

Any individual or company that intends to increase, directly or indirectly, its significant participation in such a way that its share capital or voting rights after the acquisition reaches or exceeds 10%, 15%, 20%, 25%, 33%, 40%, 50%, 66% or 75% is required to give prior notice to the Bank of Spain of such transaction. Any acquisition without such prior notification, or before three months have elapsed after the date of such notification, or against the objection of the Bank of Spain, will produce the following results:

- the acquired shares will have no voting rights; and
- if considered appropriate, the target bank may be taken over or its directors replaced and a sanction imposed.

The Bank of Spain has a period of three months to object to a proposed transaction. Such objection may be based on the fact that the Bank of Spain does not consider the acquiring person suitable to guarantee the sound and prudent operation of the target bank.

Any individual or institution that intends to sell its significant participation or reduce the above mentioned percentages, or which, because of such sale, loses control of the entity, must give prior notice to the Bank of Spain, indicating the amount to be sold and the period in which the transaction is to be executed. Non-compliance with this requirement will result in sanctions.

The Ministry of Economy and the Treasury, following a proposal by the Bank of Spain, may, whenever the control by a person with a significant participation may jeopardize the sound and prudent management of a credit institution, adopt any of the following measures as deemed appropriate:

- suspend the voting rights corresponding to such shares for up to three years;
- take control of the bank or replace the directors or
- revoke the bank's license.

#### **Tender Offers**

As stated above, the Spanish legal regime concerning takeover bids was amended by Royal Decree 432/2003 of April 11, 2003, in order to introduce more cases in which it is necessary to launch a takeover in order to acquire a stake of the share capital of a listed company. Subject to certain exceptions, any individual or corporation proposing to acquire shares of a company's share capital (or other securities that may directly or indirectly give the right to subscribe for such shares), which is fully or partly admitted for trading on a Spanish stock exchange, may not do so without first launching a public tender offer on the terms and conditions laid down in the Royal Decree, if it intends to appoint more than one-third but less than one-half of the directors of the target company.

#### **E. Taxation**

##### **Spanish Tax Considerations**

The following is a summary of the material Spanish tax consequences to United States Residents (as defined below) of the acquisition, ownership and disposition of BBVA's ADSs or ordinary shares. This summary does not address all tax considerations that may be relevant to all categories of potential purchasers, some of whom (such as life insurance companies, tax-exempt entities, dealers in securities or financial institutions) may be subject to special rules. In particular, the summary deals only with the United States Holders (as defined below) that will hold ADSs or ordinary shares as capital assets and who do not at any time own individually, nor are treated as owning, 25% or more of BBVA's shares, including ADSs.

As used in this particular section, the following terms have the following meanings:

(1) "United States Holder" means a beneficial owner of BBVA's ADSs or ordinary shares that is:

- a resident of the United States for United States federal income tax purposes,

- a corporation or other entity treated as a corporation, created or organized under the laws of the United States or any State thereof, or
- an estate or trust the income of which is subject to United States federal income tax without regard to its source.

(2) “Treaty” means the Convention between the United States and the Kingdom of Spain for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, together with a related Protocol.

(3) “United States Resident” means a United States Holder that is a resident of the United States for the purposes of the Treaty and entitled to the benefits of the Treaty, whose holding is not effectively connected with (1) a permanent establishment in Spain through which such holder carries on or has carried on business, or (2) a fixed base in Spain from which such holder performs or has performed independent personal services.

Holders of ADSs or ordinary shares who are not United States Residents should also consult their own tax advisors, particularly as to the applicability of any tax treaty. The statements regarding Spanish tax laws set out below are based on interpretations of those laws in force as of date of this Annual Report. Such statements also assume that each obligation in the Deposit Agreement and any related agreement will be performed in full accordance with the terms of those agreements.

#### ***Taxation of Dividends***

Under Spanish law, dividends paid by BBVA to a holder of ordinary shares or ADSs who is not resident in Spain for tax purposes and does not operate through a permanent establishment in Spain, are subject to Spanish Non-Resident Income Tax, withheld at source, currently at a 15% tax rate. For these purposes, upon distribution of the dividend, BBVA or its paying agent will withhold an amount equal to the tax due according to the rules set forth above (i.e., applying the general withholding tax rate of 15%), transferring the resulting net amount to the depository. Under the Treaty, if you are a United States Resident, you are also entitled to a tax rate of 15%.

#### ***Taxation of Rights***

Distribution of preemptive rights to subscribe for new shares made with respect to your shares in BBVA will not be treated as income under Spanish law and, therefore, will not be subject to Spanish Non-Resident Income Tax. The exercise of such preemptive rights is not considered a taxable event under Spanish law and thus is not subject to Spanish tax. Capital gains derived from the disposition of preemptive rights obtained by United States Residents are generally not taxed in Spain provided that certain conditions are met (See “Taxation of Capital Gains” below).

#### ***Taxation of Capital Gains***

Under Spanish law, any capital gains derived from securities issued by persons residing in Spain for tax purposes are considered to be Spanish source income and, therefore, are taxable in Spain. For Spanish tax purposes, income obtained by you, if you are a United States Resident, from the sale of BBVA’s ADSs or ordinary shares will be treated as capital gains. Spanish Non-Resident Income Tax is currently levied at a 35% tax rate on capital gains obtained by persons non residents of Spain for tax purposes who are not entitled to the benefit of any applicable treaty for the avoidance of double taxation and who do not operate through a fixed base or a permanent establishment in Spain.

Notwithstanding the above, capital gains derived from the transfer of shares in an official Spanish secondary stock market by any holder who is resident in a country that has entered into a treaty for the avoidance of double taxation with an “exchange of information” clause (the Treaty contains currently such a clause), will be exempt from taxation in Spain. Additionally, capital gains realized by non-residents of Spain who are entitled to the benefit of an applicable treaty for the avoidance of the double taxation will, in the majority of cases, not be taxed in Spain (since most tax treaties provide for taxation only in the taxpayer’s country of residence). If you are a United States Resident, by virtue of the Treaty, capital gains arising from the disposition of ordinary shares or ADSs will not be taxed in Spain. You will be required to establish that you are entitled to this exemption by providing to the relevant Spanish tax authorities an IRS certificate of residence in the United States, together with the corresponding Spanish tax form.

**Spanish Wealth Tax**

If you do not reside in Spain and you hold shares located in Spain, you are subject to Spanish Wealth Tax (Spanish Law 19/1991), which imposes a tax on property located in Spain on the last day of any year. It is possible that the Spanish tax authorities may contend that all shares of Spanish corporation and all ADSs representing such shares are located in Spain for Spanish tax purposes. If such a view were to prevail, and you are a non-resident of Spain who held BBVA's ADRs or ordinary shares on the last day of any year, you would be subject to the Spanish Wealth Tax for such year at marginal rates varying between 0.2% and 2.5% of the average market value of such ordinary shares or ADSs during the last quarter of such year. United States Residents should consult their tax advisors with respect to the applicability of Spanish Wealth Tax.

**Spanish Inheritance and Gift Taxes**

Transfers of BBVA's shares or ADRs upon death or by gift are subject to Spanish inheritance and gift taxes (Spanish Law 29/1987), if the transferee is a resident in Spain for tax purposes, or if BBVA's shares or ADRs are located in Spain, regardless of the residence of the beneficiary. In this regard, the Spanish tax authorities may argue that all shares of Spanish corporations and all ADSs representing such shares are located in Spain for Spanish tax purposes. The applicable tax rate, after applying all relevant factors, ranges between 7.65% and 81.6% for individuals, approximately.

Alternatively, corporations that are non-resident in Spain, who receive BBVA's shares or ADSs as a gift, are subject to Spanish Non-Resident Income Tax at a 35% tax rate on the fair market value of the shares as a capital gain. Hence, if the donee is a United States resident corporation, the exclusions available under the Treaty described in "Taxation of Capital Gains" above will be applicable.

**Spanish Transfer Tax**

Transfers of BBVA's ordinary shares or ADSs will be exempt from Transfer Tax (*Impuesto sobre Transmisiones Patrimoniales*) or Value-Added Tax. Additionally, no stamp duty will be levied on such transfers.

## **U.S. Tax Considerations**

The following summary describes the material United States federal income tax consequences of the acquisition, ownership and disposition of ADSs or ordinary shares, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person's decision to acquire such securities. The summary applies only to U.S. Holders (as defined under "Spanish Tax Considerations" above) that hold ADSs or ordinary shares as capital assets for tax purposes and does not address special classes of holders, such as:

- certain financial institutions;
- insurance companies;
- dealers and traders in securities or foreign currencies;
- holders holding ADSs or shares as part of a hedge, straddle or conversion transaction;
- holders whose "functional currency" is not the U.S. dollar;
- holders liable for alternative minimum tax;
- tax exempt organizations;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes or
- holders that own 10% or more of BBVA's voting shares.

The summary is based upon tax laws of the United States including the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, changes to any of which may affect the tax consequences described herein possibly with retroactive effect. In addition, the summary is based on the Treaty (as defined under "Spanish Tax Considerations" above) and is based in part on representations of BBVA's depositary and assumes that each obligation provided for in or otherwise contemplated by BBVA's deposit agreement or any other related document will be performed in accordance with its terms. Prospective purchasers of the ADSs or ordinary shares are urged to consult their own tax advisers as to the United States, Spanish or other tax consequences of the purchase, ownership and disposition of ADSs or ordinary shares in their particular circumstances, including the effect of any U.S. state or local tax laws.

For United States federal income tax purposes, U.S. Holders of ADSs will generally be treated as the owners of the underlying ordinary shares represented by those ADRs. Accordingly, no gain or loss will be recognized if a U.S. Holder exchanges ADSs for the underlying ordinary shares represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits for U.S. holders of ADSs. Such actions would also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain noncorporate U.S. Holders, as described below. Accordingly, the analysis of the creditability of Spanish taxes described below, and the availability of the reduced tax rate for dividends received by certain noncorporate U.S. Holders, could be affected by future actions that may be taken by the parties to whom the ADSs are released.

This discussion assumes that BBVA was not a passive foreign investment company ("PFIC") for 2003 (as discussed below).

### ***Taxation of Distributions***

To the extent paid out of our current or accumulated earnings and profits (as determined in accordance with United States federal income tax principles), distributions, before reduction for any Spanish income tax withheld by BBVA or its paying agent, made with respect to ADSs or ordinary shares (other than certain pro rata distributions of BBVA's capital stock or rights to subscribe for shares of its capital stock) will be includible in the income of a U.S. Holder as ordinary dividend income. Such dividends will not be eligible for the "dividends received deduction" generally allowed to corporations under the Code. Subject to applicable limitations, dividends paid to noncorporate U.S. Holders in taxable years beginning before January 1, 2009 will be taxable at a maximum tax rate of 15%. Noncorporate U.S. Holders should consult their own tax advisers to determine the implications of the rules regarding this favorable rate in their particular circumstances. To the extent that a distribution exceeds our current and accumulated earnings and profits, it will be treated as a nontaxable return of capital to the extent of the U.S. Holder's tax basis in the ADSs or ordinary shares, and thereafter as capital gain.