



**PRUDENTIAL RELEVANCE REPORT AT
31 DECEMBER 2009**

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1. GENERAL INFORMATION REQUIREMENTS

1.1 Introduction

The purpose of this report is to fulfil Banco de Valencia S.A.'s market information requirements, as established in Chapter Eleven of the Bank of Spain Circular 3/2008, dated 22 May (hereinafter, the "Solvency Circular"). This Circular constitutes the final application of the legislation on equity and supervision of credit institutions on a consolidated basis, established under Law 13/1985, dated 25 May, which regulates the *investment coefficients, equity and reporting requirements of financial intermediaries and other regulations on the financial system*, and in Royal Decree 216/2008, dated 15 February, which regulates *financial institutions' equity*. Together, these two laws constitute the adaptation of Spanish credit institutions to Community Directives 2006/48/EC, issued by the European Parliament and dated 14 June, relating to *the taking up and pursuit of the business of credit institutions* and 2006/49/EC, issued by the European Council and dated 14 June, on *capital adequacy of investment firms and credit institutions*.

Pursuant to information disclosure policy approved by Banco de Valencia's board of directors, this report has been drawn up for an annual period by the Global Risk Area and approved by the Board of Directors, following verification by the Audit Committee.

Certain data required by prevailing regulations to be included in this report are, pursuant to said regulations, referenced to the 2009 annual accounts of Banco de Valencia, and given that they are contained therein, their repetition herein is redundant. Said annual accounts may be viewed on Banco de Valencia's website and at the Trade Registry. Furthermore, this "Prudential Relevance Report" may be viewed on the bank's website, at the following address: www.bancodevalencia.es

1.2 Conceptual definitions and description of Banco de Valencia S.A.

The information presented in this solvency report corresponds to Banco de Valencia S.A. alone.

However, the data for Grupo Banco de Valencia S.A., both regarding its composition and its evaluation systems, etc., can be found in the consolidated annual accounts at the Trade Registry and on the bank's website.

2. RISK MANAGEMENT POLICY AND OBJECTIVES

The information relating to the risk management policy and objectives for liquidity, credit, interest and other risks that the Solvency Circular requires to be disclosed to the market may be consulted in Notes 23, 24, 25 and 15, respectively, of the Individual Annual Report contained in Banco de Valencia S.A.'s individual annual accounts for 2009, which have been published on the bank's website as indicated.

3. BOOK EQUITY

3.1 Summary of the main characteristics and conditions of the elements accounted for as tier I equity, tier II equity and auxiliaries

For the purposes of calculating its minimum equity requirements, the bank considers as tier I equity the resources defined as such, taking into account their corresponding deduction, in Rule Eleven of the Solvency Circular.

Tier I equity is characterised as an equity component that can be used immediately and without restriction for risk hedging or to cover losses, its amount being posted free of all foreseeable taxes at the time of the calculation. This equity demonstrates stability and permanency over time that is, a priori, higher than that of tier II equity, which is described below. As indicated in section 3.2. below, the bank's tier I equity at 31 December 2009 is mainly made up of equity capital, cash and express reserves and the preference shares issued pursuant to that established under the Second Additional Provision, Law 13/1985 and the limits indicated in Solvency Circular, Rule Eleven.

On the other hand tier II equity is deemed as that which corresponds to the resources defined under the Solvency Circular, Rule Eleven, with the limits and deductions established therein. This equity, although it complies with the definition of equity established under prevailing regulations, is characterised by having, a priori, a volatile nature or a lesser degree of permanency than the resources considered as tier I equity. As can be seen in the breakdown in section 3.2 below, at 31 December 2009 the bank's tier II equity was mainly made up of corrections carried out in valuation adjustments to the tier I equity, transferred to tier II equity; adjustment reserves; asset updating or revaluation; generic hedging and subordinated financing.

Among the concepts that, pursuant to that established in the Solvency Circular, may form part of an entity's book equity, there are certain elements with characteristics that make them homogenous in terms of their definition and characterisation, regardless of the entity or bank to which they belong. This means that concepts such as reserves for non-distributed profit, the annual results, positive valuation adjustments to financial assets available for sale, etc., do not vary in their definition and characteristics, regardless of the entity for which they are analysed.

However, there is another series of elements which also form part of the equity, with characteristics that can vary between entities, depending on the contract conditions and the inherent nature of the resources. Preference share issues are an example of such resources.

The following chart shows the main characteristics of this second group of elements that make up the bank's equity at 31 December 2009:

a) Subordinated liabilities

At 31 December 2009, Banco de Valencia S.A. counted as equity, pursuant to that established under prevailing regulations, the following subordinated debt issues:

The subordinated liabilities issued by the bank are incorporated in the following operations:

During the 2007 financial year, the bank carried out a subordinated bonds issue for a value of 200,000 thousand euros at a floating interest rate of Euribor + 0.40 until 2012 and Euribor + 0.90 until its maturity in 2017. The issue is guaranteed by the bank's universal asset liability.

During the 2006 financial year the company Grupo BVA Preferentes, S.A.U. carried out a preference share issue at a floating interest rate (3 month Euribor rate plus 135 basic points). The issue is of a perpetual nature with a call in favour of the issuer as from 2016. These securities do not include political rights and have been subscribed by third parties outside the group.

During the 2005 financial year the bank carried out a subordinated bonds issue for a value of 60,000 thousand euros and with maturity at 10 years at a floating interest rate of the Euribor + 0.4 during the first 5 years, whilst the interest rate for the following 5 years is the Euribor + 0.9. The issue is guaranteed by the bank's universal asset liability.

During the 2004 financial year, the bank carried out a subordinated bonds issue for a value of 100,000 thousand euros at a floating interest rate of Euribor + 0.25 and with maturity at 10 years. The issue is guaranteed by the bank's universal asset liability.

During the 2001 financial year, the bank carried out a subordinated bonds issue for a value of 59,999 thousand euros at a floating interest rate of Euribor + 0.25 and with maturity at 10 years. The issue is guaranteed by the bank's universal asset liability.

Given their nature and pursuant to prevailing legislation, these subordinated bonds issues are placed, in terms of credit priority, behind that of ordinary creditors.

The rest of the conditions for these issues can be found in their respective prospectuses which are registered with the National Securities Market Commission and may be viewed on the website (www.cnmv.es).

ISSUANCES	Issue date	Repayment date	Nominal	Amount counted as equity	Interest rate
Preference shares	2006	Perpetual	170,000	170,000	2.064%
Total Tier I (core) equity			170,000	170,000	
Subordinated, 2nd issue	2001	2011	59,999	11,999	2.099%
Subordinated, 3rd issue	2004	2014	100,000	80,000	1.495%
Subordinated, 4th issue	2005	2015	60,000	60,000	1.114%
Subordinated, 5th issue	2007	2017	200,000	200,000	1.109%
Total Tier II equity			419,999	351,999	

3.2 Equity amount

The following breakdown at 31 December 2009 shows the company's book equity, indicating each of its components and deductions and divided into tier I equity, tier II equity and auxiliaries:

The auxiliaries shown in the above chart is considered, in terms of equity requirements, exclusively for foreign exchange and trading portfolio hedging, and is not included for any other risk category.

Concept	Amount at 31 December 2009
1. Tier I (core) equity (I)	1,289,245
1.1 Book capital:	347,237
1.2 Book reserves:	773,208
1.3 Funds for general banking risks (1)	0
1.4 Other Tier I (core) equity pursuant to national legislation	170,000
1.5 (-) Other deduction from Tier I (core) equity	-1,200
2. Tier II equity (II)	583,900
2.1 Main Tier II equity:	231,901
2.1.1 Excess over the limits for Tier I (core) equity transferred to the main Tier II equity	0
2.1.2 Corrections carried out to valuation adjustments on main Tier I (core) equity transferred to main Tier II equity	35,017
2.1.3 Adjustment reserves, updating or revaluation of assets	52,145
2.1.4 Valuation adjustments for positions applying the standard method for credit risk (1)	0
2.1.5 Other elements: generic hedging related to exposure applying the standard method	144,739
2.1.6 Subordinated financing for an undetermined term and similar instruments.	0
2.1.7 Positive amounts resulting from comparison, using the IRB method, of the valuation adjustments due to impairment in assets and provisions with the anticipated losses	0
2.1.8 Main Tier II equity pursuant to national legislation:	0
2.1.8.1 Correction of minority interests in relation to revaluation reserves transferred to main Tier II equity	0
2.1.8.2 Savings banks' social work funds	0
2.2 Additional Tier II equity	351,999
2.2.1 Standard subordinated financing and similar instruments	351,999
2.3 (Deduction from Tier II equity)	0
3. Deductions from Tier I (core) and Tier II equity	-24,352
<i>Of which:</i>	
<i>Of Tier I (core) equity (III)</i>	-12,176
<i>Of Tier II equity (IV)</i>	-12,176
4. Total Tier I (core) equity for general solvency purposes (I-III)	1,277,069
5. Total Tier II equity for general solvency purposes (II-IV)	571,724
6. Total Tier I (core) and Tier II equity	1,848,793
7. Auxiliary equity	0
8. Total equity	1,848,793
9. (Deductions from total equity)	0
10. Total equity after total	1,848,793
(1) Not applicable pursuant to Spanish legislation	

4. MINIMUM EQUITY REQUIREMENTS

4.1 Minimum equity requirements for credit risk

The following chart shows Banco de Valencia S.A.'s minimum equity requirements for credit risk at 31 December 2009, which has been calculated, for each one of the categories to which the standard method has been applied, as 8% of the weighted risk exposures:

Risk category	requirements Equity
Central government agencies and central banks	26
Regional government agencies and local authorities	2,662
Public entities and non-profit institutions	1,348
Multilateral development banks	0
International organisations	0
Credit institutions and companies providing investment services	9,168
companies	806,106
Retailers	114,964
Exposures guaranteed by intangible assets	166,835
Exposures in default situations	46,324
High-risk exposures	24,057
Guaranteed bonds	0
Securitisation positions	25,336
Short-term exposures against institutions and companies	0
Exposures in form of collective investment institutions	142
Other exposures	39,845
Total requirements per credit risk calculated by the method standard year 2009	1,236,813

Unit: € thousand

(*) The items included in each one of these categories correspond to that established in the Bank of Spain Solvency Circular.

4.2 Minimum equity requirements for counterparty risk and for trading portfolio position and liquidation risk

The bank's risk policy establishes not to maintain these types of risk. In compliance with said policy, at 31/12/2009 it had no risk in this category and, therefore, no equity is required for this concept.

Pursuant to that established under Rule Eighty-two of the Solvency Circular, Banco de Valencia does not have to calculate the equity requirements for trading portfolio position and liquidation risk, given that the limits established under said rule have not been reached.

4.3 Minimum equity requirements for foreign exchange and gold position risk

The bank applies the standard method to calculate the equity requirements for foreign exchange risk.

At 31/12/2009 the equity requirements calculated for this concept in RP33 were 0 euros.

4.4 Minimum equity requirements for operational risk

The bank applies the standard method to calculate the equity requirements for operational risk.

The amount of the equity requirements at 31/12/09 amounted to 69,971 thousand euros.

4.5 Procedures applied to evaluate internal capital sufficiency

Pursuant to that established in the Solvency Circular, Banco de Valencia S.A. applies a series of risk identification, measurement and aggregation procedures that, apart from maintaining the minimum equity as indicated in previous sections of this chapter, enable it to identify and maintain a level of equity (the “equity goal”) in keeping with the risks inherent in its operations, the economic environment in which it operates, the management and control of said risks, the governance systems it has available, its strategic business plan and its real possibilities of obtaining greater equity; that is, it carries out an evaluation of internal capital, both current and forecast, in accordance with its planning.

When evaluating its internal capital, the bank applies the following procedures related to each one of its risks:

- Establishment of capital needs for credit risk: The standard method stipulated in the Solvency Circular for calculating the minimum equity requirements for credit risk is applied to establish the internal capital needs for this risk.
- Establishment of capital needs for credit concentration: The capital for credit accumulation risk is established using the simplified option, applying the Bank of Spain's sector and individual concentration indexes.
- Establishment of capital needs for market risk: Capital needs for market risk have not been evaluated, given that the limits set out under Rule 82 of the Solvency Circular have not been reached.

- Establishment of capital needs for operational risk: The capital needs derived from this type of risk are established using the standard method.
- Establishment of the capital needs for structural interest rates in the balance sheet: The capital needs associated with this type of risk are established using the simplified option.
- Establishment of capital needs for liquidity risk: The bank does not estimate capital needs associated to this risk, following analysis of its liquidity policy, its liquidity control systems and its contingency plans that demonstrate an appropriate liquidity situation and therefore there is no capital requirement to cover this risk.
- Establishment of capital needs for other risks: The capital needs associated to risks other than the above have been estimated at 5% of the bank's total equity requirements, based on that established in the Solvency Circular.

The bank's total capital needs have been estimated through aggregation of the capital needs associated with each risk, obtained using the aforementioned methods.

Additionally, in order to appropriately plan the bank's future capital needs, the corresponding forecasts are made regarding profit assignment to reserves, dividend payments to shareholders, preference share issues, subordinated securities issues and amortisation and capital consumption derived from anticipated business growth in different scenarios that consider, among other aspects, situations of stress, such as; reduction in retail funding, increased default, reduction in property price valuations, reduction in capital gains of assets available for sale and maximum anticipated loss for operational risk.

5. INFORMATION ON CREDIT AND DILUTION RISKS

5.1 Book definitions and description of the methods used to establish corrections due to impairment

Note 2.8 of the individual annual report included in Banco de Valencia S.A.'s annual accounts for 2009 includes the definitions of the terms “default” and “impaired positions” that are used in different sections of this report. Additionally, Notes 8.3 and 15 of the aforementioned report set out the calculation bases used by the bank to establish the provisions for credit risk impairment, together with the calculation of the provisions set up for contingent risks and commitments associated to the aforementioned risk.

5.2 Credit risk exposure at 31 December 2009 and average exposure during the 2009 financial year

The total value of the bank's credit risk exposure at 31 December 2009, after the adjustments indicated in Rules Thirteen and Seventeen in the Solvency Circular and the corresponding value corrections for asset impairment, as appropriate, amounts to 24,851,632 thousand euros, without taking into account the effects of credit risk reduction.

The following chart shows a breakdown of the exposure by segments:

Risk category	Exposure amount
Central administration and central banks	518,622
Regional administration and local authorities	198,053
Public sector entities and non-profit organisations	18612
Multilateral development banks	0
International organisations	0
Credit entities and companies providing investment services	732,679
Companies	12,704,930
Retailers	2,358,866
Asset-backed exposure	5,379,678
Exposure in situations of default	551,632
High-risk exposure	204,662
Guaranteed bonds	0
Securitisation positions	1,583,952
Short-term exposure with institutions and companies	0
Exposure in the form of collective investment institutions	1,786
Other exposure	598,160
Exposure for FY2009	24,851,632

Unit: € thousands

The following chart shows the average value during the 2009 financial year of the credit risk exposures, net of adjustments and impairment losses, to which the standard method has been applied to estimate the equity requirements for credit risk and dilution:

Risk category	Average exposure amount
Central administration and central banks	361,756
Regional administration and local authorities	193,083
Public sector entities and non-profit organisations	20,065
Multilateral development banks	0
International organisations	0
Credit entities and companies providing investment services	841,871
Companies	13,530,274
Retailers	2,467,957
Asset-back exposure	4,788,705
Exposure in situations of default	502,415
High-risk exposure	257,058
Guaranteed bonds	0
Securitisation positions	1,516,086
Short-term exposure with institutions and companies	0
Exposure in the form of collective investment institutions	447
Other exposure	882,223
Average exposure for FY2009	25,361,940

Unit: € thousands

5.3 Exposure by geographic distribution and counterparty

The following chart shows a breakdown of the bank's credit risk exposure at 31 December 2009, net of the adjustments established under Rule Seventeen in the Solvency Circular and the impairment losses, as appropriate, broken down by geographic area:

Geographical area	Exposure amount
Spain	23,910,660
Rest of Europe	53,844
Rest of EU member states	282,766
Rest of the world	604,362
Exposure at 31 December 2009	24,851,632

Unit: € thousands

On the other hand, the chart below presents the distribution of the bank's credit risk exposure by counterparty type, net of adjustments and impairment losses, to which the standard method has been applied to estimate the equity requirements for credit risk:

Counterparty	Exposure amount
01. CENTRAL ADMINISTRATION OR CENTRAL BANKS	518,622
02. REGIONAL SECTOR ENTITIES OR LOCAL AUTHORITIES	198,053
03. PUBLIC SECTOR ENTITIES AND OTHER PUBLIC INSTITUTIONS	23,268
06. INSTITUTIONS	732,684
07. COMPANIES	12,278,843
08. RETAILERS - INDIVIDUALS	5,581,680
09. RETAILERS - SMALL AND MEDIUM SIZE ENTERPRISES	3,179,244
10. EQUITY	358,792
11. GUARANTEED BONDS	0
12. EXPOSURE WITH COLLECTIVE INVESTMENT INSTITUTIONS	4,35
13. SECURITISATION POSITIONS	1,83,52
14. OTHER EXPOSURE	392,459
Exposure at 31 December 2009	24,851,632

Unit:€ thousands

5.4 Residual maturity of exposure

The following chart shows the distribution of the bank's credit risk exposure by residual maturity periods, net of adjustments and impairment losses, to which the standard method has been applied to estimate the equity requirements:

Risk category	Demand	Up to 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years	Total
A) Central administration and central banks	0	1,378	1,387	3,095	512,761	518,622
B) Regional administration and local authorities	0	24,365	100,201	22,012	51,475	198,053
C) Public sector entities and non-profit organisations	0	5,010	2,704	1,708	9,190	18,612
D) Multilateral development banks	0	0	0	0	0	0
E) International organisations	0	0	0	0	0	0
F) Credit entities and companies providing investment services	0	125,061	32,537	96,080	479,002	732,679
G) Companies	0	1,432,007	1,943,498	3,386,887	5,942,539	12,704,930
H) Retailers	0	293,679	393,410	578,369	1,093,408	2,358,866
I) Asset-backed exposure	0	4,719	21,623	311,845	5,041,491	5,379,678
J) Exposure in situations of default	83,087	34,731	24,641	52,323	356,851	551,632
K) High-risk exposure	1,241	36,498	6,561	125,159	35,204	204,662
L) Guaranteed bonds	0	0	0	0	0	0
M) Securitisation positions	0	0	0	0	1,583,952	1,583,952
N) Short-term exposure with institutions and companies	0	0	0	0	0	0
Ñ) Exposure with collective investment institutions	0	29	4	488	1,265	1,786
O) Other exposure	0	360,590	0	237,569	0	598,160
Amount at 31 December 2009	84,327	2,318,068	2,526,566	4,815,534	15,107,136	24,851,632

Unit:€ thousands

5.5 Impaired positions by geographic distribution and counterparty

Impaired exposure by counterparty

The following chart shows the value of impaired exposure and the delinquency situation at 31 December 2009, net of adjustments, broken down by counterparty type, together with the amount of impairment losses and the provisions for risks and contingencies set up thereon at said date, and the amount of the net impairment losses and the provisions for risks and contingencies thereon during the 2009 financial year, to which the standard method has been applied.

Risk category	Impaired exposure (*)	Exposure in situations of default	Losses due to impairment and provision for contingent risks and commitments
A) Central administration and central banks			
B) Regional administration and local authorities			
C) Public sector entities and non-profit organisations	599	599	322
D) Multilateral development banks			
E) International organisations			
F) Credit entities and companies providing investment services	4	4	2
G) Companies	1,132,367	133,085	284,721
H) Retailers	194,886	95,042	64,181
I) Asset-backed exposure	354,851	322,902	100,806
J) High-risk exposure	37,191	0	4,498
K) Guaranteed bonds			
L) Securitisation positions			
M) Short-term exposure with institutions and companies			
Credit entities and companies providing investment services			
Companies			
N) Exposure with collective investment institutions			
O) Other exposure			
Amount at 31 December 2009	1,719,898	551,632	454,528

Unit: € thousands

(*) Includes the impaired positions (positions for which some type of impairment has been recorded), included in delinquent transactions.

Impaired exposure by geographic area

On the other hand, the chart below presents the value of impaired exposure and of the delinquent transactions at 31 December 2009, net of adjustments, broken down by significant geographic areas, together with the impairment losses amount and the provisions for risks and contingencies set up thereon:

Geographical area	Impaired exposure (*)	Exposure in situation of default	Losses due to impairment and provision for contingent risks and commitments
Spain	1,536,440	455,566.50	426,286.79
Rest of Europe	3,386	3,384.92	261.61
Rest of EU member states	43,828	43,499.25	3,960.88
Rest of the world	136,245	49,181.21	24,018.99
Unclassified			
Exposure at 31 December 2009	1,719,898	551,632	454,528

Unit: € thousands

(*) Includes the impaired positions (positions for which some type of impairment has been recorded), included in delinquent transactions.

5.6 Variations during the 2009 financial year in impairment losses and the provisions for risks and contingencies for credit risk

The variations during the 2009 financial year in impairment losses and the provisions for risks and contingencies for credit risk are in line with that established in the Bank of Spain Circular 4/2004, both for the type of loss and provisions set up, and as regards the methods used for their calculation (see section 5.1 above in this report).

The breakdown of the modifications carried out during the 2009 financial year in value corrections due to asset impairment and in risk and contingency commitment provisions due to credit risk are indicated below:

CONCEPTS	Losses due to asset impairment	Provisions for risks and contingencies
Balance at 1 January 2009	444,853	33,387
Allowances charged to results	354,664	11,104
Recovery credited to results	-96,975	-4,261
Amounts applied during the financial year	-95,851	
Effect of foreign exchange rate differences		
Variations produced by business combinations		
Variations in the consolidation perimeter		
Transfers		
Other movements		
Balances at 31 December 2009	606,691	40,230

Additionally, expenditure posted to the 2009 income statement for items transferred directly to failed assets amounted to 2,372 thousand euros, while the credit recorded in the consolidated income statement for the aforementioned 2009 financial year for the recovery of assets previously recorded as failed amounted to 2,346 thousand euros.

5.7 Information on the bank's counterparty credit risk

Counterparty credit risk is deemed as the risk that the bank incurs for derivative financial instrument transactions, transactions with repurchase commitments, or deferred liquidation transactions.

The Bank of Valencia's policy does not include carrying out speculative or trading activities and, therefore, the authorised activities that pose counterparty risk are those required to provide service to the bank's customers or to manage the associated risk produced.

The following chart shows a breakdown of the bank's counterparty credit risk exposure for its derivative transactions at 31 December 2009, estimated as the amount of its credit exposure for these financial instruments, net of the effects of the contractual compensation and guarantees received from the transaction counterparties:

	Amount at 31 December 2009
Reasonable positive value of the contracts	171,246
Less: Effects of compensation agreements	9,681
Credit exposure after compensation	161,566
Less: Effect of the guarantees received	0
Credit exposure after compensation and guarantees	161,566

Unit: € thousands

The bank applies the standard method to calculate the minimum equity requirements associated to this risk.

5.7.1 Derivative credit transactions

The bank has no contracted derivative credit transactions.

6. CREDIT RISK: STANDARD METHOD

6.1 Identification of the external rating agencies used

At 31 December 2009, the rating agencies used by the bank were Standard&Poors, Fitch & Moody's, for the risk categories; central administrations and banks, regional administration and local authorities, entities within the public sector and public non-profit institutions, credit entities, companies, securitisation institutions and positions

There have been no changes during the financial year.

6.2 Description of the process for assigning the credit ratings of public securities issues to comparable assets

This is not applicable to Banco de Valencia.

6.3 Effects on risk exposure of the application of risk reduction techniques and exposure deducted directly from equity

The following chart shows the breakdown of the bank's credit risk exposure at 31 December 2009, estimated using the standard method, before and after applying the risk reduction techniques allowed under the Solvency Circular, distributed by exposure category and level of credit quality (measured based on the percentage applied to calculate the weighted risk exposure):

Credit quality level / category	Exposure before applying techniques to reduce risks	Exposure after applying techniques to reduce risks
Administration and central banks	518,622	518,622
Level 1	512,811	512,811
Level 2	0	0
Level 3	0	0
Level 4	0	0
Level 5	0	0
Level 6	0	0
Without credit quality level	5,810	5,810
Regional administration and local authorities	198,053	198,054
Level 1	97,656	97,657
Level 2	0	0
Level 3	0	0
Level 4	0	0
Level 5	0	0
Level 6	0	0
Without credit quality level	100,397	100,397
Public sector entities and non-profit organisations	18,612	18,612
Level 1	0	0
Level 2	0	0
Level 3	0	0
Level 4	0	0
Level 5	0	0
Level 6	0	0
Without credit quality level	18,612	18,612
Multilateral development banks	0	0
International organisations	0	0
Credit entities and companies providing investment services	732,679	733,070
Level 1	101,357	101,748
Level 2	177,698	177,698
Level 3	13,406	13,406
Level 4	0	0
Level 5	0	0
Level 6	0	0
Without credit quality level	440,218	440,218
Companies	12,704,930	12,704,585
Level 1	0	0
Level 2	23,804	23,804
Level 3	0	0
Level 4	0	0
Level 5	3,252	3,252
Level 6	0	0
Without credit quality level	12,677,874	12,677,529
Retailers	2,358,866	2,358,823
Without credit quality level	2,358,866	2,358,823
Asset-backed exposure	5,379,678	5,379,678
Without credit quality level	5,379,678	5,379,678
Exposure in situation of default	551,632	551,632
Without credit quality level	551,632	551,632
High-risk exposure	204,662	204,658
Without credit quality level	204,662	204,658
Guaranteed bonds	0	0
Securitisation positions	1,583,952	1,583,952
Level 1	1,550,994	1,550,994
Level 2	4,200	4,200
Level 3	4,406	4,406
Level 4	0	0
Level 5	0	0
Level 6	0	0
Without credit quality level	24,352	24,352
Short-term exposure with institutions and companies	0	0
Exposure with collective investment institutions	1,786	1,786
Level 1	0	0
Level 2	0	0
Level 3	0	0
Level 4	0	0
Level 5	0	0
Level 6	0	0
Without credit quality level	1,786	1,786
Other exposure	598,160	598,160
Without credit quality level	598,160	598,160
Amount at 31 December 2009	24,851,632	24,851,632

Unit: € thousands

On the other hand, the chart below shows the value of the bank's credit risk exposure at 31 December 2009 within the category of risk to which the standard method has been used to calculate the minimum equity requirements for this concept and which, pursuant to that established in the Solvency Circular, have been deducted directly from the bank's equity:

Risk category	Exposure amount deducted from equity at 31 December 2009
Securitisation positions	24,352

Unit: € thousands

7. SECURITISATION OPERATIONS

7.1 General information on securitisation activity

The bank carries out asset securitisation operations mainly as a mechanism to obtain short-term liquidity through mobilisation of part of its loans and receivables, and as a mechanism that enables it to homogenise heterogeneous assets in its asset portfolio in order to achieve more efficient management thereof with third parties or the market.

During 2009 and previous financial years, the bank has been the originator of several asset securitisation operations. In general, in these operations the bank provides hedging for a part of the credit risk associated to the issues carried out by the asset securitisation funds, through acquisition of certain subordinated tranches of said issues ("First-loss tranches") issued by the securitisation funds. It should be noted, however, that the bank has carried out asset securitisation operations in previous financial years in which there has been a significant credit risk transfer, given that the ratio of the bank's participation in the first loss positions is below 20%, as defined under Rule Fifty-five in the Solvency Circular. The management of the securitisation funds of which the bank has been the originator is carried out by Europea de Titulaciones S.G.F.T., S.A., with no kind of relation with the management of securitised operations subsequent to their transfer to the corresponding securitisation funds. Additionally, the bank has contracted interest rate swaps with the various securitisation funds, through which it provides interest rate hedging for these.

The bank uses the standard method to calculate exposure derived from its securitisation activities.

Banco de Valencia has not withdrawn its securitised assets from its balance sheet.

Note 28.5 in the individual annual report included in Banco de Valencia S.A.'s 2009 annual accounts explains the criteria and key hypotheses applied to evaluate the risks and advantages obtained in financial asset transfers, which determine the accounting treatment applied by the bank in these types of operations. Said criteria determine the accounting treatment that the bank gives, among others, to financial asset securitisation operations.

All the bank's securitisation operations are considered traditional securitisation operations and there have been no synthetic securitisation operations carried out either during the 2009 financial year or in previous years.

The bank calculates its equity requirements for the positions held in securitisation operations applying the standard method defined under Rule Sixty in the Solvency Circular. The ratings carried out by the following eligible ECAI have been used for said calculation:

Eligible ECAs	Exposure to which their ratings have been applied
Moody's	Positions classified as long and short-term
Fitch	Positions classified as long and short-term

7.2 Exposure in securitisation operations and amount of securitised assets

The following chart shows a breakdown of the bank's positions in securitisation operations held at 31 December 2009 to which, for the purpose of calculating the equity requirements for credit risk, the treatment set out under Chapter Four, Section Four of the Solvency Circular is applied:

<u>Withheld or purchased securitisation positions</u>	
	Exposure amount
Traditional securitisations	
<i>As originator</i>	
Preferential tranches	75,443
Intermediate risk tranches	8,606
First-loss tranches	24,352
<i>As investor</i>	
Preferential tranches	1,475,551
Intermediate risk tranches	
First-loss tranches	0
Amount at 31 December 2009	1,583,952

Unit: € thousands

The first-loss tranches are deducted from the equity for solvency purposes.

The breakdown of the bank's positions in securitisation operations held at 31 December 2009 and distributed by weighted bands per risk to which they have assigned, is as follows:

Withheld or purchased securitisation positions by weighting bands	
	Exposure amount
Exposure to which the standard method has been applied	
- Credit quality level 1 (weighted at 20%)	1,550,994
- Credit quality level 2 (weighted at 50%)	4,200
- Credit quality level 3 (weighted at 100%)	4,406
- Credit quality level 4 (weighted at 350%)	0
- Positions weighted at 1250% or deducted directly from the group's equity	24,352
Amount at 31 December 2009	1,583,952

Unit: € thousands

The following chart shows a summary of the securitisation operations carried out by the bank during the 2009 financial year:

Positions securitised during the financial year	
	Amount of securitised positions
Transactions not withdrawn from the balance sheet	
A) Traditional securitisation transactions	
Single assignor securitisation	500,000
Multiple assignor securitisations	55,000
Amount at 31 December 2009	555,000

Unit: € thousands

The following is a breakdown of the outstanding balance at 31 December 2009 of the assets securitised by the bank in previous financial years in operations which apply the procedure set out under Chapter Four, Section Four of the Solvency Circular to calculate the weighted exposure per credit risk to determine the credit risk requirements for the positions held in these operations:

	Outstanding balance	Outstanding balance of delinquent and impaired operations	Corrections in value due to impairment in assets and provisions
Asset-backed exposure	1,355,867	16,785	158
Exposure with companies	1,146	2,327	191
Amount at 31 December 2009	1,357,012	19,112	349

Unit: € thousands

8. CREDIT RISK REDUCTION TECHNIQUES

8.1 General information

For the purposes of complying with the Solvency Circular, the bank applies the following credit risk reduction techniques:

- Real guarantees
- Netting agreements
- Personal guarantees

a) Real guarantees

The main types of real guarantees accepted by the entity are:

- Mortgage guarantees
- Pledge guarantees: Cash deposits, securities and investment funds.

Mortgage guarantees are appraised prior to granting the risk by prudent and prestigious valuers who are registered with and approved by the Bank of Spain. In addition, they must pass the quality control required by the bank and subsequently incorporated into a closed list of valuers that can be used by the branches.

Pledge guarantees are evaluated at the time of granting the risk and from time to time at market prices.

A tool that can be used to associate the asset and the guarantee that acts as surety for the operation in question and obtains the updated market value of these guarantees. When the hedging for the operation is considered insufficient, alerts are activated to report said situation.

b) Netting agreements

Netting agreements are agreements whereby the two counterparties can liquidate their mutual operations via compensation of all their balances. The bank carries out periodic evaluation of the operations subject to these agreements, calculating the net balance. The entity that is the debtor of the net balance sets up surety (cash) that covers said debt, so that the resulting risk moves towards zero or a certain level considered acceptable.

These types of agreements are set out in internationally recognised framework contracts, such as the ISDA, CMOF or CME and are frequently signed with the counterparties of derivative transactions.

Identification of the assets and liabilities subject to the agreement is conducted by the corresponding department, using automated processes. The bank currently holds this type of agreement with six counterparties.

c) Personal guarantees

Although for the purposes of solvency, the bank only uses as personal guarantees those granted by the state administration and central banks, regional or local administrations, public sector entities and companies that have a credit rating above A, it uses any type of personal guarantee (including SMEs and, in particular, individuals) for the purposes of management.

8.2 Quantitative information

The following chart shows the total value of the exposure at 31 December 2009 that is covered through the application of risk reduction techniques used for the purposes of solvency:

Risk category	Accepted financial guarantees	Other acceptable real guarantees	Personal guarantees
Administration and central banks	0	0	0
Regional administration and local authorities	300	0	0
Public sector entities and non-profit organisations	137	0	0
Multilateral development banks	0	0	0
International organisations	0	0	0
Credit entities and companies providing investment services	0	0	0
Companies	447,637	0	345
Retailers	50,808	0	43
Asset-backed exposure	0	5,379,678	0
Exposure in situation of default	98	0	0
High-risk exposure	140	0	4
Guaranteed bonds	0	0	0
Securitisation positions	0	0	0
Short-term exposure with institutions and companies	0	0	0
Exposure with collective investment institutions	0	0	0
Other exposure	0	0	0
Amount at 31 December 2009	499,120	5,379,678	392

Unit: € thousands

9. INFORMATION ON THE TRADING PORTFOLIO MARKET RISK

9.1 General information

Pursuant to its risk policy, Banco de Valencia does not carry out trading portfolio operations for solvency purposes.

For accounting purposes it does hold positions defined as Trading Portfolio.

For the purposes of calculating the equity requirements associated to the trading portfolio, it should be noted that the bank considers as such those positions in financial instruments and raw materials held with the intention of trading or which serve as hedging for elements in said portfolio. Therefore, for the purpose of calculating the bank's equity requirements, the trading portfolio is different to the trading portfolio defined pursuant to that established in the Bank of Spain Circular 4/2004, dated 22 December, in the following aspects:

- It includes elements that form part of the internal hedging carried out by the bank and which, in accounting terms, are not considered an integral part of the trading portfolio. For the purposes of that established in the Solvency Circular, "Internal hedging" is deemed as the position that significantly compensates the risk of a position or of a set of positions not included in the trading portfolio.
- As already indicated, for the purpose of calculating the equity requirements, the trading portfolio includes elements that, despite not having been acquired with the intention of trading, serve as hedging for other elements in this portfolio and are not classified in accounting terms in the trade portfolio; "intention of trading" is deemed as holding positions for the purpose of capitalising them in the short-term or for the short-term achievement of the real or anticipated differences between the acquisition and sale price or the variations of other prices or interest rates.
- For this purpose, the corresponding items posted under assets and liabilities in the balance sheet correspond to back-to-back operations with customers and counterparties that are perfectly matched and have a market and VaR value of zero.

10. METHODS APPLIED WHEN CALCULATING THE EQUITY REQUIREMENTS FOR OPERATIONAL RISK

Banco de Valencia, S.A. uses the standard method for calculating its minimum equity requirements for its operational risk.

Application of said method must be notified to the Supervisor before informing the corresponding equity statements associated to this type of risk.

This use was approved by the Board of Directors in its meeting on 19 December 2008 and was subsequently notified to the Bank of Spain, as is mandatory.

11. INFORMATION ON SHARES AND CAPITAL INSTRUMENTS NOT INCLUDED IN THE TRADING PORTFOLIO

11.1 Classification, valuation and accounting criteria

Notes 2.1 and 2.2 of the bank's annual report include a description of the portfolios in which the shares and capital instruments owned by the bank are classified, together with the posting and evaluation accounting criteria applied to each one. These Notes also indicate the models and assumptions applied to determine the value of the instruments included in this portfolio. During the 2009 financial year there have been no changes with a significant effect on the practices and hypotheses used by the bank to value its shares and capital instruments.

The bank holds shares and capital instruments for different purposes. In this respect, it has shares in entities with varying degrees of participation in their management and decision-making, with which it seeks to achieve the objectives that make up the bank's strategy and objectives as a whole and/or which make up a very significant or relevant part of the activity, risk management or the bank's results and/or in which there is an intention for permanency in the shareholding ("strategic shares"). Additionally, it also holds shares in other entities with different objectives and which are basically oriented towards maximising the results obtained via their management, in co-ordination with the objectives and strategies of the bank's risk management ("portfolios held with intention to sell").

In general, the shares and capital instruments owned by the bank for strategic purposes are given an accounts classification as shares in group, associated and multigroup companies, while those shareholdings held with the intention to sell and which do not form part of the trading portfolio are classified as financial assets available for sale.

11.2 Quantitative information

The book value of the shares held by the bank at 31 December 2009 that are not included in the trading portfolio is 358,792 thousand euros, and their fair value at said date, which should be considered as a reasonable estimation of their market value, is 397,478 thousand euros.

The following chart shows a breakdown of the bank's exposure for shares and capital instruments at 31 December 2009, not including the exposure for instruments that form part of the trading portfolio, as has been described under point 10 above for the purpose of equity requirements:

	Exposure amount
Capital instruments traded on organised markets	96,781
Capital instruments not traded on organised markets	
- Included in sufficiently diversified portfolios	9,897
- Rest of non-traded instruments	252,114
Total	358,792

Unit: € thousands

The amount of profit recorded by the bank for the 2009 financial period for the sale of shares and shareholdings other than those included in the trading portfolio and of the shareholdings that form part of the Consolidated Group, amounted to 69,414 thousand euros, while the losses recorded for the sale and liquidation of these shares and shareholdings amounted to 0 euros.

In addition to the above, the following chart shows a breakdown of the recorded and non-recorded profit and loss at 31 December 2009 associated to the shares the bank holds in capital instruments other than those included in the trading portfolio and its consolidated shareholdings, for equity purposes:

			Counted as Tier I (core) equity	Counted as Tier II equity
	Posted	Not recorded		
Gain in capital instruments	67,239	70,813	0	35,017
Losses in capital instruments	-30,603	-12,383	0	0
Total	36,636	58,430	0	35,017

12. INTEREST RATE RISK IN POSITIONS NOT INCLUDED IN THE TRADING PORTFOLIO

Interest rate risk is the risk to which the bank is exposed during its activities in asset and liability operations with different interest rates (fixed or floating interest rates or referenced to different indexes) and with different maturity dates, with which the upward or downward variations in the reference interest rates for said operations can produce uneven effects in its assets and liabilities, which in turn affect the bank's income statement and net worth.

Interest rate risk is managed integrally by the bank for all its entities with significant positions exposed to this risk. The bank measures and analyses this risk taking into account the following aspects and based on the following premises:

- The risk is measured and analysed constantly.
- Analysis is carried out on the possible effects that variations in the interest rates of the currencies with a significant exposure could have on the banks results and the various income statement margins.
- The analyses include all positions that are susceptible to interest rate risk, including derivatives on interest rate, whether implicit or explicit and excluding the positions that form part of the trading portfolio, as this has already been defined above.
- For the purposes of analysing the operations' maturity periods, although in general the maturity period is considered as the contractual term of the operations, there are operations in which other types of hypotheses regarding maturity are applied, either because these exposures do not have specific maturity dates, or because of their stable performance or early amortisation that differs significantly to their contract conditions. Thus, analyses of loan maturity dates include adjustments due to estimates of early amortisation, which are based on the analysis of historical series in different scenarios. On the other hand, analyses of the maturity dates for client demand deposits, given the history of stability in these operations, take into account longer maturity periods than the contractual periods, based on the analysis of the bank's experience in different scenarios.
- The effects of the movements of parallel and instantaneous interest rates are studied for each currency, defined on percentiles of 1% and 99% of the variations of the interest rates for each currency, calculated with a temporal threshold of 240 days and over a historical period of 5 years.
- No separate measurement is carried out of the interest rate for each position held in each currency, as these are intangible.

On the basis of the aforementioned analyses, the bank takes the necessary steps to guarantee optimum management of said risk.

Note 25 in the individual report in the banks annual accounts for the 2009 financial year includes information regarding the level of exposure in the net worth and the income statement in terms of the reasonable future changes in the levels of the prevailing interest rates with a breakdown by the most relevant currencies. This information takes into account the effects of hedging by analysing the result of an increase and reduction of 100 basic percentage points in the interest rates or that which is most significant for each currency, as well as certain information on the sensitiveness of the interest rates, and the criteria that have been applied to prepare said information, with all the relevant hypotheses that have been taken into consideration.