

Month Ended	High	Low
June 30, 2009	1.4270	1.3784
July 31, 2009	1.4279	1.3852
August 31, 2009	1.4416	1.4075
September 30, 2009	1.4795	1.4235
October 31, 2009	1.5029	1.4532
November 30, 2009	1.5085	1.4658
December 31, 2009	1.5100	1.4243
January 31, 2010	1.4536	1.3870
February 28, 2010	1.3955	1.3476
March 31, 2010 (through March 19, 2010)	1.3758	1.3516

The noon buying rate for euro from the Federal Reserve Bank of New York, expressed in dollars per €1.00, on March 19, 2010, was \$1.3530.

As of December 31, 2009, approximately 33% of our assets and approximately 44% 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 in Non-Trading Activities in 2009 – 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**

***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, 2009, business activity in Spain accounted for 61% of our loan portfolio. See “Item 4. Information on the Company – Selected Statistical Information – Loans and Advances to Customer – Loans by Geographic Area”. After rapid economic growth of 3.9% and 3.7% in 2006 and 2007, respectively, Spanish gross domestic product grew by 0.9% in 2008 and contracted by 3.8% in 2009. Our Economic Research Department estimates that the Spanish economy, in terms of gross domestic product, will contract by a further 1.2% in 2010. As a result of this continued contraction, it is expected that economic conditions and employment in Spain will continue to deteriorate in 2010. Growth forecasts for the Spanish economy could be further revised downwards due to lower domestic demand and the continued impact of the financial crisis. The Spanish economy has also been affected by the slowdown in global growth and is particularly sensitive to economic conditions in the rest of the Euro area, the primary market for Spanish goods and services exports. In addition, 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 current account and public deficits. Real or perceived difficulties in making the payments associated with these deficits can further damage Spain’s economic situation and increase the costs of financing its public deficit. Moreover, there are two weaknesses of the Spanish economy that may interfere with our business. First, the

adjustment in the real estate sector, which we expect will continue in the coming years. Second, the slow restructuring process of the Spanish financial system that is underway. This process is distorting competition in some market segments, like the deposits markets.

Our loan portfolio in Spain has been adversely affected by the deterioration of the Spanish economy in 2009 and 2008. For example, substandard loans to other resident sectors in Spain increased in 2009 and 2008 mainly due to the sharp increase in substandard mortgage loans to €3,651 million as of December 31, 2009 from €2,033 million as of December 31, 2008 and €421 million as of December 31, 2007. Substandard loans to real estate and construction customers in Spain also increased substantially in 2009 and 2008 to account for 15.4% and 5.6% of loans in such category as of December 31, 2009 and 2008, respectively. Our total substandard loans to customers in Spain jumped to €11,134 million as of December 31, 2009 from €5,700 million as of December 31, 2008 and €1,590 million as of December 31, 2007, principally due to an increase in substandard loans to customers in Spain generally as a result of the deterioration in the macroeconomic environment. As a result of the increase in total substandard loans to customers in Spain described above, our total substandard loans to customers in Spain as a percentage of total loans and receivables to customers in Spain increased sharply to 5.5% and 2.7% as of December 31, 2009 and 2008, respectively, from 0.8% as of December 31, 2007. Our loan loss reserves to customers in Spain as a percentage of substandard loans to customers in Spain as of December 31, 2009 and 2008 also declined significantly to 34% and 66%, respectively, from 214% as of December 31, 2007.

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 financial condition, results of operations and cash flows

***A substantial percentage of our customer base is particularly sensitive to adverse developments in the economy, which renders our lending activities relatively riskier than if we lent primarily to higher-income customer segments.***

Medium- and small-sized companies and middle- and lower- middle- income individuals typically have less financial strength than large companies and high-income individuals and, accordingly, can be expected to be more negatively affected by adverse developments in the economy. As a result, it is generally accepted that lending to these segments of our existing and targeted customer base represents a relatively higher degree of risk than lending to other groups.

A substantial portion of our loan portfolio consists of residential mortgages and consumer loans to middle- and lower middle-income customers and commercial loans to medium- and small-sized companies. Consequently, during periods of slowdown in economic activity we may experience higher levels of past due amounts, which could result in higher levels of allowance for loan losses. We cannot assure you that we will not suffer substantial adverse effects on our loan portfolio to these customer segments in the event of additional adverse developments in the economy.

***Increased exposure to real estate in Spain makes us more vulnerable to developments in this market.***

In the years prior to 2008, economic growth, strong labor markets and low interest rates in Spain caused an increase in the demand for housing, which resulted in an increase in demand for mortgage loans. 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. In 2010, we expect housing supply and demand to adjust further, in particular if current adverse economic conditions continue. As Spanish residential mortgages are one of our main assets, comprising 31%, 25% and 26% of our loan portfolio as of December 31, 2009, 2008 and 2007, respectively, we are currently highly exposed to developments in the residential real estate market in Spain. We expect the current problems in the financial markets and the deterioration of economic conditions in Spain to continue in the near future. As a result, we expect housing prices in Spain to decline further in 2010, which along with other adverse changes in the Spanish real estate sector could have a significant adverse impact on our loan portfolio and, as a result, on our financial condition, results of operations and cash flows.

***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. The high proportion of loans referenced to variable interest rates makes debt service on such loans more vulnerable to changes in interest rates than in the past. In fact, the average debt burden of Spanish households as a proportion of disposable income has increased substantially from approximately 12% at the end of 2003 to approximately 16% at the end of 2008, before moderating slightly to approximately 14% at the end of 2009. Similarly, the debt burden of Spanish corporations has increased from approximately 16% at the end of 2004 to 29% at the end of 2008, according to the Bank of Spain, before moderating slightly to approximately 26% according to our estimation for 2009. 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 affect on our loan portfolio and, as a result, on our financial condition and results of operations. In addition, 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.

***Current economic conditions may make it more difficult for us to continue funding our business on favorable terms or at all.***

Historically, one of our principal sources of funds has been savings and demand deposits. Time deposits represented 31%, 36% and 27% of our total funding as of December 31, 2009, 2008 and 2007, 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 financial crisis triggered by the U.S. subprime market has turned out to be deeper and more persistent than expected. A global economic recovery is subject to significant uncertainty, and there are limited or no signs of recovery in some countries and areas of the economy. In response to the financial crisis, governments around the world implemented ambitious fiscal expansion programs during 2008 and the first half of 2009, trying to limit economic deterioration and boost their economies. However, concerns expressed during 2009 over the effectiveness of fiscal stimulus programs have given way to concerns over the sustainability of public deficits, and governments have announced plans to begin removing the extraordinary fiscal and monetary measures implemented to confront the financial crisis. As public sources of liquidity, such as ECB extraordinary measures, and expansionary economic policies 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.

***We face increasing competition in our business lines.***

The markets in which we operate are highly competitive. Financial sector reforms in the markets in which we operate have increased competition among both local and foreign financial institutions, 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.

We also face competition from non-bank competitors, such as:

- department stores (for some credit products);
- automotive finance corporations;
- leasing companies;
- factoring companies;
- mutual funds;
- pension funds; and
- insurance companies.

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 deregulation of the financial sectors in the markets in which we operate, monetary policies pursued by the EU and national governments, domestic and international economic and political conditions and other factors. In Spain, competition distortions in the term deposits market have intensified, and this situation is expected to continue due to the liquidity needs of certain financial institutions, which are offering high interest rates to attract additional deposits.

Changes in market interest rates could affect the spread between interest rates charged on interest-earning assets and interest rates paid on interest-bearing liabilities and thereby negatively affect our results of operations. For example, an increase in interest rates could cause our interest expense on deposits to increase more significantly and quickly than our interest income from loans, resulting in a reduction in our net interest income.

Since approximately 75% of our loan portfolio as of December 31, 2009 consisted of variable interest rate loans maturing in more than one year, our business is particularly vulnerable to volatility in interest rates.

***Our financial statements and periodic disclosure under securities laws may not give you the same information as financial statements prepared under U.S. accounting rules and periodic disclosures provided by domestic U.S. issuers.***

Publicly available information about public companies in Spain is generally less detailed and not as frequently updated as the information that is regularly published by or about listed companies in the United States. In addition, although we are subject to the periodic reporting requirements of the United States Securities Exchange Act of 1934 (the "Exchange Act"), the periodic disclosure required of foreign issuers under the Exchange Act is more limited than the periodic disclosure required of U.S. issuers. Finally, we maintain our financial accounts and records and prepare our financial statements in conformity EU-IFRS required to be applied under the Bank of Spain's Circular 4/2004, which differs in certain respects from U.S. GAAP, the financial reporting standard to which many investors in the United States may be more accustomed. See Note 60 of the Consolidated Financial Statements for the presentation of our stockholders' equity and net income reconciled to U.S. GAAP.

***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 €2,536 million, €3,309 million and €401 million, respectively, as of December 31, 2009 (€2,638 million, €3,437 million and €284 million, respectively, as of December 31, 2008, and €2,683 million, €2,950 million and €300 million, respectively, as of December 31, 2007). 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. 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 Group's Assets and Liabilities Committee ("ALCO"). 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 cover bonds (AAA/AA rated) 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 Latin America**

### ***Events in Mexico could adversely affect our operations.***

We are substantially dependant on our Mexican operations, with approximately 32% and 39% of our net income attributed to parent company in 2009 and 2008, 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 felt the effects of the global financial crisis and the adjustment process that was underway is accelerating. This process has intensified since the end of the third quarter of 2008 and we expect it to continue at least during the first half of 2010 through a lower growth rate in production and employment. The initial effects are in manufacturing and in those areas with a greater degree of exposure to the international environment, although internal demand is also showing clear signs of moderation. In 2010 we expect that macro economic recovery will only be maintained if there is a sustained US recovery resulting in higher exports and foreign investment. Domestic demand will not recover unless there is a gradual recovery of confidence and employment, interest rates remain low and a expansionary fiscal policy is in place. We cannot rule out the possibility that in a more unfavorable environment for the global economy, and particularly in United States or otherwise growth in Mexico will be negative in 2010.

Beginning in 2008 and through 2009, our mortgage and especially our consumer loan portfolio in Mexico started showing higher delinquency rates. If there is a persistent increase in unemployment rates, which could arise if there is a more pronounced or prolonged slowdown in the United States, it is likely that such rates will further increase. In addition, although the Bank of Mexico ("Banxico") is expected to maintain its current monetary stance throughout 2010, any tightening of monetary policy could make it more difficult for new 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. In addition, price regulation and competition could squeeze the profitability of our Mexican subsidiary. For example, in order to increase competition and to deepen credit, Mexican financial regulators could elect to introduce price distortions not linked to the true risk premium. If this were to occur, the market share of our Mexican subsidiary could decrease given its risk management standards.

Finally, political instability or social unrest could weigh on the economic outlook, which could increase economic uncertainty and capital outflows. 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.

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 net income attributed to parent company.

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. Negative developments in the economy or securities markets in one country may have a negative impact on other emerging market economies. These 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, we have seen non performing loan ratios rise as well as contraction in bank deposits and loans. 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 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 in ten 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 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. For example, on January 8, 2010, the Venezuelan monetary authorities decided to devalue the bolivar fuerte by 50% from a fixed exchange rate of 2.15 per U.S. dollar since its creation to 4.30 per U.S. dollar. 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.

We are also a major player in the private pension sector in place in most of these countries and are, therefore, affected by changes in the value of pension fund portfolios under management, as well as general financial conditions and the evolution of wages and employment. For example, most pension fund management companies ("AFPs" for their Spanish acronym) posted negative results in 2008 as a consequence of the fall in the value of their portfolios, since in several countries they have to keep reserves invested in the same portfolios.

***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.

Private pension management companies are heavily regulated and are exposed to major risks concerning changes in those regulations in areas such as reserve requirements, fees and competitive conditions. They are also exposed to political risks. For example, at the end of 2008 the government of Argentina passed a law transferring pension funds, including those managed by our subsidiary in Argentina, from private managers to the government entity managing the remainder of the formerly public pension system.

#### **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.***

In 2008 and 2009, we further increased our ownership interest in members of the CITIC Group, a Chinese banking group, by increasing our stake in CITIC International Financial Holdings Ltd ("CIFH") to 29.7% and China CITIC Bank ("CNCB") to 10.07%. CIFH is a banking entity headquartered in Hong Kong and CNCB is a banking entity headquartered in China. On December 3, 2009, we announced the exercise of the option to purchase 1,924,343,862 additional shares of CNCB. After the exercise of this option, which we expect will become effective in April 2010, our stake in CNCB will increase to 15%. See "Item 4. Information on the Company – Business Overview – Wholesale Banking and Asset Management".

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 concerning the economy and state-owned enterprises could have a significant effect on Chinese private sector entities in general, and on CIFH or CNCB in particular.

We also are exposed to regulatory uncertainty and geopolitical risk as a result of our investments in Asia. Changes in laws or regulations or in the interpretation of existing laws or regulations, whether caused by a change in government or otherwise, could adversely affect our investments. Moreover, Asian economies can be directly and negatively affected by adverse developments in other countries in the region and beyond.

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.

***Our continued expansion in the United States increases our exposure to the U.S. market.***

Our expansion in the United States makes us more 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 has had significant effects on the real economy and which has resulted in significant volatility and uncertainty in markets and economies around the world. As we have acquired entities or assets in the United States, particularly BBVA Compass and certain deposits and liabilities of Guaranty Bank ("Guaranty"), our exposure to the U.S. market has increased. Adverse changes to the U.S. economy in general, and the U.S. real estate market in particular, resulted in our determination to write down goodwill related to our acquisition of BBVA Compass and record additional loan loss provisions in the year ended December 31, 2009.