

For the purpose of this Law, a significant participation is considered 10% of the outstanding share capital of a financial institution or a lower percentage if such holding allows for the exercise of a significant influence.

The Bank of Spain will be responsible for evaluating the proposed transaction, in accordance with the terms established by Royal Decree 84/2015, of February 13, (as stated in Article 25.1 of said Royal Decree 84/2015) in order to guarantee the sound and prudent operation on the target financial institution. The Bank of Spain will submit a proposition before the European Central Bank, which will be in charge of deciding upon the proposed transaction in the term of 60 working days after the date on which the notification was received.

Any acquisition without such prior notification, or before the period established in the Royal Decree 84/2015 has elapsed or against the objection of the Bank of Spain, will produce the following results:

- the acquired shares will have no voting rights;
- if considered appropriate, the target bank may be taken over or its directors replaced; and
- the sanctions established in Title IV of Law 10/2014.

Regarding the transparency of listed companies, Law 6/2007 amended the Securities Markets Act on takeover bids and transparency requirements for issuers. The transparency requirements have been further developed by Royal Decree 1362/2007 developing the Securities Markets Act on transparency requirement for issuers of listed securities, specifically information on significant stakes, reducing the communication threshold to 3%, and extending the disclosure obligations to the acquisition or transfer of financial instruments that grant rights to acquire shares with voting rights. For more information see *“Item 9. The Offer and Listing–Offer and Listing Details – Reporting Requirements”*.

Tender Offers

The Spanish legal regime concerning takeover bids, which reflects the related EU regulation (mainly Directive 2004/25/EC), is set forth in Royal Decree 4/2015, of October 23, approving the restated text of the Securities Market Act, and Royal Decree 1066/2007, of July 29, on takeover bids.

E. Taxation

Spanish Tax Considerations

The following is a summary of the material Spanish tax consequences to U.S. Residents (as defined below) of the acquisition, ownership and disposition of BBVA’s ADSs or ordinary shares as of the date of the filing of this Annual Report. 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 U.S. Holders (as defined below) that will hold ADSs or ordinary shares as capital assets and who do not at any time own individually, and are not 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) “U.S. Holder” means a beneficial owner of BBVA’s ADSs or ordinary shares that is for U.S. federal income tax purposes:

- a citizen or an individual resident of the United States,
- a corporation or other entity treated as a corporation, created or organized under the laws of the United States, any state therein or the District of Columbia, or
- an estate or trust the income of which is subject to U.S. 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) "U.S. Resident" means a U.S. 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 should consult their 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 the 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, cash 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 at a 19% 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 (applying a withholding tax rate of 19%), transferring the resulting net amount to the depository.

However, under the Treaty, if you are a U.S. Resident, you are entitled to a reduced withholding tax rate of 15%. To benefit from the Treaty-reduced rate of 15%, if you are a U.S. Resident, you must provide to BBVA through our paying agent depository, before the tenth day following the end of the month in which the dividends were payable, a certificate from the U.S. Internal Revenue Service ("IRS") stating that, to the best knowledge of the IRS, you are a resident of the United States within the meaning of the Treaty and entitled to its benefits.

If the paying agent depository provides timely evidence (i.e., by means of the IRS certificate) of your right to apply the Treaty-reduced rate it will immediately receive the surplus amount withheld, which will be credited to you. The IRS certificate is valid for a period of one year from issuance.

To help shareholders obtain such certificates, BBVA has set up an online procedure to make this as easy as possible.

If the certificate referred to in the above paragraph is not provided to us through our paying agent depository within said term, you may afterwards obtain a refund of the amount withheld in excess of the rate provided for in the Treaty.

Scrip Dividend

As described under "Item 4. Information on the Company– Business Overview–Supervision and Regulation–Dividends–Scrip Dividend", the BBVA annual shareholders' general meeting held on March 17, 2017, passed a resolution adopting a capital increase to be charged to voluntary reserves for the implementation of a "Dividend Option" during 2017. This remuneration scheme offers the shareholders the possibility of electing how they would like to receive their remuneration: in cash or in newly issued ordinary shares.

Pursuant to the terms of the "Dividend Option" program, upon its implementation, the shareholders will receive one right of free allocation for each share of BBVA that they hold as of a given record date. These rights will be tradable on the Spanish Stock Exchanges for a minimum period of 15 natural days. BBVA will undertake to purchase the rights of free allocation tendered by the shareholders to it during a certain period of time at a fixed price, subject to the conditions that may be imposed each time the "Dividend Option" program is implemented. This fixed price will be the result of dividing the Reference Price (as defined below) by the number of rights necessary to receive one new share plus one. At the end of the tradable period of the rights of free allocation, the rights not validly tendered to BBVA will be automatically converted into newly-issued ordinary shares of the Company. The number of rights necessary for the allocation of one new share and the total number of shares to be issued by BBVA will depend, amongst other factors, on the arithmetic mean of the weighted average prices of BBVA's shares on the Spanish Stock Exchanges over the five trading sessions immediately prior to the Board of Directors' resolution concerning the execution of the relevant capital increase to be charged to reserves (the "Reference Price").

Consequently, when each of the capital increases implementing the “Dividend Option” scheme is executed, the shareholders of BBVA will have the option to freely choose among:

- a) Not transferring their rights of free allocation. In this case, at the end of the trading period, the shareholders will receive the number of newly issued paid-up ordinary shares to which they are entitled. For tax purposes, the vesting of free-of-charge shares does not comprise income for the purposes of the Spanish Non-Residents’ Income Tax, whether or not non-residents act through a permanent establishment in Spain.

The acquisition value of both the new shares received as a consequence of each capital increase and the shares from which they originate will result from distributing the total cost among the number of shares (both old and those issued as free-of-charge shares). Such free-of-charge shares will be deemed to have been held for as long as the shares from which they originate.
- b) To transfer all or some of their rights of free allocation on the market at the price at which those rights are traded at that moment. In this case, the amount obtained from the transfer of such rights on the market will, in general, be subject to the following tax treatment:

1. Until December 31, 2016:

For purposes of the Spanish Non-Residents’ Income Tax, when the transaction is carried out without a permanent establishment, the amount obtained from the transfer of the rights of free allocation on the market will be subject to the same tax treatment as pre-emptive subscription rights. Accordingly, for tax purposes, the amount obtained from the transfer of the rights of free allocation is subtracted from the acquisition value of the shares from which these rights originate, pursuant to article 37.1.a) of Law 35/2006, of November 28, on Personal Income Tax (Ley del Impuesto sobre la Renta de las Personas Físicas—From January 1, 2017, article 37.1.a) of Law 35/2016 has been modified (by virtue of Sixth Final Disposition, Law 26/2014)), which partially amends the Acts on Corporate Income Tax, Non-Residents’ Income Tax and Wealth Tax.

Thus, only if the amount obtained from the aforementioned transfer exceeds the acquisition value of the shares from which they originate, will the difference be considered a capital gain for the transferor in the tax period in which the transfer takes place.

2. From January 1, 2017:

For purposes of the Spanish Non-Residents Income Tax, when the transaction is carried out without a permanent establishment, the amount obtained from the transfer of the rights of free allocation on the market will be considered a capital gain for the transferor in the tax period in which the transfer takes place. Such amount will be subject to a withholding tax rate of 19%.

- c) To transfer all or some of their rights of free allocation to BBVA under the purchase commitment assumed by the Bank. The tax treatment applicable to the amount obtained in the transfer to the Company of the rights of free allocation due to the shareholders’ status as such, will be equivalent to the tax treatment applicable to dividends directly distributed in cash and, consequently, such amount will be subject to the corresponding withholding tax (currently, 19%).

It should be borne in mind that this analysis does not cover all the possible tax consequences. Therefore, shareholders are advised to consult with their tax advisors.

Spanish Refund Procedure

According to Spanish Regulations on Non-Resident Income Tax, approved by Royal Decree 1776/2004 dated July 30, 2004, as amended, a refund for the amount withheld in excess of the Treaty-reduced rate can be obtained from the relevant Spanish tax authorities. To pursue the refund claim, if you are a U.S. Resident, you are required to file:

- the corresponding Spanish tax form,
- the certificate referred to in the preceding section, and
- evidence of the Spanish Non-Resident Income Tax that was withheld with respect to you.

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The refund claim must be filed within four years from the date in which the withheld tax was collected by the Spanish tax authorities, but not before February 1, of the following year.

U.S. Residents are urged to consult their own tax advisors regarding refund procedures and any U.S. tax implications thereof.

U.S. Holders should consult their tax advisors regarding the availability of, and the procedures to be followed in connection with, this exemption.

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 received by U.S. 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, gain recognized by you, if you are a U.S. 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 19% tax rate, on capital gains recognized by persons who are not 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 discussion above, capital gains derived from the transfer of shares on 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 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 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 U.S. Resident, under 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 a certificate of residence in the United States from the IRS (discussed above in “– Taxation of Dividends”), together with the corresponding Spanish tax form.

Spanish Inheritance and Gift Taxes

Transfers of BBVA’s shares or ADSs upon death or by gift to individuals 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 ADSs are located in Spain, regardless of the residence of the transferee. In this regard, the Spanish tax authorities may argue that all shares of a Spanish corporation and all ADSs representing such shares are located in Spain for Spanish tax purposes. The applicable tax rate for individuals, after applying all relevant factors, ranges between approximately 7.65% and 81.6% under Spanish Law 29/1987. After determining the tax rate, some multipliers, that range from 1.0 to 2.4, are applied in order to assess the tax due. Those multipliers take into account the preexisting wealth of the inheritor / donee, and the kinship with the deceased / donor.

Corporations that are non-residents of Spain that receive BBVA’s shares or ADSs as a gift are subject to Spanish Non-Resident Income Tax at a 19% tax rate on the fair market value of such ordinary shares or ADSs as a capital gain tax. If the donee is a U.S. 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 material U.S. federal income tax consequences of the 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 hold the securities. The summary applies only to U.S. Holders that are eligible for the benefits of the Treaty (in each case, as defined under "Spanish Tax Considerations" above) and that hold ADSs or ordinary shares as capital assets for tax purposes and does not address all of the tax consequences, including the potential application of the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), known as the Medicare contribution tax, and tax consequences that may be relevant to holders subject to special rules, such as:

- certain financial institutions;
- dealers or traders in securities who use a mark-to-market method of accounting;
- persons holding ADSs or ordinary shares as part of a hedging transaction, straddle, wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to the ADSs or ordinary shares;
- persons whose "functional currency" for U.S. federal income tax purposes is not the U.S. dollar;
- persons liable for the alternative minimum tax;
- tax-exempt entities;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes;
- persons holding ADSs or ordinary shares in connection with a trade or business conducted outside of the United States;
- persons who acquired our ADSs or ordinary shares pursuant to the exercise of any employee stock option or otherwise as compensation; or
- persons who own or are deemed to own 10% or more of our voting shares.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds ADSs or ordinary shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding ADSs or ordinary shares and partners in such partnerships should consult their tax advisors as to the particular U.S. federal income tax consequences of holding and disposing of the ADSs or ordinary shares.

The summary is based upon the tax laws of the United States, including the Code, the Treaty, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof. These laws are subject to change, possibly with retroactive effect. In addition, the summary is based in part on representations by the depositary and assumes that each obligation provided for in or otherwise contemplated by BBVA's deposit agreement and 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 tax advisors as to the U.S., Spanish or other tax consequences of the ownership and disposition of ADSs or ordinary shares in their particular circumstances, including the effect of any U.S. state or local tax laws.

In general, for United States federal income tax purposes, a U.S. Holder who owns ADSs will be treated as the owner of the underlying ordinary shares represented by those ADSs. 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 American depositary shares are released before shares are delivered to the depositary, or intermediaries in the chain of ownership between holders and the issuer of the security underlying the American depositary shares, may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. holders of American depositary shares. Such actions would also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain non-corporate U.S. Holders, as described below. Accordingly, the analysis of the creditability of Spanish taxes and the availability of the reduced tax rate for dividends received by certain non-corporate U.S. Holders, each described below, could be affected by future actions that may be taken by such parties.

This discussion assumes that BBVA is not, and will not become, a passive foreign investment company ("PFIC") (as discussed below).

Taxation of Distributions

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 ordinary shares or rights to subscribe for ordinary shares of BBVA's capital stock) will be includible in the income of a U.S. Holder as ordinary income, to the extent paid out of BBVA's current or accumulated earnings and profits as determined in accordance with U.S. federal income tax principles. Because we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, it is expected that distributions generally will be reported to U.S. Holders as dividends. The amount of such dividends will generally be treated as foreign-source dividend income and will not be eligible for the "dividends-received deduction" generally allowed to U.S. corporations under the Code. Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, dividends paid to certain non-corporate U.S. Holders will be taxable as "qualified dividend income" and therefore will be taxable at favorable rates applicable to long-term capital gains. U.S. Holders should consult their own tax advisors to determine the availability of these favorable rates in their particular circumstances.

The amount of dividend income will equal the U.S. dollar value of the euro received, calculated by reference to the exchange rate in effect on the date of receipt (which, for U.S. Holders of ADSs, will be the date such distribution is received by the depository), whether or not the depository or U.S. Holder in fact converts any euro received into U.S. dollars at that time. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder should not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. Holder may have foreign currency gain or loss if the dividend is converted into U.S. dollars after the date of receipt.

A scrip dividend (such as a dividend distributed under the "Dividend Option" program, described in "Item 4. Information on the Company—Business Overview—Supervision and Regulation—Dividends—Scrip Dividend") will be taxed in the same manner as a distribution of cash, regardless of whether a U.S. Holder elects to receive the dividend in shares rather than cash. If the U.S. Holder elects to receive the dividend in shares, the U.S. Holder will be treated as having received a distribution equal to the U.S. dollar fair market value of the shares on the date of distribution. The U.S. Holder's tax basis in such shares received will be equal to the U.S. dollar fair market value of the shares on the date of distribution and the holding period for such shares will begin on the day following the distribution.

Subject to applicable limitations that vary depending upon a U.S. Holder's circumstances and subject to the discussion above regarding concerns expressed by the U.S. Treasury, a U.S. Holder will be entitled to a credit against its U.S. federal income tax liability for Spanish income taxes withheld by BBVA or its paying agent at a rate not exceeding the rate the U.S. Holder is entitled to under the Treaty. Spanish taxes withheld in excess of the rate applicable under the Treaty will not be eligible for credit against the U.S. Holder's U.S. federal income tax liability. See *"Spanish Tax Considerations—Taxation of Dividends"* for a discussion of how to obtain the Treaty rate. The rules governing foreign tax credits are complex and, therefore, U.S. Holders should consult their tax advisors regarding the availability of foreign tax credits in their particular circumstances. Instead of claiming a credit, the U.S. Holder may, at its election, deduct such Spanish taxes in computing its U.S. federal taxable income. An election to deduct foreign taxes instead of claiming foreign tax credits must apply to all taxes paid or accrued in the taxable year to foreign countries and possessions of the United States.

Sale or Other Disposition of ADSs or Shares

For U.S. federal income tax purposes, gain or loss realized by a U.S. Holder on the sale or other disposition of ADSs or ordinary shares will be capital gain or loss in an amount equal to the difference between the U.S. Holder's tax basis in the ADSs or ordinary shares disposed of and the amount realized on the disposition, in each case as determined in U.S. dollars. Such gain or loss will be long-term capital gain or loss if the U.S. Holder held the ordinary shares or ADSs for more than one year at the time of disposition. Gain or loss, if any, will generally be U.S. source for foreign tax credit purposes. The deductibility of capital losses is subject to limitations.