and our consumer loan portfolio delinquency rates were 3.3%, 2.5% and 2.9%, respectively. The default rate is evolving in line with the increase in the activity of our subsidiary, the risk premium has stabilized around 3.49%. If there is an increase in unemployment rates (currently 5% from 5.2% in 2011), which could arise if there is a more pronounced or prolonged slowdown in Europe or the United States, it is likely that such rates will further increase.

In addition, inflation was 4.1% year-on-year in December 2012, exceeding the target set by the Mexican Central Bank. Any tightening of the monetary policy, including to address upward inflationary pressures, could make it more difficult for customers of our mortgage and consumer loan products in Mexico to service their debts, which could have a material adverse effect on the business, financial condition, cash flows and results of operations of our Mexican subsidiary or the Group as a whole. Additionally, if the approval of certain structural reforms is delayed, this could make it more difficult to reach potential growth rates in the Mexican economy. Among the reforms currently debated there is a fiscal reform (to extend social security across the whole population, an increase in value added tax and a decrease of non-wage labor cost) and an energy reform (to increase investment in the sector) Finally, growing social tensions in Mexico, including as a result of drug-related corruption and escalating violence, could weigh on the economic outlook, which could increase economic uncertainty and capital outflows.

According to the mandate of the Law for Transparent and Ordered Financial Services in place (last modified in 2010), the Mexican National Commission for the Protection and Defense of Financial Services Users (*Comisión Nacional para la Defensa de los Usuarios de los Servicios Financieros* or "**Condusef**") has continued to request that banks send for revision several of its service contracts (e.g., credit cards, insurance, etc.), in order to check that they comply the dispositions on transparency and clarity for protecting financial service users. Condusef still does not have systematic ways to evaluate and grade service contracts, and this reflects on a substantial variation in grades from one year to the next and no clear instructions for adequating such contracts. Therefore, the Law Committee of the Banking Association (ABM) is coordinating a working group to propose improvements in the process. In addition, Condusef has asked banks to formulate new procedures so that beneficiaries of deposit accounts can collect the funds in the case of the death of the account owner.

The Money Laundering Law (*Ley Federal para la Prevención e Identificación de Operaciones con Recursos de Procedencia Ilícita*) will become effective in July 2013. The Ministry of Finance (*Secretaría de Hacienda y Crédito Público*) and a special analysis unit within the Federal Attorney's Office (*Unidad Especializada en Análisis Financiero en Contra de la Delincuencia Organizada, de la Procuraduría General de la República*) are in charge of this process. The Law specifies more severe penalties for non compliance and more information requirements for some transactions. However, authorities are working on evaluating the impact of the law before it comes into force.

Any of these risks or other adverse developments in laws, regulations, public policies or otherwise in Mexico may adversely affect the business, financial condition, operating results and cash flows of our Mexican subsidiary or the Group as a whole.

Our Latin American subsidiaries' growth, asset quality and profitability may be affected by volatile macroeconomic conditions, including significant inflation and government default on public debt, in the Latin American countries where they operate.

The Latin American countries in which we operate have experienced significant economic volatility in recent decades, characterized by recessions, foreign exchange crises and significant inflation. This volatility has resulted in fluctuations in the levels of deposits and in the relative economic strength of various segments of the economies to which we lend. Negative and fluctuating economic conditions, such as a changing interest rate environment, also affect our profitability by causing lending margins to decrease and leading to decreased demand for higher-margin products and services. In addition, significant inflation can negatively affect our results of operations as was the case in the year ended December 31, 2009, when as a result of the characterization of Venezuela as a hyperinflationary economy, we recorded a €90 million decrease in our profit attributable to parent company.

Many of the main challenges for the region relate to the evolution of external factors, including the crisis in Europe or the fiscal adjustment measures in the U.S., and the increasing use of macroprudential measures to control global liquidity, which could deter financial flows to enter in Latin American countries. In addition, inflationary pressure and inflation forecasts have worsened in most countries in the region (with inflation in some countries exceeding the relevant central banks' targets) due to the strength of economic activity and increased food prices. Price overheating is leaving Latin America economies more vulnerable to an adverse external shock since the more important role of exports in their GDP is making them more dependent on the maintenance of high terms of trade. Moreover, uncertainty on the evolution of the global economy conjunction with upward pressure from domestic demand will like make most central banks in the region to remain on hold, leaving interest rates unchanged. Therefore monetary policy is less likely to act as and stabilizer in case of domestic overheating.

In addition, negative and fluctuating economic conditions in some Latin American countries could result in government defaults on public debt. This could affect us in two ways: directly, through portfolio losses, and indirectly, through instabilities that a default in public debt could cause to the banking system as a whole, particularly since commercial banks' exposure to government debt is generally high in several Latin American countries in which we operate.

While we seek to mitigate these risks through what we believe to be conservative risk policies, no assurance can be given that our Latin American subsidiaries' growth, asset quality and profitability will not be further affected by volatile macroeconomic conditions in the Latin American countries in which we operate.

Latin American economies can be directly and negatively affected by adverse developments in other countries.

Financial and securities markets in Latin American countries in which we operate are, to varying degrees, influenced by economic and market conditions in other countries in Latin America and beyond. The region's growth has decelerated in 2012, registering a growth rate of 3%, in particular due to the economic slowdown of Brazil. Negative developments in the economy or securities markets in one country, particularly in the U.S. or in Europe under current circumstances, may have a negative impact on emerging market economies. We believe that the main global risk for Latin America countries is currently posed by the possible deterioration of the European crisis, which would especially affect countries with less capacity to access international markets to cushion the fall in commodity prices and with less room to use counter-cyclical policies. Any such developments may adversely affect the business, financial condition, operating results and cash flows of our subsidiaries in Latin America. These economies are also vulnerable to conditions in global financial markets and especially to commodities price fluctuations and these vulnerabilities usually reflect adversely in financial market conditions through exchange rate fluctuations, interest rate volatility and deposits volatility. For example, at the beginning of the financial crisis these economies were hit by a simultaneous drop in commodity export prices, a collapse in demand for non-commodity exports and a sudden halting of foreign bank loans. Even though most of these countries withstood the triple shock rather well, with limited damage to their financial sectors, non-performing loan ratios rose and bank deposits and loans contracted. These trends are been corrected in the last few quarters in most countries. As a global economic recovery remains fragile, there are risks of a relapse. If the global financial crisis continues and, in particular, if the effects on the Chinese, European and U.S. economies intensify, the business, financial condition, operating results and cash flows of our subsidiaries in Latin America are likely to be materially adversely affected.

We are exposed to foreign exchange and, in some instances, political risks as well as other risks in the Latin American countries in which we operate, which could cause an adverse impact on our business, financial condition, results of operations.

We operate commercial banks and insurance and private pension companies in various Latin American countries and our overall success as a global business depends, in part, upon our ability to succeed in differing economic, social and political conditions. We are confronted with different legal and regulatory requirements in many of the jurisdictions in which we operate. These include, but are not limited to, different tax regimes and laws relating to the repatriation of funds or nationalization or expropriation of assets. Our international operations may also expose us to risks and challenges which our local competitors may not be required to face, such as exchange rate risk, difficulty in managing a local entity from abroad, and political risk which may be particular to foreign investors, or the distribution of dividends. For example, in October 2012, Argentina sharply raised its excess-capital requirements from 30% to 75% of minimum capital before banks (including our subsidiary BBVA Banco Francés, S.A.) can distribute dividends. As a result, BBVA Banco Francés, S.A. will not make a dividend payment with respect to 2012. Furthermore, while most Latin American currencies to which we are exposed appreciated during 2012, this trend could be reversed. For example, in February 2013, the Venezuelan government decided to devaluate the Venezuelan bolivars fuerte for the fifth time in nine years by approximately 32% (from 4.30 to 6.30 per U.S. dollar), which undermined the dividends of our Venezuelan subsidiary awaiting repatriation.

Our presence in Latin American markets also requires us to respond to rapid changes in market conditions in these countries. We cannot assure you that we will continue to succeed in developing and implementing policies and strategies that are effective in each country in which we operate or that any of the foregoing factors will not have a material adverse effect on our business, financial condition and results of operations.

Regulatory changes in Latin America that are beyond our control may have a material effect on our business, financial condition, results of operations and cash flows.

A number of banking regulations designed to maintain the safety and soundness of banks and limit their exposure to risk are applicable in certain Latin American countries in which we operate. Local regulations differ in a number of material respects from equivalent regulations in Spain and the United States.

Changes in regulations that are beyond our control may have a material effect on our business and operations, particularly in Venezuela and Argentina. In addition, since some of the banking laws and regulations have been recently adopted, the manner in which those laws and related regulations are applied to the operations of financial institutions is still evolving. No assurance can be given that laws or regulations will be enforced or interpreted in a manner that will not have a material adverse effect on our business, financial condition, results of operations and cash flows.

Risks Relating to the United States

Adverse economic conditions in the United States may have a material effect on our business, financial condition, results of operations and cash flows.

As a result of the business of our subsidiaries in the United States we are vulnerable to developments in this market, particularly the real estate market. During the summer of 2007, the difficulties experienced by the subprime mortgage market triggered a real estate and financial crisis, which had significant effects on the real economy and resulted in significant volatility and uncertainty in markets and economies around the world. The recovery is still weak, as the economy is growing at low rates and unemployment is persistently high. The recent economic growth estimates for the U.S., showing that economic recovery is slower than expected, and growing regulatory pressure in the U.S. financial sector resulted in a write down of goodwill related to our acquisition of BBVA Compass in the aggregate amount of €1,444 million as of December 31, 2011. See Note 20 to our Consolidated Financial Statements. Similar or worsening economic conditions in the United States could have a material adverse effect on the business, financial condition, results of operations and cash flows of our subsidiary BBVA Compass, or the Group as a whole, and could require us to provide BBVA Compass with additional capital.

Risks Relating to Other Countries

Our strategic growth in Asia exposes us to increased regulatory, economic and geopolitical risk relating to emerging markets in the region, particularly in China.

Pursuant to certain transactions completed in the past few years (see Note 17 to our Consolidated Financial Statements), as of December 31, 2012, our ownership interests in members of the CITIC Group, a Chinese banking group, were a 29.7% stake in CITIC International Financial Holdings Ltd ("**CIFH**") and a 15% stake in China CITIC Bank Corporation Limited ("**CNCB**"). CIFH is a banking entity headquartered in Hong Kong and CNCB is a banking entity headquartered in China.

As a result of our expansion into Asia, we are exposed to increased risks relating to emerging markets in the region, particularly in China. The Chinese government has exercised, and continues to exercise, significant influence over the Chinese economy. Chinese governmental actions, including changes in laws or regulations or in the interpretation of existing laws or regulations, concerning the economy and state-owned enterprises, or otherwise affecting our activity, could have a significant effect on Chinese private sector entities in general, and on CIFH or CNCB in particular. Chinese authorities have implemented a series of monetary tightening and macro prudential policies to slow credit growth and to contain rises in real estate prices. These could undermine profitability in the banking sector generally and CIFH's and CNCB's respective profitability in particular. Our business in China may also be affected by the increased credit quality risks resulting from the increase in local government debt and financial stresses in smaller companies as their access to various forms of non-bank credit is tightened.

In addition, while we believe long term prospects in both China and Hong Kong are positive, particularly for the consumer finance market, near term risks are present from the impact of a slowdown in global growth, which could result in tighter financing conditions and could pose risks to credit quality. China's GDP growth has moderated following efforts to avert overheating and steer the economy towards a soft landing. China's growth momentum continued to slow more than expected in 2012 due to external pressures and lags in the effect of policy stimulus put in place in 2012. While domestic demand and production remain strong, there is an increased probability of a hard landing as a result of the uncertainties concerning the global environment, exacerbated by a rise in domestic financial fragilities.

Any of these developments could have a material adverse effect on our investments in Asia or the business, financial condition, results of operations and cash flows of the Group.

Since Garanti operates primarily in Turkey, economic, political and other developments in Turkey may have a material adverse effect on Garanti's business, financial condition and results of operations and the value of our investment in Garanti.

In 2011, we acquired a 25.01% interest in Türkiye Garanti Bankası A.Ş. ("**Garanti**"). Most of Garanti's operations are conducted, and most of its customers are located, in Turkey. Accordingly, Garanti's ability to recover on loans, its liquidity and financial condition and its results of operations are substantially dependent upon the economic, political and other conditions prevailing in or that otherwise affect Turkey. For instance, if the Turkish economy is adversely affected by, among other factors, a reduction in the level of economic activity, continuing inflationary pressures, devaluation or depreciation of the Turkish Lira, a natural disaster or an increase in domestic interest rates, then a greater portion of Garanti's customers may not be able to repay loans when due or meet their other debt service requirements to Garanti, which would increase Garanti's past due loan portfolio and could materially reduce its net income and capital levels.

After growing by approximately 8.5% in 2011, the Turkish economy is expected to grow by 2.6% in 2012 and by 4.4% in 2013. In addition, inflation increased by 8.9% in 2012 on average and is expected to further increase by 5.3% in 2013. Furthermore, Turkey's recent credit boom led to the rapid widening of its current account deficit, which reached a multi-year high of 9.9% of GDP in 2011 and is expected to amount to 6.5% by the end of 2012. Despite Turkey's increased political and economic stability in recent years, the recent rating upgrade by Fitch in November 2012 and the implementation of institutional reforms to conform to international standards, Turkey is an emerging market and it is subject to greater risks than more developed markets. Financial turmoil in any emerging market could negatively affect other emerging markets, including Turkey, or the global economy in general. Moreover, financial turmoil in emerging markets tends to adversely affect stock prices and debt securities prices of other emerging markets as investors move their money to more stable and developed markets, and may reduce liquidity to companies located in the affected markets. An increase in the perceived risks associated with investing in emerging economies in general, or Turkey in particular (including as a result of a deterioration in the EU accession process), could dampen capital flows to Turkey and adversely affect the Turkish economy.

In addition, actions taken by the Turkish government could adversely affect Garanti's business and prospects. For example, currency restrictions and other restraints on transfer of funds may be imposed by the Turkish government, Turkish government regulation or administrative polices may change unexpectedly or otherwise negatively affect Garanti, the Turkish government may increase its participation in the economy, including through nationalizations of assets, or the Turkish government may impose burdensome taxes or tariffs. The occurrence of any or all of the above risks could have a material adverse effect on Garanti's business, financial condition and results of operations and the value of our investment in Garanti. Moreover, political uncertainty or instability within Turkey and in some of its neighboring countries (including as a result of the ongoing civil war in Syria) has historically been one of the potential risks associated with investments in Turkish companies.

Furthermore, a significant majority of Garanti's total securities portfolio is invested in securities issued by the Turkish government. In addition to any direct losses that Garanti might incur, a default, or the perception of increased risk of default, by the Turkish government in making payments on its securities or the possible downgrade in Turkey's credit rating would likely have a significant negative impact on the value of the government securities held in Garanti's securities portfolio and the Turkish banking system generally and make such government securities difficult to sell, and may have a material adverse effect on Garanti's business, financial condition and results of operations and the value of our investment in Garanti.

Any of the risks referred to above could have a material adverse effect on Garanti's business, financial condition and results of operations and the value of our investment in Garanti.

We have entered into a shareholders' agreement with Doğuş Holding A.Ş. in connection with the Garanti acquisition.

We have entered into a shareholders' agreement with Doğuş Holding A.Ş. ("**Doğuş**") in connection with the Garanti acquisition. Pursuant to the shareholders' agreement, we and Doğuş have agreed to manage Garanti through the appointment of board members and senior management. Doğuş is one of the largest Turkish conglomerates and has business interests in the financial services, construction, tourism and automotive sectors. Any financial reversal, negative publicity or other adverse circumstance relating to Doğuş could adversely affect Garanti or BBVA. Furthermore, we must successfully cooperate with Doğuş in order to manage Garanti and grow its business. It is possible that we and Doğuş will be unable to agree on the management or operational strategies to be followed by Garanti, which could adversely affect Garanti's business, financial condition and results of operations and the value of our investment and lead to our failure to achieve the expected benefits from the Garanti acquisition.