

FONDO DE TITULIZACIÓN DE ACTIVOS SANTANDER PÚBLICO 1

SECURITIZATION BONDS

1,850,000,000 Euros

SERIES A: 1,813,000,000 Euros 3M EURIBOR + margin between 0.00 and 0.06%

SERIES B: 37,000,000 Euros 3M EURIBOR+ margin between 0.20% and 0.40%

BACKED BY LOAN RIGHTS ASSIGNED BY

 **Santander Central Hispano**
ENTITIES MANAGING THE ISSUANCE



 **Santander Central Hispano**

UNDERWRITER
DOMESTIC TRANCHE
SANTANDER CENTRAL HISPANO

UNDERWRITERS
INTERNATIONAL TRANCHE
DEPFA BANK PLC
SOCIETE GENERALE

Payment Agent

 **Santander Central Hispano**

Designed, Promoted and Managed by:

 **SANTANDER DE TITULIZACIÓN,**
S.G.F.T., S.A.

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CHAPTER 0

FORMATION OF FONDO DE TITULIZACIÓN DE ACTIVOS SANTANDER PÚBLICO 1 AND ISSUANCE OF SECURITIES AGAINST ITS ASSETS

1. THE FUND

1.1 Name and Formation

The Fund will be called FONDO DE TITULIZACIÓN DE ACTIVOS SANTANDER PÚBLICO 1 and will be formed by a public document under the provisions of Royal Decree 926/1998 and, for matters not contemplated therein, by the rules contained in Law 19/1992 and other applicable rules.

The formation of the Fund will occur after registration of this Information Brochure with the National Securities Market Commission.

1.2 The Managing Company

Santander de Titulización, Sociedad Gestora de Fondos de Titulización, S.A., is the promoter of the Fund, also responsible for representing it.

1.3. Time Limit on the Existence of the Fund

In any event, the Fund will be extinguished on 15 January 2037, or if that day is not a Working Day (as defined in Section II.10.1.d) of this Information Brochure), on the following Working Day.

2. FUND ASSETS

2.1 Loan Rights Contained in the Fund Assets

The Funds assets are comprised of loan rights assigned by Banco Santander Central Hispano, S.A. (the "Bank") in its capacity as Assignor, which appear in the balance sheet of the latter, derived from financing transactions entered into with municipalities, autonomous communities and entities belonging to them, documented in Mortgage Loans (secured by real estate mortgages) and Nonmortgage Loans, which it intends to remove from its balance sheet by means of assignment to the Fund. The

assignment will be documented in the Formation Document. In case of Loan Rights Arising from the Mortgage Loans it will be done within the Formation Document, which will contain the terms necessary to accomplish the assignment. In the case of Loan Rights Arising from Mortgage Loans, it will be done through issuance by the Assignor of Mortgage Transfer Certificates under the provisions of the Fifth Additional Provision of Law 3/1994, in accordance with the draft contained in Article 18 of 44/2002, to be subscribed by the Managing Company in representation of the Fund.

Detailed information regarding the Loan Rights and their assignment to the Fund is provided in Chapter IV of this Brochure.

2.2. Closed Nature of the Fund

The Fund will constitute a separate patrimony, lacking legal personality, and will be of a closed nature, which implies the absence of any modification of either the assets or the liabilities of the Fund from the time of its formation. Notwithstanding the foregoing, rules may be established for replacement and remediation of assets on the terms established in Article 3. 2 of Royal Decree 926/1998.

3. FUND LIABILITIES

The Fund liabilities are comprised of the negotiable securities issued by the Fund, and of the Subordinated Loan for Initial Expenses.

3.1. Securities

3.1.1. Characteristics:

- *Issuance Amount and Number of Bonds:* one billion eight hundred fifty hundred million (1,850,000,000) euros, comprised of eighteen thousand five hundred (18,500) Bonds, divided into two Series:
- *Series A:* comprised of eighteen thousand one hundred thirty (18,130) Bonds, with a total nominal amount of one billion eight hundred thirteen million (1,813,000,000) euros.

- **Series B:** comprised of three hundred seventy (370) Bonds, with a total nominal value of thirty seven million (37,000,000) euros.
- **Nominal Value:** 100,000 euros per Bond.
- **Issuance Price:** 100,000 euros per Bond, free of taxes and subscription expenses for the subscriber.
- **Redemption Price:** 100,000 euros per Bond, free of expenses for the bondholder.
- **Interest Rate:** three month EURIBOR + a margin between 0.00% and 0.06% for Series A Bonds, and three month EURIBOR + a margin between 0.20% and 0.40% for Series B Bonds, floating quarterly for all Series, in accordance with the provisions of Section II.10.1 of this Information Brochure.

For the first Interest Accrual Period, four month EURIBOR will be applied.

- **Interest and Principal Payment Period:** quarterly, on 15 January, 15 April, 15 July and 15 October.
- **First Payment of Interest:** 15 April 2005
- **Final Maturity Date:** 15 January 2037
- **Subscription Date:** 21 December 2004
- **Disbursement Date:** 22 December 2004

3.1.2. Credit Risk Ratings (“Ratings”):

- **Series A:** AAA (Fitch España) / Aaa (Moody’s España)
- **Series B:** A (Fitch España) / A2 (Moody’s España)

3.1.3. Organized Official Secondary Market where listing will be requested:

AIAF, Fixed Income Market.

3.1.4. Accounting Records for the Bonds:

The entity responsible for accounting records for the Bonds will be Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. (Iberclear), which will clear and settle Bond transactions.

3.2. Subordinated Loan

The Fund will have financing granted by a credit entity. In this regard, it is contemplated that the Managing Company, for the account of the Fund, will enter into a Subordinated Loan agreement for Initial Expenses with Banco Santander Central Hispano, S.A. The Subordinated Loan agreement for Initial Expenses, in an amount of twenty-eight million four hundred fifty thousand (28,450,000) euros will be used by the Managing Company to finance the expenses of formation of the Fund and issuance of the Bonds, to partially finance the acquisition of the Loan Rights, and to establish the Reserve Fund.

The net patrimonial value of the Fund will be ZERO at all times.

4. OTHER AGREEMENTS TO BE ENTERED INTO ON BEHALF OF THE FUND

In addition to the Subordinated Loan agreement for Initial Expenses referred to in 3.2 above, the Managing Company, on behalf of the Fund, will enter into the following agreements:

4.1 Agreement for Reinvestment at a Guaranteed Rate of the Treasury Account

Banco Santander Central Hispano, SA and the Managing Company, representing the Fund, will enter into the Agreement for Reinvestment at a Guaranteed Rate of the Treasury Account, whereby Banco Santander Central Hispano, SA will guarantee a yield for the amounts deposited by the Fund, in the financial account initially opened by the Managing Company in the name of the Fund, with Banco Santander Central Hispano, SA.

4.2. Underwriting Agreements for Placement of the Bonds

The Managing Company, representing and on behalf of the Fund, will enter into two agreements for management, underwriting and placement of the issuance, whereby the Underwriting Entities, regarding their respective tranches (Domestic and International), will proceed to open offering of the Bonds, for the contemplated amounts, and once the Subscription Period Is closed, will subscribe those Bonds that have not been subscribed.

4.3 Interest Swap Agreement

The Managing Company, on behalf of the Fund, will enter into an Interest Swap Agreement with Banco Santander Central Hispano, SA., basically responding to the need to mitigate the interest rate risk existing in the Fund because the Loan Rights are subject to variable interest rates with different reference indexes and different periods of adjustment and payment of the variable interest established for each of the Series of Bonds that are issued against the Fund.

5. FUND OPERATION

5.1. Representation and Management of the Fund

The Managing Company will manage and represent the Fund. In its capacity as a manager of third-party business, it will have the representation and the defence of the interests of the owners of the Bonds issued against the assets of the Fund and the other creditors of the Fund.

5.2. Delinquency/Prepayment of the Loan Rights.

The risk of delinquency and nonpayment, and of prepayment of the Loan Rights, will be for the account of the Bondholders. The priority of payments contained in Section V.5.2.1.1.2, is as follows:

The Managing Company, in the name of the Fund, on each Payment Date will apply the amount of the Available Funds to the following payments and withholdings, in accordance with the priorities described below:

1. Payment of ordinary and extraordinary expenses of the Fund stated merely by way of illustration in Section III.4.3 of this Brochure, whether or not paid by the Managing Company, duly justified, including the 0.025% per annum management fee in its favour calculated on the Unpaid Principal Balance of the Bonds). Within this priority only the expenses that have been advanced or paid to third persons for the account of the Fund and are to be returned, all duly justified, will be included in favour of the BANK with respect to management of the Loan Rights.
2. Payment to the Bank of the net amount owed by the Fund under the Swap Agreement, in accordance with the provisions of Section V.3.3. and, in the event of termination of that agreement for breach of the Fund, represented by the Managing Company, the liquidating payment for the Swap.
3. Payment of interest accrued on Series A Bonds
4. Payment of interest accrued on Series B Bonds.
5. Withholding of the Amount Accrued for Redemption, in accordance with the provisions of Section II.11.3, b), 4) of the Brochure.
6. Withholding of an amount sufficient to maintain the required Reserve Fund.
7. Payment, in the event of termination of the Swap Agreement for breach of the Bank, of the liquidating amount of that Swap Agreement.
8. Payment of accrued interest on the Subordinated Loan for Initial Expenses.
9. Repayment of the principal of the Subordinated Loan for Initial Expenses in an amount equal to amortization of the costs of formation of the Fund and issuance of the Bonds, in the given period.
10. Repayment of the principal of the Subordinated Loan for Initial Expenses in an amount equal to the difference between the amount of the balance required on the prior Determination Date and the current Determination Date for the Reserve Fund.

11. Payment to the Bank of the Fixed Fee for management of the Loans equal to six thousand (6000) euros per quarter, VAT included, until the Payment Date upon which total redemption of the issuance occurs, that is, 15 January 2037, inclusive (or until the Payment Date upon which early redemption of the issuance occurs).
12. Payment to the Bank of a variable amount as remuneration or compensation for the process of financial intermediation performed, equal to the difference between the accounting income and expenses for the Fund, on the corresponding Payment Date.

The Funds Available for Redemption, derived from the withholding to be made under point 5 of Section V.5.2.1.2. regarding priority of payments, will be used for that redemption, in accordance with the following rules:

- 1st Until the first Payment Date (exclusive) on which the Unpaid Principal Balance of the Series B Bonds becomes equal to or greater than 4% of the Unpaid Principal Balance of both Series, the Funds Available for Redemption will be used in their entirety for redemption of the Series A Bonds.
- 2nd Starting with the Payment Date on which the foregoing relationship becomes equal to or greater than 4%, the Funds Available for Redemption will be applied to redemption of both Series A and B, in such manner that the Unpaid Principal Balance of Series B Bonds represents 4% of the Unpaid Principal Balance of the Bonds of both Series.
- 3rd When the Unpaid Principal Balance of Series B Bonds reaches the amount of nine million two hundred and fifty thousand (9,250,000) euros, equivalent to 0.50% of the nominal amount of the issuance, redemption of Bonds of that Series will cease, all of the Funds Available for Redemption being destined to redemption of Series A Bonds, until their complete redemption.
- 4th And once total redemption of Series A Bonds has occurred, the redemption of Series B Bonds will recommence, and continue until their complete redemption.

Regarding Redemption of Series B Bonds, even if all of the assumptions contemplated in the preceding rules are satisfied, it will not take place if any of the following occurs:

- the Reserve Fund is not funded in the amount required (in accordance with the provisions of Section V.3.4);
- on the preceding Determination Date, the Current Balance of the Loan Rights that is delinquent by more than 90 days represents more than 1% of the Current Balance of the Loan Rights.

If on any Payment Date, as a consequence of the priority of payments contemplated in Section V.5.2.1.2. of this Brochure, the Fund does not have sufficient liquidity to carry out the indicated redemption of the Bonds, it will accumulate with the amount to be paid on the following Payment Date, the corresponding interest accruing on each Series A or B Bond, without any other interest or delay, since in any case it will be a part of the Unpaid Principal Balance of the Series A or B Bonds, as applicable.

Exceptional Rules regarding Priority of Payments from the Fund

If the Bank is replaced as Manager of the Loans by another entity that is not a part of the Bank's consolidated group, the new third-party Manager will earn a fee which will occupy the place covered by point 1 in the foregoing priority of payments, thereby modifying the numbering of the successive payments contained in the preceding point.

When the Accumulated Current Balance of the loans having delinquency greater than 18 months represents 8% of the initial amount of the portfolio, the payment of interest on Series B will be placed after payment of principal on Series A Bonds until total redemption thereof, in such manner that, once the Series A Bonds are fully redeemed, the ordinary rules regarding priority of payments will again be used.

6. RISKS OF THE FUND, THE BONDS AND THE LOAN RIGHTS

6.1 Early Redemption of Bonds and Early Liquidation of the Fund

Without prejudice to the Final Maturity Date of the Bonds (15 January 2037), the Managing Company may proceed to early liquidation of the Fund and, therefore, to early redemption of all of the Bonds on any Payment Date, when the unpaid balance of the Loan Rights is less than 10% of its initial balance, following the provisions of Section III.8.1 of this Brochure.

6.2 Nonpayment of Loan Rights

The owners of the issued Bonds will bear the risk of nonpayment of the Loan Rights.

The Assignor and the Managing Company assume no liability whatever for nonpayment by the debtors, nor do they assume any responsibility for guaranteeing the success of the transaction, nor will they issue guarantees or co-sign or enter into repurchase agreements.

6.3 Prepayment of the Loan Rights.

The Loan Rights contained in the Fund may be prepaid when the Debtors prepay the unpaid principal amount, on the terms contemplated in each of the contracts granting Loans from which the Loan Rights derive.

6.4 Liquidity

There is no guarantee that the Bonds will be traded in the market with a minimum frequency or volume. In addition, in no event may the Fund repurchase the Bonds from their owners, although they may be redeemed in advance as has been provided in Section 6.1 above.

6.5 Yield

The rate of early redemption of the Loan Rights may be influenced by various geographic, economic and social factors, such as seasonality, market interest rates, the distribution by sector of the portfolio and, in general, the level of economic activity.

The calculation of the internal rate of return and the average life and duration of the Bonds is subject to assumptions regarding rates of early redemption that may not be met.

7. ACTIONS

7.1. Actions against Debtors Obligated to Pay the Loan Rights.

7.1.1. The Fund, through the Managing Company, will have an executory action against debtors that breach their obligations to pay the Loan Rights.

7.1.2. The Fund will have an executory action against the Assignor if the breach of the obligation to pay the Bonds is not a result of the debtor's failure to pay.

7.1.3. Neither the Fund nor the bondholders will have any action against the Assignor or against the Managing Company, respectively, other than the action for failure to perform their respective functions, and never as a consequence of the existence of delinquency or early redemptions.

7.2. Liability of the Managing Company

If the Managing Company breaches its obligations, it will be liable to the holders of the Bonds and to the other creditors of the Fund for all damages deriving from that breach.

7.3. Actions in the Event of Nonpayment on Bonds Issued against the Fund

7.3.1 Owners of the Bonds will not have a direct action against the debtors of the Loan Rights that have breached their payment obligations, the Managing Company being the one having that action.

7.3.2. Owners of Bonds will not have any action against the Fund or against the Managing Company, in the event of nonpayment on the Bonds that is a consequence of nonpayment of a Loan Right by the debtor.

7.3.3. Owners of Bonds will not have any action against the Managing Company other than the one derived from breach of its own obligations, and never as a consequence of the existence of delinquency or prepayments of the Loan Rights.

CHAPTER I
PERSONS ASSUMING RESPONSIBILITY FOR THE CONTENT OF AND
AGENCIES SUPERVISING THE BROCHURE

I.1 PERSONS ASSUMING RESPONSIBILITY FOR CONTENT OF THE BROCHURE

I.1.1 First name, last names, D.N.I. [National Identity Document] or personal identification document and position or authority of individual or individuals who, as representatives of the Managing Company, assume responsibility for content of the Brochure.

Mr. Ignacio Ortega Gavara, with NIF [Tax Identification Number] No. 803,030-P, representing Santander de Titulización, Sociedad Gestora de Fondos de Titulización, S.A., (hereinafter the "*Managing Company*"), promoter of the FONDO DE TITULIZACIÓN DE ACTIVOS SANTANDER PÚBLICO 1 (hereinafter the "*Fund*"), assumes, on behalf of the Managing Company, responsibility for content of this brochure (hereinafter, without distinction, the "*Brochure*" or the "*Information Brochure*").

Mr. Ignacio Ortega Gavara acts in his capacity as General Manager of the Managing Company, by virtue of the powers conferred by the Board of Directors meeting of 31 July 1998, partially modified by resolution of 8 February 2000, and expressly for the formation of this Fund, by virtue of powers granted by the Board of Directors in its meeting of 27 September 2004.

Santander de Titulización, Sociedad Gestora de Fondos de Titulización, S.A., has its corporate domicile in Ciudad Grupo Santander, Avenida de Cantabria, without number, Boadilla del Monte, 28660 (Madrid). Its CIF [Tax Identification Code] is A-80481419.

The change of its name appears in the document granted before Madrid notary Mr. Roberto Parejo Gamir on 8 March 2004, with number 622 in his protocol, which was registered in the Commercial Registry at Volume 4789, Folio 95, Section 8, Page M-78658, Entry 30, which has been

appropriately notified to the National Securities Market Commission (hereinafter the "CNMV").

The Managing Company is authorized to form Assets Securitization Funds and, therefore, to manage and represent them under the provisions of Royal Decree 926/1998, of 14 May 1998, regulating Assets Securitization Funds and Companies Managing Securitization Funds (hereinafter "*Royal Decree 926/1998*"), by virtue of the authorization from the Ministry of Economy and Treasury dated 16 July 1998, granted in accordance with the requirements of the sole transitory provision of the Royal Decree.

I.1.2 Statement that in the judgment of this person or these persons the information contained in the Brochure is consistent with reality, and that no relevant information is omitted, nor does it lead to error.

Mr. Ignacio Ortega Gavara states that, to his best knowledge and belief, the data and information contained in the Brochure are truthful and there is no omission of relevant information or inducement to error.

I.2 SUPERVISING AGENCIES

I.2.1. Statement regarding registration of the issuance in the Official Registries of the National Securities Market Commission

This Brochure, in its entirety, was registered with the Official Registries of the CNMV on 14 December 2004.

The incorporation in the Official Registries of the CNMV of the audit reports and Brochure only implies recognition that they contain all information required by the rules governing their content, and in no event will result in liability of the CNMV for lack of truthfulness of information contained therein.

The registration of this Brochure by the National Securities Market Commission does not imply a recommendation of subscription of the securities referred to herein, nor a statement of any kind regarding the solvency of Banco Santander Central Hispano, S.A. in its capacity as assignor (hereinafter, without distinction, the "*Assignor*" or the

“*Assigning Entity*”), the solvency of the Fund or the yield or quality of the bonds issued by it.

I.3 REPORT REGARDING LOAN RIGHTS CONSTITUTING THE ASSETS OF THE FUND

Article 5 of Royal Decree 926/1998 provides, as a prior requirement for formation of the Fund and issuance of the Bonds, for the contribution, among others, of reports prepared by the managing companies or by the auditors of accounts or other independent experts with sufficient capacity, in the judgment of the CNMV, regarding the loan rights constituting the assets of the Fund. Attached to this Brochure as **Annex 4** is a report regarding the portfolio of Loan Rights that will comprise the majority of the assets of the Fund. This report has been prepared by Deloitte & Touche España, S.L., which is registered with the Official Registry of Auditors of Accounts ("ROAC") with number S0692, domiciled in Madrid, No. 65 Raimundo Fernández Villaverde Street.

The auditing of the Loan Rights covers a series of attributes, both quantitative and qualitative, of the indicated portfolio and, specifically: nature of the assigned debtor, identification of the assigned debtor, transfer of the assets, date of formalization of the loan, maturity date of the loan, original term, reference interest rate or index, interest rate differential, type of interest applied, current balance of the loan, late payments, ownership, bankruptcy status, policy for assigning risks, type of security and formalization of the mortgage guarantee.

The economic-financial characteristics of the Loan Rights and the balances, income, cash flows, conditions for collection, maturity dates and repayment systems referred to in Royal Decree 926/1998, in its Article 6.1.a), are set forth in Section IV.4 of this Information Brochure.

Furthermore, in accordance with Article 2.2 1st of Royal Decree 926/1998, the assignments of loans to the Fund are subject to the subjective requirement that the Assignor have audited accounts for the last three fiscal years, with a favourable opinion for the last period. Attached to this Information Brochure as **Annex 9** is the statement of the Assignor regarding this matter.

CHAPTER II
INFORMATION REGARDING SECURITIES ISSUED AGAINST THE
SECURITIZATION FUND

II.1 INFORMATION REGARDING NECESSARY PRECONDITIONS AND PRIOR RESOLUTION

II.1.1 Resolutions and Legal Requirements.

a) Corporate Resolutions.

Resolution for Assignment of Loan Rights:

The Executive Committee of the BANK resolved in its meeting of 22 November 2004 to assign to the Fund Loan Rights deriving from loans granted to the municipalities, autonomous communities and entities belonging to them. In its meeting of 13 December 2004 it adopted the change in the name of the Fund.

As **Annex 1** to this Brochure we attach a copy of the Certification of Resolutions of the Executive Committee of the BANK of 22 November 2004.

Resolution to Form the Fund.

The Board of Directors of SANTANDER DE TITULIZACIÓN, SGFT, S.A., in its meeting of 27 September 2004 resolved:

- a) Formation of the FONDO DE TITULIZACIÓN DE ACTIVOS SANTANDER PÚBLICO 1.
- b) Acquisition by the Fund of the Loan Rights assigned by the BANK.
- c) Issuance of the Bonds against the Fund.
- d) Execution of the Agreements by the Managing Company.

In its meeting of 2 December 2004 it adopted the change of name of the Fund.

As Annex 2 we attach a copy of the Certification of the Resolutions of the Board of Directors of the Managing Company of 27 September 2004..

b) Registration by the National Securities Market Commission.

The formation of the Fund and the issuance of the Bonds have as a prerequisite their registration with the Official Registries of the CNMV.

This Brochure was registered with the Official Registries of the CNMV on 14 December 2004.

c) Grant of the Public Document Forming the Fund.

After the date of registration with the CNMV of this Brochure, and within five (5) calendar days after that date, the Managing Company and the BANK will proceed to grant the Formation Document of the FONDO DE TITULIZACIÓN DE ACTIVOS SANTANDER PÚBLICO 1 (hereinafter the "*Formation Document*") and to issue the Securitization Bonds. The day when the Formation Document is granted will be the "*Formation Date*".

A copy of the Formation Document will be sent to the CNMV for incorporation in the Official Registries, prior to the opening of the period for subscription of the Bonds (hereinafter, and as defined in Section II.18.3 of this Brochure, the "*Subscription Period*").

The terms of the Formation Document will be the same as those contained in this Information Brochure.

Similarly, and pursuant to that Formation Document, the Managing Company, in the name and for the account of the Fund, will formalize:

- 1) The assignment of the Loan Rights Derived from Nonmortgage Loans, so that they may be acquired by the Managing Company in the name of the Fund and included therein.

- 2) The assignment of the Loan Rights Derived from Mortgage Loans, so that they may be acquired by the Managing Company in the name of the Fund and included therein by means of issuance, by the BANK, of certificates of mortgage transfer (hereinafter, the "*Mortgage Transfer Certificates*" or "*CTH*"), in accordance with the fifth additional provision of Law 3/1994, of 14 April 1994, in accordance with the draft given by Article 18 of Law 44/2002, of 22 November 2002, regarding Measures Reforming the Financial System (hereinafter "*Law 44/2002*"), by virtue of which the legislation applicable to mortgage participations, to the extent applicable, is extended to the issuance of Mortgage Transfer Certificates, so that they may be subscribed by the Managing Company, representing the Fund.

d) Representation of the Bonds

The Bonds issued against the Fund will be represented exclusively through account annotations and the Formation Document of the Fund will have the effects contemplated in Article 6 of the Securities Market Law, which provides that the document evidencing the representation of the Bonds through account annotations will be the issuance document.

II.1.2 Information regarding Preconditions and Prior Resolutions for Listing on the Exchange or the Organized Secondary Market.

The Managing Company, in representation and for the account of the Fund, immediately after the grant of the Formation Document, and once disbursement of the Bonds has occurred, will apply for listing of this issuance of Securitization Bonds with AIAF, Fixed Income Market (hereinafter "*AIAF*"), which is recognized as an official secondary securities market. It is expected that final listing with AIAF will occur not later than thirty (30) days after the disbursement date (hereinafter, and as defined in Section II.18.5 of this Brochure, the "*Disbursement Date*"). If that listing does not occur within the indicated term the Managing Company, in representation and for the account of the Fund, will publish that circumstance with an explanation of the reasons in a newspaper of

national circulation, without prejudice to the contractual liability that may arise for the Managing Company from the breach.

Further, the Managing Company will apply for registration of the Bonds with Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A (hereinafter "*Iberclear*") so that clearing and liquidation of the Bonds will be accomplished in accordance with the operating rules that, with respect to securities listed with AIAF and represented through account annotations, are established or in the future may be approved by Iberclear.

II.2 Prior Governmental Approval of the Issuance

No prior governmental approval is required, other than registration of this Brochure in the Official Registries of the CNMV.

The CNMV has not stated any warning or comment regarding the formation of the Fund and the issuance of the Bonds.

II.3 Evaluation of Risk Inherent in the Securities Issued against the Fund, Made by a Rating Agency Recognized by the National Securities Market Commission.

Article 2.3. b) of Royal Decree 926/1998 requires that the credit risk of the Bonds issued against the Fund be evaluated by a rating agency recognized by the CNMV.

The Managing Company has assigned evaluation of the credit risk of the Bonds to the international agencies Moody's Investors Service España, SA (hereinafter "*Moody's España*"), a Spanish company 100% owned by Moody's Investors Service Limited, and Fitch Ratings España, S.A., (hereinafter "*Fitch España*") a Spanish company that is a part of and operates in accordance with the methodology, criteria and quality control of Fitch Ratings Limited (both, without distinction, "*Fitch*"), (hereinafter Moody's Investors Service España, S.A. and Fitch Ratings España, S.A. are called the "*Rating Agencies*"), both being rating agencies recognized by the CNMV.

Rating Given to the Issuance of Bonds

Prior to registration of this Brochure, Moody's España has given the Bonds provisional ratings of Aaa for the Series A Bonds and A2 for the Series B Bonds (hereinafter the "*ratings*") and expects to assign the Series A Bonds a final Aaa rating and the Series B Bonds a final A2 rating, prior to commencement of the Subscription Period for the Bonds (as defined in Section II.18.3 of this Brochure).

Prior to registration of this Brochure, Fitch España has given the Bonds provisional ratings of AAA for the Series A Bonds and A for the Series B Bonds and expects to assign the Series A Bonds a final AAA rating and the Series B Bonds a final A rating, prior to commencement of the Subscription Period for the Bonds.

If any of the Rating Agencies, prior to commencement of the Subscription Period, does not confirm the Aaa/AAA and A2/A ratings of the Series A and B Bonds, respectively, this circumstance will be immediately communicated to the CNMV and made public in the manner contemplated in Section III.5.3, b), b") of this Brochure.

Lack of confirmation of the Aaa/AAA and A2/A ratings of the Series A and B Bonds, respectively, prior to commencement of the Subscription Period, will be the only basis for termination of formation of the Fund and issuance of the Loans.

In **Annex 3** of this Brochure are copies of the letters communicating the ratings from Moody's España and Fitch España.

Considerations regarding the Moody's España Rating.

The rating scales of Moody's Investors Service Limited, used by Moody's España, for issuances of long and short term debt are the following:

<i>Long Term</i>	<i>Short Term</i>
• Aaa	• Prime-1
• Aa	• Prime-2
• A	• Prime-3
• Baa	
• Ba	
• B	

<i>Long Term</i>	<i>Short Term</i>
• Caa	
• Ca	
• C	

Moody's España applies numerical modifiers 1, 2, and 3 to each generic rating category from Aa to Caa, in such manner that modifier 1 indicates that is in the upper band of each generic rating category, modifier 2 indicates the medium band and modifier 3 indicates issuances in the lower band of each generic category.

The Aaa rating of Moody's España corresponds to the highest quality of credit, the issuer being required to have a significant margin of security against all payment defaults under the most unfavourable economic conditions.

The Moody's España rating measures the expected loss prior to the Final Maturity Date of the Fund, and takes into account information provided regarding the Loans and the structure of the transaction as described in this Brochure, including the obligations of the Bank.

The structure allows for timely payment of interest and principal over the life of the transaction and, in any event, prior to the Final Maturity Date of the transaction.

Provisional ratings, as well as all revisions or suspensions thereof:

- are prepared by Moody's España based on the substantial information it receives. Moody's España does not guarantee its accuracy, nor that it is complete. Therefore Moody's España could not in any way be considered to be responsible for it.
- constitute an opinion and not a recommendation to acquire, sell or hold securities.

The ratings may be revised, suspended or withdrawn at any time by Moody's España based on any information of which it becomes aware. Such situations, which will not constitute bases for early redemption of the Fund, are immediately made known to both the CNMV and the

bondholders, in accordance with the provisions of Section III.5.3, b), b") of this Brochure.

To carry out the process of rating and tracking, Moody's España relies on the accuracy and completeness of the information provided to it by the Managing Company, the auditors, the attorneys and other experts.

Considerations Regarding Fitch Ratings

The rating scales of Fitch for issuances of long and short term debt are as follows:

Long Term	Short Term
AAA	
AA+	F1+
AA	
AA-	
A+	F1
A	
A-	F2
BBB+	
BBB	
BBB-	F3
BB+	
BB	
BB-	B
B+	
B	
B-	
CCC+	
CCC	
CCC-	C
CC	
C	
DDD	
DD	D
D	

The significance attributed by Fitch to the provisional rating assigned to this Issuance is described below.

Long Term

AAA Maximum Credit Quality. "AAA" ratings indicate an expectation of the lowest credit risk. They only are assigned in cases in which there is an exceptionally strong capacity to pay principal and interest on financial obligations in a timely manner. It is very unlikely that this capacity would be negatively affected by foreseeable events.

A High Credit Quality. "A" ratings indicate an expectation of low credit risk. The capacity for payment of principal and interest in a timely manner is strong. Nevertheless this capacity may be more vulnerable to changes in circumstances and economic conditions by comparison with higher ratings.

Fitch may add "+" or "-" to a rating to indicate a relative position within the rating categories. Nevertheless, they may not be added to a category "AAA" long term rating, to categories below "CCC" or to short term ratings other than F1.

Obligations of the Managing Company

The Managing Company, representing the Fund, undertakes to provide Moody's España and Fitch España with periodic information regarding the position of the Fund and the behaviour of the Loan Rights and, apart from the periodic terms, when reasonably requested of it and, in any case, when there is a change in the position of the Fund, the agreements entered into by It through its Managing Company or the interested parties.

In any event the Managing Company will use its best efforts to maintain the rating of the Bonds at their initial level, and if the rating decreases, to recover the indicated initial rating.

II.4 NATURE AND NAME OF THE SECURITIES OFFERED, INDICATING THE ISSUANCE NUMBER OR SERIES

The total amount of the issuance will be one billion eight hundred fifty million (1,850,000,000) euros, and will be comprised of eighteen thousand five hundred (18,500) Bonds.

This nominal amount is broken down into two Series of Bonds distributed as follows:

Series A: comprised of eighteen thousand one hundred thirty (18,130) Bonds, with a total nominal amount of one billion eight hundred thirteen million (1,813,000,000) euros.

Series B: comprised of three hundred seventy (370) bonds, with a total nominal value of thirty-seven million (37,000,000) euros.

Series B is subordinated, first in the payment of interest and then in payment of principal, to Series A, in accordance with the provisions in the priority of payments, contained in Section V.5.2.1.2 of this Information Brochure.

The subscription or holding of Bonds of one Series does not imply the subscription or holding of Bonds of the other Series.

The Bonds have the legal characterization of fixed income securities, homogenous, standardized and, therefore, susceptible of trading on organized securities markets.

II.4.1 Legal Regime of the Securities, Specifying the Procedures That Assure the Certainty and Effectiveness of the Rights of Their First and Subsequent Owners. Implications on the Financial Servicing of Each of the Series of Securities Issued against the Fund Arising from the Obligatory Link between the Schedule for Payment of Principal and Interest on Those Securities and Cash Flows and Collections Arising from the Assets Securitized through the Fund.

The formation of the Fund and issuance of the Bonds against it are covered by Royal Decree 926/1998 and by Law 19/1992, to the extent not contemplated in Royal Decree 926/1998, and to the extent it applies, by

Law 3/1994, of 14 April 1994, which adapts Spanish legislation regarding credit entities to the Second Directive of Banking Coordination, and introduces other modifications regarding the financial system ("Law 3/1994"), Law 44/2002 (in particular, its Article 18), Law 24/1988, of 28 July 1988, regarding the Securities Market (hereinafter the "*Securities Market Law*") and the other legal and regulatory provisions in effect that are applicable from time to time.

Bond owners are identified as such as appears from the accounting records maintained by Iberclear in accordance with the provisions of Section II.5 of this Chapter, it being able to issue certificates of ownership at the request of the owners of the Bonds at their cost.

The Bonds may be freely transferred by any means permitted by law. Ownership of each Bond is transferred by accounting entries. Registration of the transfer in favour of the acquirer produces the same effects as transfer of the certificates and, from that point forward, the transfer may be enforced against third persons.

In order to consolidate its financial structure and achieve the greatest coverage possible for the risks inherent in the issuance, the Managing Company, representing the Fund, will proceed to formalize, among others, the agreements identified below. It may, in order to achieve operation of the Fund on the terms contemplated in the Formation Document and in the rules in force from time to time, extend or modify these agreements, replace each of those rendering services to the Fund thereunder and even, if necessary, enter into additional agreements, after notification to the Rating Agencies, provided that doing so does not prejudice the rights of the holders of the Bonds and, in particular, provided that it does not result in withdrawal of or a reduction in the ratings of the Bonds.

The Managing Company will formalize with the BANK, among others, the following agreements:

- (i) Subordinated Loan for Initial Expenses, which will be used to finance the expenses of formation of the Fund and issuance of the Bonds, to partially finance the acquisition of the Loan Rights and to establish the Reserve Fund;

- (ii) Interest Swap Agreement, consistent with the terms published by the International Swaps and Derivatives Association, Inc. (hereinafter “ISDA”) and within the framework of a 1992 ISDA Master Agreement;
- (iii) Agreement for Reinvestment at a Guaranteed Rate of the Treasury Account, whereby the BANK will guarantee variable yield on the amounts deposited by the Fund through the Managing Company in the Treasury Account.

The Managing Company, in representation and for the account of the Fund, will enter into the Agreement for Management, Underwriting and Placement of the National Tranche with the underwriting entity, and the Agreement for Underwriting and Placement of the International Tranche with the underwriting entities, as those agreements are defined in Section V.4.1 of this Brochure.

II.4.2 Other Implications and Risks.

a) Risk of Nonpayment of the Loan Rights.

The owners of the Bonds issued against the Fund will run the risk of nonpayment of the Loan Rights contained therein.

Therefore, the Assignor, in accordance with the criterion established by Article 348 of the Commercial Code, is liable to the Fund only for the existence and genuineness of the Loan Rights and the capacity in which it makes the assignment, but it does not assume any liability whatever for nonpayment by the debtors, whether principal, interest or any other amount which they may owe by virtue of the Loan Rights. Nor will it in any other way assume responsibility for directly or indirectly guaranteeing the success of the assignment, nor grant guarantees or co-signatures, nor enter into repurchase agreements, except for the provisions regarding Loan Rights that, on the Formation Date, do not meet the conditions and characteristics contained in Section IV.1, a), b.2), b.3) and b.4) of this Information Brochure, in accordance with the provisions thereof.

b) Risk of Prepayment of the Loan Rights.

The Loan Rights contained in the Fund may be prepaid when the Debtors prepay the unpaid principal amount, on the terms contemplated in each of the contracts granting Loans from which the Loan Rights derive.

c) Limited Liquidity.

There is no guarantee that the Bonds will be traded on the market with a minimum frequency or volume.

There is no commitment to intervene in the secondary market by any entity, providing liquidity to the Bonds through offers of purchase.

In addition, in no case may the Fund repurchase the Bonds from the holders thereof, although they may be fully redeemed in advance, in the case of Early Liquidation of the Fund, on the terms established in Section III.8.1 of this Brochure.

d) Yield.

The calculation of the internal rate of return, the average life and the duration of the Bonds are subject, among other things, to assumptions regarding rates of prepayment of the Loan Rights that may not be met, as well as future interest rates in the market, given the variable nature of the nominal interest rates.

e) Other Considerations

e) 1. Limited Information

This Brochure does not include information regarding the relationship between the appraisal value of the assets mortgaged to secure the Loan Rights Derived from Mortgage Loans and the current balance corresponding to the Mortgage Loans they secure.

e) 2. Liability.

The Bonds issued by the Fund do not represent an obligation of the Managing Company or the Assignor. The cash flow used to satisfy obligations arising from the Bonds is insured or guaranteed only

under the specific circumstances and within the limits indicated in this Brochure. With the exception of these guarantees, there are none granted by any public or private entity, including the Assignor, the Managing Company, and any subsidiary of any of them or company in which any of them has an interest. The Loan Rights contained in the Fund and the rights deriving therefrom are the only source of income of the Fund and, therefore, the only source for payment of liabilities to the owners.

e) 3. Protection.

An investment in Bonds may be affected, among other things, by a deterioration in general economic conditions having a negative effect on payments of the Loan Rights that support the issuance of the Fund. If nonpayments reach a high level, the protection against losses in the Loan portfolio enjoyed by the Bonds as a result of the existence of the credit enhancements described in Section V.3. of this Brochure may be reduced, or even eliminated. Notwithstanding the preceding considerations, the owners of the Bonds have their risk mitigated by the priority of payments described in Section V.5.2.1.2 of this Brochure and in the order of priority of liquidation payments described in Section III.8.1. .

f) Hidden Defects.

With respect to Loan Rights replaced by reason of hidden defects, if the current balance of the replacement loan right is less than that of the replaced Loan Right, the BANK must reimburse the Fund for the difference, taking into account the nominal value, the corresponding accrued and unaccrued interest, as well as any unpaid amounts related to that Loan Right, by credit to the Treasury Account on the corresponding date rather than applying it to redemption of the Bonds. This amount will be applied following the order of priority of payments established in Section V.5.2.1.2.

If the referenced replacement cannot take place or is not carried out within a term of five (5) Working Days, the Managing Company must assign the Loan Right affected by the hidden defect, the BANK, in that case, being required to reimburse the

Fund for the current balance thereof, together with the corresponding accrued interest not yet due, as well as any unpaid amounts related to that Loan Right, by credit to the Treasury Account, rather than applying it to redemption of the Bonds. This amount will be applied following the order of priority of payments established in Section V.5.2.1.2.

II.5 FORM OF REPRESENTATION AND NAME AND DOMICILE OF THE ENTITY RESPONSIBLE FOR THEIR ACCOUNTING RECORDS.

The Bonds will be represented by account annotations, in accordance with the provisions of Royal Decree 926/1998, Law 19/1992 and Royal Decree 116/1992, and will exist as such by virtue of their registration in the corresponding accounting records. In this regard it is noted that the Formation Document will have the effects contemplated in Article 6 of the Securities Market Law, modified by Law 37/1998 and Law 44/2002.

The owners of the Bonds will be identified as such as appears in the accounting records maintained by Iberclear, which will be designated as the entity responsible for the indicated registration in the Formation Document, so that it may clear and liquidate the Bonds in accordance with the operating rules that Iberclear may have established or may approve in the future regarding securities listed for trading on AIAF and represented by account annotations

In the Central Registry maintained by Iberclear the following will be maintained for each participating entity: a) an account reflecting the balance of the Bonds of which each participating entity is the owner from time to time, and b) another account reflecting the global balance of the Bonds that each participating entity has registered in its accounts in the name of third persons.

In the accounting records for the participating entities, the corresponding accounts will be maintained for each owner of the Bonds, at all times stating the balance belonging to it.

The domicile of Iberclear is in Madrid, No. 8 Pedro Teixeira Street.

II.6 NOMINAL AMOUNT OF THE SET OF SECURITIES ISSUED AGAINST THE FUND, NUMBER OF SECURITIES COVERED, AND

NUMBERING THEREOF, IF ANY, BROKEN DOWN BY THE VARIOUS SERIES OF WHICH THEY CONSIST.

The total amount of the issuance will be one billion eight hundred fifty million (1,850,000,000) euros, and will be comprised of eighteen thousand five hundred (18,500) bonds (the "Bonds").

This nominal amount is broken down into two Series of Bonds distributed as follows:

- **Series A:** comprised of eighteen thousand one hundred thirty (18,130) Bonds, with a total nominal amount of one billion eight hundred thirteen million (1,813,000,000) euros ("**Series A**" or the "**Series A Bonds**").
- **Series B:** comprised of three hundred seventy (370) Bonds, with a total nominal value of thirty-seven million (37,000,000) euros ("**Series B**" or the "**Series B Bonds**" and, together with Series A, the "**Series**").

Series B is subordinated, first in the payment of interest and then in payment of principal, to Series A, in accordance with the provisions in the order of priority of payments and in the order of priority of liquidating payments, contained in Sections V.5.2.1.2 and III.8.1 of this Information Brochure, respectively.

The subscription or holding of Bonds of one Series does not imply the subscription or holding of Bonds of the other Series.

II.7 NOMINAL AND EFFECTIVE AMOUNTS OF EACH SECURITY

The price of issuance of the Bonds, of each Series, will be one hundred thousand (100,000) euros per Bond, free of taxes and subscription expenses for the subscriber.

The expenses and taxes inherent in the subscription will be for the account of the Fund.

The disbursement price for the Bonds will be one hundred thousand (100,000) euros per Bond, equivalent to their nominal value, free of expenses for the bondholder, payable progressively on each Payment Date.

II.8 RELATED FEES AND EXPENSES OF ALL KINDS THAT, OF NECESSITY, MUST BE DISBURSED BY THE INVESTORS UPON SUBSCRIPTION OF THE SECURITIES ISSUED AGAINST THE FUND

The issuance price indicated above will be free of taxes and subscription expenses for the subscriber.

II.9 STATEMENT, IF APPLICABLE, OF THE EXISTENCE OF ANY FEES FOR THE ACCOUNT OF THE HOLDERS OF THE SECURITIES ISSUED AGAINST THE FUND, OF NECESSITY REPRESENTED BY ACCOUNT ANNOTATIONS, FOR REGISTRATION AND MAINTENANCE OF THE BALANCE.

The fee earned for inclusion of the Bonds in the Central Registry of Iberclear will be for the account of the Fund and will not be passed on to the bondholders, and there is no fee whatever for maintenance of the balance.

The entities participating in Iberclear may, in accordance with applicable legislation, establish such fees and expenses, to be passed on to the holder of the Bonds for management of securities, as they freely determine and that, at the appropriate time, have been notified to the Bank of Spain or the CNMV as the agency supervising them.

II.10 INTEREST RATE CLAUSE.

II.10.1 Nominal Interest Rate.

All Bonds will accrue variable annual nominal interest, payable quarterly, which will be the result of applying the criteria stated below.

The resulting interest rate will be paid quarterly on each Payment Date, described in Section II.10.3 below on the Unpaid Principal Balance of the Bonds of each Series (described in Section II.11.3, b), 3).

The withholdings, contributions and taxes established or that are established in the future on principal, interest or yield of the Bonds will be exclusively for the account of the bondholders, and the amounts will be deducted, if applicable, by the Managing Company, acting for the account of the Fund, in the legally established manner.

a) Accrual.

The term of this issuance therefore will be divided into successive interest accrual periods (hereinafter "*Interest Accrual Periods*") comprised of the days between each Payment Date described in Section II.10.3 of this Brochure, including the Initial Payment Date in each Interest Accrual Period, and excluding the Final Payment Date (with the exception of the first Interest Accrual Period, which will have a term greater than the quarter equivalent to the period between the Disbursement Date (included) described in Section II.18.5 and the first, but excluded, Payment Date), calculated on the basis of a 360 day year.

b) Reference Interest Rate.

The nominal interest rate accrued on the Bonds for each Interest Accrual Period will be the result of adding: (i) the reference interest rate, three (3) month EURIBOR or, if necessary, its replacement, described in paragraph c) below (the "*Reference Interest Rate*"), and (ii) a margin:

1. It will be between 0.00% and 0.06% for Series A Bonds,
2. It will be between 0.20% and 0.40% for Series B Bonds.

all rounded to the nearest thousandth of one percent.

The definitive margins applicable to Series A and B, respectively, will be fixed and communicated to the Managing Company, on the Formation Date (17 December 2004), by the Managing Entities, before 9:00 a.m. (C.E.T.). The Managing Company will also communicate them to the CNMV as additional information. In the absence of the communication to be made by the Managing Entities, the Managing Company will fix the margin of Series A at 0.05%, and the margin of Series B at 0.30%.

c) Determination of EURIBOR.

- (i) The EURIBOR rate ("Euro Interbank Borrowing Offered Rate"), is the reference rate of the market for money in euros, in deposits with three (3) month maturities. The three (3) month EURIBOR rate will be the

one appearing on the REUTERS screen, the “EURIBOR01” page (or any other page that may replace it in providing the service), at 11:00 AM C.E.T. (Central European Time, for Brussels, Central Europe) at the Time for Fixing the Rate described below. REUTERS screen, “EURIBOR01” page on the REUTERS MONITOR MONEY RATES SERVICE.

For the First Interest Accrual Period the four (4) month EURIBOR appearing on the REUTERS screen, the “EURIBOR01” page, will be applied on the same terms indicated in the preceding paragraph.

(ii) In the absence of rates as provided in paragraph (i) above, the applicable Reference Rate will be the interest rate resulting from computing the simple arithmetic average of the interbank offered rates for three (3) month deposits in euros (EURIBOR) at the Time of Fixing the Rate, of the entities identified below:

- Banco Santander Central Hispano, S.A., London Branch.
- Bank of America N.T. & S.A., London Branch.
- J.P. Morgan Securities Ltd.

For the First Interest Accrual Period, the Reference Rate will be calculated as the interest rate resulting from computing the simple arithmetic average of the interbank offered rates for four (4) month deposits in euros (EURIBOR) at the Time of Fixing the Rate, of the entities identified above.

All rounded to the nearest thousandth of one percent.

If it is not possible to apply the preceding reference interest rate because one of the Entities, on a continuing basis, does not supply quotes, the applicable interest rate will be the one resulting from applying the simple arithmetic average of the interest rates stated by the two remaining Entities, all rounded to the nearest thousandth of one percent.

And if one of the two (2) entities mentioned above on a continuing basis does not supply quotes, the nominal interest rate applicable to the last Interest Accrual Period will be applied, and likewise for

successive Interest Accrual Periods so long as that impossibility remains.

If two (2) of the Banks indicated above recommence quotation, the replacement reference rate will again be applied in accordance with the preceding rules

The Managing Company will save the REUTERS screen or, if applicable, the quotes stated by the entities identified in this section, as documents evidencing the determined EURIBOR rate.

d) Time of Fixing the Rate.

The nominal interest rate applicable to the Bonds for each Interest Accrual Period will be determined by the Managing Company, in representation and for the account of the Fund, on the second Working Day, pursuant to the TARGET (Transeuropean Automated Real-time Gross Settlement Express Transfer System) calendar, prior to each Payment Date, at 11:00 AM (C.E.T.) on that day (hereinafter the "*Time of Fixing the Rate*"), and will be applied for the following Interest Accrual Period.

The nominal interest rate of the Bonds for the First Interest Accrual Period will be determined in the manner contemplated in paragraph c) above, based on the reference rate established in that paragraph, existing at 11:00 AM (C.E.T.) on the date of grant of the Formation Document or, if that is a holiday on the TARGET calendar, the immediately preceding Working Day, It will be communicated to the public in general in the announcement of formation of the Fund and issuance of the Bonds through publication in a newspaper of broad circulation in Spain, on the calendar day following the Formation Date.

The nominal interest rates determined for all Series of Bonds for the successive Interest Accrual Periods will be communicated to the owners of the Bonds within the term and in the manner contemplated in Section III.5.3. of this Brochure.

For purposes of this issuance, all of the following will be considered to be Nonworking Days:

- (i) Saturday,
- (ii) Sunday,
- (iii) holidays according to the TARGET calendar (solely for purposes of determining the nominal interest rate applicable for each Interest Accrual Period), which include, in addition to the days recognized in (i) and (ii) above, January 1, Holy Friday, Easter Monday, May 1, December 25 and December 26.
- (iv) holidays in the Province of Madrid (for purposes of determination of the nominal interest rate applicable to each Interest Accrual Period and for the rest of the conditions of issuance).

And Working Days will be considered to be all those not included within paragraphs (i), (ii), (iii) with the limitation contemplated therein and (iv) (hereinafter the “*Working Days*”).

e) Table Showing Evolution of Reference Interest Rate to Be Used.

Merely for purposes of illustration, information is included below regarding three (3) month EURIBOR rates, supplied by REUTERS, on the indicated dates, as well as the rates that would be applicable to the two Series of Bonds:

The margin used as a reference in the following table consists of the margin that the Managing Company would fix on the assumption that the Managing Entities did not communicate the definitive margins in accordance with the provisions of Section II.10.1 b) above.

Dates	EURIBOR (3 months)	Series A Bonds	Series B Bonds
11 March 2004	2.058%	2.108%	2.358%
13 April 2004	2.038%	2.088%	2.338%
13 May 2004	2.093%	2.143%	2.393%
11 June 2004	2.112%	2.162%	2.412%
13 July 2004	2.115%	2.165%	2.415%
12 August 2004	2.114%	2.164%	2.414%
13 September 2004	2.116%	2.166%	2.416%
26 October 2004	2.147%	2.197%	2.447%
22 November 2004	2.177%	2.227%	2.477%

II.10.2 Simple Statement of the Order Number in the Priority of Payments of the Fund Occupied by Payments of Interest on Securities Issued against the Fund.

Payment of interest accrued on Series A Bonds occupies third (3rd) place, and payment of interest on Series B Bonds occupies fourth (4th) place in the priority of payments established in Section V.5.2.1.2. of this Brochure, unless they are within the special rules defined in Section V.5.3. of this Brochure, except in the case of early liquidation of the Fund.

Payment of interest accrued on Series A Bonds occupies third (3rd) place, and payment of interest on Series B Bonds occupies fifth (5th) place in the order of priority of liquidation payments established in Section III.8.1 of this Brochure

II.10.3 Dates, Place, Entities and Procedure for Payment of Interest.

Interest on Bonds of all Series will be paid on January 15, April 15, July 15 and October 15 of each year, or on the first following Working Day (each of them hereinafter a "*Payment Date*") until their full redemption (that being by means of the procedure indicated in Section II.13, first paragraph of this Information Brochure).

If the 15th day of any of the indicated months is not a Working Day (as described in Section II.10.1, d) above) interest will be paid on the immediately following Working Day in Madrid, accruing the interest corresponding to the Interest Accrual Period described in Section II.10.1, a) of this Brochure until the indicated first Working Day, not inclusive.

The first interest payment for the Bonds of each Series will be on 15 April 2005. In this case, interest will accrue at the corresponding nominal interest rate from the Disbursement Date (22 December 2004) for the subscribers contemplated in Section II.18.5, inclusive, until 15 April 2005, not inclusive.

Interest payable on each Payment Date for each Interest Accrual Period will be calculated in accordance with the following formula:

$$I=P*R/100*d/360$$

Where:

- I= Interest payable on a given Payment Date.
- P= Unpaid Principal Balance of the Bonds on the starting date of the Determination Period corresponding to that Payment Date.
- R= Nominal interest rate expressed as an annual percentage.
- d= Number of days corresponding to each Interest Accrual Period..

Both the resulting interest in favour of the holders of the Bonds, calculated as contemplated above, and the amount of accrued and unpaid interest, will be communicated to the holders of the Bonds in the manner described in Section III.5.3., at least one (1) calendar day prior to each Payment Date.

Accrued interest on Funds will be paid each Payment Date, provided that the Fund has sufficient liquidity to do so in the Treasury Account, in accordance with the priority of payments contemplated in Section V.5.2.1.2. of this Brochure and the priority of liquidation payments contemplated in Section III.8.1 of this Brochure, as applicable.

If on a Payment Date the Fund cannot make total or partial payment of interest accrued on the Bonds of any Series, in accordance with the priority of payments established in Section V.5.2.1.2. of this Brochure, the amounts that the owners of the Bonds have not received will be paid on the following Payment Date on which, in accordance with the indicated priority of payments, the Fund has sufficient liquidity to do so.

With respect to Series A and B, the amounts of deferred interest will accrue, in favour of the owners, interest equal to that applied to the Bonds of their respective Series during the Interest Accrual Period(s) until the Payment Date on which they are paid, without delinquency interest and without that implying capitalization of the debt.

The financial servicing for the issuance of Bonds will be performed through the BANK, which will act as the payment agent (hereinafter also the "*Payment Agent*").

The Fund, through the Managing Company, may not defer payment of interest on the Bonds of the Series beyond 15 January 2037, the Final Maturity Date of the Bonds, or the following Working Day.

In order to facilitate understanding by the subscriber of the system for fixing the applicable nominal interest rate and the amount of interest to be received for each Bond on each Payment Date, a practical case by way of example is included in Section II.10.1.e) of the Brochure, as are Theoretical Tables of the Financing Service of the Loan.

II.11 REDEMPTION OF BONDS.

II.11.1 Redemption Price.

The redemption price for Bonds of all Series will be one hundred thousand euros (€100,000) per Bond, equivalent to one hundred percent (100%) of its nominal value, payable as contemplated in Section II.11.3 below.

II.11.2 Simple Statement of the Order Number in the Priority of Payments of the Fund Occupied by Payments of Principal on Securities Issued against the Fund, and Specific Indication of the Section and Pages of This Brochure Where the Rules for Priority of Payments from the Fund Are Described, Specifically Those That Affect the Payments of Principal on Those Securities.

The payment of principal on Bonds of Series A and B occupies fifth (5th) place in the priority of payments established in Section V.5.2.1.2. of this Brochure.

Payment of principal on Series A Bonds occupies 4th place in the order of priority of liquidation payments contemplated in Section III.8.1 of this Brochure.

Payment of principal on Series B Bonds occupies 6th place in the order of priority of liquidation payments contemplated in Section III.8.1 of this Brochure.

II.11.3 Methods for Redemption, Specifying the Dates, Place, Entities, Procedure and Publicity Thereof.

a) Final Redemption.

The final legal maturity date (hereinafter the "*Final Maturity Date*"), and therefore the definitive redemption of the Bonds of all Series, is 15 January 2037 or the following Working Day, without prejudice to the Managing Company, representing the Fund, and in accordance with the provisions of paragraph c) below, proceeding to early redemption of this issuance, in which case the Payment Date on which that is to occur will be the definitive redemption date of the Bonds.

b) Partial Redemption.

Notwithstanding the foregoing the Fund, through the Managing Company, will effectuate partial redemptions of the Bonds of all Series, on the terms described below.

1 Redemption Payment Dates

They will coincide with interest Payment Dates, that is, January 15, April 15, July 15 and October 15 of each year (or the following Working Day, as described in section II.10.3 of the Information Brochure), until their total redemption.

The first redemption payment on the Series A Bonds will be on 15 April 2005, in accordance with the rules contained in that Section.

The first redemption payment on Series B Bonds will be on the Payment Date on which the Unpaid Principal Balance of the Series B Bonds becomes equal to or greater than 4% of the Unpaid Principal Balance of both Series of Bonds (subject to the provisions regarding redemption of Bonds of that Series B in paragraph 6 below, and in Section V.5.2 of this Information Brochure).

2. Determination Dates; Determination Periods.

They will be the dates that the Managing Company, in the name of the Fund, makes the calculations necessary to distribute or withhold the Available Funds existing on those dates, in accordance with the priority of payments described in Section V.5.2.1.2. of this Brochure.

The "Determination Date" will be the date corresponding to the fifth (5th) Working Day prior to each Payment Date and will delimit the successive periods between the indicated Determination Dates, which will be called "Determination Periods", including in each Determination Period the initial Determination Date, and excluding the final one.

By way of exception, the first Determination Period will run from the Disbursement Date described in Section II.18.5 to the first Determination Date.

3. Unpaid Balances of Series A and B Bonds

They will be the current balances of the Bonds of the two series, including in those balances the Amounts Accrued for Redemption, as described below in point 4, on prior Payment Dates, and not paid by reason of insufficiency of Available Funds, in accordance with the priority for payments contained in Section V.5.2.1.2. of the Information Brochure. The "***Unpaid Principal Balance of the Bonds***" any given time will be the sum of the principal amounts to be redeemed (current balance) of all Bonds comprising the issuance.

4. Amount Accrued for Redemption on Each Payment Date

The amount accrued for redemption of the Bonds of the two Series, without distinction between them (the "***Amount Accrued for Redemption***"), will be equal to the difference (if positive) between the sum of the Unpaid Principal Balance of the Bonds on the Determination Date prior to each Payment Date and the Current Balance of the Loan Rights that have no payment delinquent for more than eighteen (18) months (as described in the following paragraph).

The "***Current Balance of the Loan Rights***" will be understood to be the unaccrued principal amount and the accrued principal amount not paid to the Fund on all Loans on a given date.

5. Cash Amount to Be Paid for Redemption on Each Payment Date, and Redemption Deficit

The amount that may be effectively withheld in the fifth (5th) place of the Order of Priority of Payments on a Payment Date (which will be the lesser of the Amount Accrued for Redemption and the Available Funds remaining after covering the first four (4) positions in the Order of Priority of Payments) will represent the "Funds Available for Redemption" on that Payment Date .

The "Redemption Deficit" on a Payment Date will be understood to be the difference between the Amount Accrued for Redemption and the Funds Available for Redemption on the Payment Date.

6. *Distribution of Funds Available for Redemption among Bonds of each Series*

The Funds Available for Redemption, derived from the withholding to be made under point 5 of Section V.5.2.1.2. regarding priority of payments, will be used for that redemption, in accordance with the following rules:

1st Until the first Payment Date (exclusive) on which the Unpaid Principal Balance of the Series B Bonds becomes equal to or greater than 4% of the Unpaid Principal Balance of both Series of Bonds, the Funds Available for Redemption will be used in their entirety for redemption of the Series A Bonds.

2nd Starting with the Payment Date on which the foregoing relationship becomes equal to or greater than 4%, the Funds Available for Redemption will be applied to redemption of both Series A and B, in such manner that the Unpaid Principal Balance of the Series B Bonds represents 4% of the Unpaid Principal Balance of the Bonds of both Series.

3rd When the Unpaid Principal Balance of Series B Bonds reaches the amount of nine million two hundred and fifty thousand (9,250,000) euros, equivalent to 0.50% of the nominal amount of the issuance, redemption of Bonds of that Series will cease, all of the Funds Available for Redemption being destined to redemption of Series A Bonds, until their complete redemption.

4th And once total redemption of Series A Bonds has occurred, the redemption of Series B Bonds will recommence, and continue until their complete redemption.

Regarding Redemption of Series B Bonds, even if all of the assumptions contemplated in the preceding rules are satisfied, it will not take place in any of the following circumstances:

- if the Reserve Fund is not funded in the required amount (in accordance with the provisions of Section V.3.4);
- if, on the preceding Determination Date, the Current Balance of the Loan Rights with amounts delinquent for more than 90 days represents more than 1% of the Current Balance of the Loan Rights.

If on any Payment Date, as a consequence of the priority of payments contemplated in Section V.5.2.1.2. of this Brochure, the Fund does not have sufficient liquidity to carry out the indicated redemption of the Bonds, it will accumulate with the amount to be paid on the following Payment Date, the corresponding interest accruing on each Series A or B Bond, without any other interest or delay, since in any case it will be a part of the Unpaid Principal Balance of the Series A or B Bonds, as applicable.

The Managing Company will notify the owners of the Bonds in the manner contemplated in Section III.5.3. of the resulting amount of redemption in their favour, the Unpaid Balances of the Bonds, the Redemption Deficit, if any, not paid by reason of insufficiency of Available Funds, as well as the actual prepayment rates of the Loan Rights and the average remaining life of the Bonds.

7. Certifications

Within the seven (7) Working Days following each Payment Date, the Managing Company will issue a certificate of a person with sufficient authority, stating the Unpaid Balances of the Bonds, the Redemption Deficit not paid by reason of insufficiency of Available Funds, as contemplated in this Section, as well as the amount of interest accrued and not paid to the bondholders, if any, as provided in Section II.5.2 of this Information Brochure.

The certification will be presented to the National Securities Market Commission, to the entity responsible for the accounting registry and to the Managing Body of AIAF, to be made available to the public.

c) Early Redemption.

The Managing Company has authority, after notice to the CNMV, on a Payment Date, to proceed with early liquidation of the Fund and, therefore, with early redemption of all of the issuance of the Bonds, in the following cases:

- (i) On the date that the Current Balance of the Loan Rights is less than ten percent (10%) of the initial balance of the Loan Rights, provided that sale of the Loan Rights pending repayment, together with the then-existing balance of the Treasury Account, allows total payment of all obligations pending to the owners of the Bonds, respecting the payments prior thereto of higher rank in the priority of payments as provided in Section V.5.2.1.2 of this Brochure;
- (ii) When by reason of the modification of the applicable rules or the occurrence of exceptional circumstances there is, in the judgment of the Management Company, a substantial alteration in the financial equilibrium of the Fund, or it is permanently impaired;
- (iii) In the circumstances contemplated in Article 19 of Royal Decree 926/1998, which establishes the obligation to liquidate the Fund in advance if four (4) months have passed after occurrence of an event requiring obligatory replacement of the Managing Company, because it has been declared to be in bankruptcy, without having found a new managing company willing to take over management of the Fund;
- (iv) When there is nonpayment indicating a serious and permanent disequilibrium with respect to any of the Bonds or any unsubordinated loan, or it is foreseeable that it will occur.

- (v) Once a maximum of fifty-four (54) months have elapsed since the last maturity date of the Loan Rights.

The following will, therefore, be necessary requisites for proceeding to early liquidation of the Fund:

- (i) that all payment obligations may be met and paid in their totality,
- (ii) and that the owners of the Bonds are notified in the manner contemplated in Section III.5.3, b), b") and c) thirty (30) Working Days in advance of the date the early redemption is to occur, which necessarily must be a Payment Date. This notice (which must be made known to the National Securities Market Commission in advance) will contain the procedure described below, regarding the mechanisms for obtaining sufficient liquidity in order to be able, in any case, to meet and pay all of the payment obligations derived from the Bonds. The early redemption must necessarily be of all of the Bonds.

The early redemption of all of the Bonds, in the cases contemplated above, will be made for the Unpaid Balance on that date plus the accrued but unpaid interest from the last Payment Date until the date of early redemption, deducting, if applicable, the tax withholding, and free of expenses for the holder, which amounts, for all legal purposes, will on the latter date be considered to be due, liquidated and enforceable.

In order for the Fund, through its Managing Company, to carry out early redemption of the issuance of Bonds and, specifically, in order for the Fund to have sufficient liquidity to pay the Unpaid Balance of the Bonds plus accrued and unpaid interest from the last Payment Date until the redemption date, the Managing Company, in the name of the Fund, may sell the Loan Rights on the conditions described in Section III.8.

II.12 FINANCIAL SERVICING TABLE FOR THE LOAN, INCLUDING BOTH INTEREST PAYMENTS AND REPAYMENT OF PRINCIPAL,

FOR EACH SERIES OF SECURITIZATION BONDS TO BE ISSUED AGAINST THE FUND.

The financial servicing of the issuance will be handled by the BANK in its capacity as Payment Agent.

The payment of interest and the redemptions will be made in accordance with the information included in the records of the entity responsible for the accounting records.

a) Practical Example of Fixing the Nominal Interest Rate

In order to facilitate understanding by the subscriber of the system for fixing the applicable nominal interest rate and the amount of interest to be received for each Series A Bond on each Payment Date, set forth below is the manner of calculating them based on the following assumptions:

The margin used as a reference in the practical case is the margin that the Managing Company would fix if the Managing Entities did not communicate the definitive margins in accordance with the provisions of Section II.10.1 b) above.

- Three (3) month EURIBOR rate: 2.177 %
- Margin: 0.05 %
-
- Interest Amount per Bond: 2.227 %
- Interest Period Per Bond: 91 days (*)
- Unpaid Principal Balance of Bond: 100,000 euros

$$\frac{2.227 \times 91 \times 100,000}{100 \times 360} = 562.936111111 \text{ euros}$$

- Rounded to the nearest hundredth of a Euro: 562.94 euros

(*) taking as an example a quarter of that duration, for example the one comprised of the months of April, May and June.

Therefore, the amount of interest to be received by each Series A Bond would be 562.94 euros on an Unpaid Principal Balance of the

Bond of 100,000 euros. The example would be identical for Series B Bonds by simply replacing the 0.050% margin for Series A with the one corresponding to each Series.

b) Financial Servicing Tables for the Loan

The principal characteristic of the Bonds is that their periodic redemption and, therefore, their average life and duration, depends fundamentally on the speed with which Debtors decide to prepay their Loan Rights.

In this regard, the prepayments the Debtors decide to make, subject to continuous change, and estimated in this Brochure by using the future Constant Annual Prepayment Rate (hereinafter "*CAPR*"), directly affect the rate of prepayment of the Loan Rights, and therefore the average life and duration of the Bonds.

Also, there are other variables, also subject to continuous change, that affect the average life and duration of the Bonds. These variables and their hypothetical values assumed in all of the tables appearing in this Section are:

- interest rate of the Loan Rights: 2.49%;
- delinquency in the Loan Rights portfolio: 0.10% per annum, 0.083% per month, with a recovery period of 12 months;
- bankruptcies in the Loan Rights portfolio: 0%;
- that the *CAPR* will remain constant over the life of the Bonds;
- that the Disbursement Date of the Bonds is 22 December 2004;
- that there is no Redemption Deficit.

Finally, the actual adjusted duration of the Bonds will also depend on their variable interest rate, and in all of the tables appearing in this Section it is assumed to be constant at 2.227% for Series A and 2.477% for Series B.

Assuming that the issuer exercises the early redemption option contemplated in the first paragraph of Section II.11.3 c) of this Brochure (that is, when the Current Balance of the Loan Rights is less than 10% of its initial amount), the average life and duration of the Bonds and the

Internal Rate of Return (hereinafter the “*IRR*”) at different levels of CAPR would be the following:

CAPR	0%	4%	8%	12%
Series A				
Average Life	4.65	4.00	3.47	3.06
Duration	4.24	3.67	3.22	2.85
End of Life	15/04/15	15/01/14	15/01/13	15/04/12
Series B				
Average Life	7.37	6.42	5.63	5.00
Duration	6.55	5.77	5.11	4.57
End of Life	15/04/15	15/01/14	15/01/13	15/04/12

These figures have been calculated using the following formulas:

$$\text{Average Life of the Bonds: } A = \frac{\sum(B \times d)}{C} \times \frac{1}{365}$$

Where:

- A* = Average life of each Series of Bonds issued, expressed in years.
- B* = Principal of each Series of Bonds to be redeemed on each Payment Date, in accordance with the amount to be redeemed corresponding to each Series of Bonds, as described in Section II.11.3, b), 4, of this Brochure.
- d* = Number of days elapsed from the Disbursement Date until the Payment Date in question.
- C* = Total volume in euros of each Series of Bonds.

Duration of the Bonds (modified Macaulay formula):

$$D = \frac{\sum(P \times VA)}{PE} \times \frac{1}{(1+I)}$$

Where:

- D* = Duration of each Series of Bonds expressed in years.
- P* = Time elapsed (in years) between the Disbursement Date until each of the Payment Dates in question.
- VA*= Current value of each of the amounts comprising principal and gross interest, to be paid on each of the Payment Dates, discounted at the effective gross interest rate (IRR) of 2.2457% for Series A and 2.5001% for Series B.
- PE*= Issuance price of the Bonds, 100,000 euros.
- I* = Gross effective interest rate (IRR) of 2.2457% for Series A and 2.5001% for Series B.

Finally, the issuer of the Bonds expressly states that the tables of financial servicing of the loan described below are merely theoretical, for purposes of illustration, not representing any payment obligation, remembering that:

- The CAPR is assumed to be constant at 4% throughout the life of the loan and, as has been noted, actual prepayments change continuously.
- The Unpaid Principal Balance of the Bonds on each Payment Date, and therefore the interest to be paid on each of them, will depend on the actual prepayment rate existing in the portfolio of Loan Rights.
- The interest rates on the Bonds are assumed to be constant at 2.227%, for Series A and at 2.477% for Series B, and as is known the interest rates on the two Series are variable.
- It is assumed that the Managing Company, acting for the account of the Fund, will proceed to the early liquidation of the Fund contemplated in Section III.8.1 of this Brochure when the Current Balance of the Loan Rights is less than ten percent (10%) of the initial balance of the Loan Rights.
- It is assumed that redemption of the principal of the Bonds will occur in accordance with the general rules established in Section II.11.3. of this Brochure, and that the redemption profile of the portfolio on the

date the redemption of Bonds commences will be the same as the current redemption profile of the portfolio.

WARNING:

All information contained in this Brochure regarding the assumptions adopted to illustrate interest payments, redemptions of principal, average lives and yield, and the cash flow tables are merely for purposes of illustration, with the purpose of showing the financial structure of the issuance.

FLUJOS POR CADA BONO SIN RETENCION PARA EL TOMADOR
(EN EUROS)

T.A.C.P.=4%

FECHA	INTERES			INTERES		
	SERIE A	SERIE A	SERIE A	SERIE B	SERIE B	SERIE B
22-dic-04						
15-abr-05	5.463,63	705,22	6.168,85	0,00	784,38	784,38
15-jul-05	5.539,97	532,18	6.072,15	0,00	626,13	626,13
15-oct-05	3.891,06	506,50	4.397,55	0,00	633,01	633,01
15-ene-06	3.814,27	484,35	4.298,63	0,00	633,01	633,01
15-abr-06	3.725,57	452,59	4.178,16	0,00	619,25	619,25
15-jul-06	3.656,78	436,64	4.093,42	0,00	626,13	626,13
15-oct-06	3.582,34	420,63	4.002,97	0,00	633,01	633,01
15-ene-07	4.090,31	400,24	4.490,55	0,00	633,01	633,01
15-abr-07	3.364,92	368,77	3.733,69	0,00	619,25	619,25
15-jul-07	3.285,02	353,92	3.638,94	0,00	626,13	626,13
15-oct-07	3.183,33	339,12	3.522,45	0,00	633,01	633,01
15-ene-08	3.109,04	321,00	3.430,04	0,00	633,01	633,01
15-abr-08	3.015,67	300,01	3.315,68	0,00	626,13	626,13
15-jul-08	2.878,89	283,03	3.161,93	3.228,67	626,13	3.854,80
15-oct-08	2.743,42	269,76	3.013,18	5.498,80	612,57	6.111,37
15-ene-09	2.658,05	254,15	2.912,20	5.422,38	577,77	6.000,15
15-abr-09	2.539,73	233,82	2.773,55	5.187,74	531,63	5.719,37
15-jul-09	2.475,34	222,12	2.697,46	5.052,33	505,05	5.557,38
15-oct-09	2.391,16	210,48	2.601,63	4.882,15	478,62	5.360,77
15-ene-10	2.291,45	196,87	2.488,31	4.680,18	447,72	5.127,90
15-abr-10	2.135,86	179,83	2.315,69	4.367,58	409,00	4.776,58
15-jul-10	2.077,12	169,81	2.246,92	4.240,11	386,20	4.626,30
15-oct-10	1.997,00	159,85	2.156,85	4.078,21	363,60	4.441,81
15-ene-11	1.919,14	148,48	2.067,63	3.919,34	337,79	4.257,12
15-abr-11	1.799,77	134,57	1.934,34	3.679,33	306,17	3.985,50
15-jul-11	1.745,75	125,94	1.871,68	3.564,01	286,54	3.850,55
15-oct-11	1.647,83	117,38	1.765,22	3.367,75	267,13	3.634,88
15-ene-12	1.545,63	108,01	1.653,63	3.159,86	245,81	3.405,67
15-abr-12	1.354,02	98,13	1.452,15	2.776,52	223,35	2.999,87
15-jul-12	1.303,82	90,51	1.394,33	2.662,94	205,97	2.868,91
15-oct-12	1.227,36	84,08	1.311,44	2.508,74	191,37	2.700,12
15-ene-13	1.155,43	77,10	1.232,52	2.361,79	175,49	2.537,28
15-abr-13	1.070,72	68,99	1.139,71	361,58	157,05	518,63
15-jul-13	1.033,56	63,73	1.097,29	0,00	156,53	156,53
15-oct-13	964,23	58,55	1.022,78	0,00	158,25	158,25
15-ene-14	9.322,81	53,06	9.375,87	25.000,00	158,25	25.158,25
	100.000,00	9.029,41	2,2687%	100.000,00	16.133,46	2,6001%

II.13 EFFECTIVE INTEREST CONTEMPLATED FOR THE UNDERWRITER, SPECIFYING THE METHOD OF CALCULATION USED AND THE EXPENSES CONTEMPLATED FOR ITEMS CONSISTENT WITH ITS TRUE NATURE.

EFFECTIVE GROSS INTEREST OF THE UNDERWRITER.

Assuming that the nominal annual interest rates applicable to each of the Series, A and B, floating quarterly, remain constant throughout the entire life of the loan, at rates of 2.227% and 2.477%, those rates will translate into a gross annual IRR for the underwriter of 2.2457% and 2.5001%, as shown in the table contained in Section II.12 of the Brochure, given the effective quarterly payment of interest, calculated as an internal rate of return without considering the tax effect (since the issuance is aimed at institutional investors and no withholding whatever has been taken into account), and in any event assuming the values and making the assumptions appearing in the referenced Section.

The calculation of the IRR has been made using the following formula:

$$100,000 = \sum_{i=1}^N A_i (1+r)^{-(nd/365)}$$

Where:

- r = IRR expressed as an annual rate, based on one.
- A_j = Total amounts of redemption and interest to be received by investors: (A₁.....A_N)
- nd = Number of days between the Disbursement Date of the issuance and January 15, April 15, July 15 and October 15 of each year, not inclusive.

II.14 EFFECTIVE INTEREST CONTEMPLATED FOR THE FUND AT THE TIME OF ISSUANCE OF THE SECURITIES, CONSIDERING ALL DESIGN AND PLACEMENT EXPENSES INCURRED BY IT, SPECIFYING THE METHOD OF CALCULATION.

Assuming that the variable nominal interest rate of the Bonds remains constant throughout the life of the loan at a rate of 2.227% for Series A and 2.477% for Series B, this rate will translate to effective rates (IRR) for all of the issuance of 2.3081% for a CAPR of 4%, calculated and making the assumptions stated in Section II.12 as the liquid amount of the issuance, after deduction of issuance expenses, at the updated values on the date of issuance of all payments of interest, redemptions and termination expenses.

The expenses contemplated are the following:

a) Formation Expenses (*Expenses of documentation, publicity and fees*):

	<u>Euros</u>
• CNMV Fees*:	
93,767.93	
• AIAF Fees:.....	52,200.00
• Iberclear Fees:.....	635.68
• Rating Agencies:.....	272,600.00
• Others: (Legal advice, press, printing, notary and auditing):.....	
118,337.45	

Subtotal (0.029%):.....	537,541.06

b) Issuance Expenses:

	<u>Euros</u>
• Management Fee of the Managing Company:.....	125,000.00
• Underwriting and Placement Fees: Series B (0.10 %):.....	37,000.00

Subtotal (0.009%):.....	162,000.00

TOTAL GENERAL (0.038%):..... **699,541.06**

(*) 0.14‰ of the total of the issuance with a maximum of 38,267.93 euros for the registration process and 0.03‰ of the total of the issuance for the listing process.

The formation and issuance expenses will be satisfied by charge to the Loan for Initial Expenses described in Section V.3.2 of this Information Brochure.

The expenses arising from liquidation of the Fund will be charged to it.

II.15 EXISTENCE OR NON-EXISTENCE OF SPECIAL SECURITY IN THE LOAN RIGHTS CONTAINED IN THE FUND OR THE SECURITIES ISSUED AGAINST IT, GRANTED BY ANY OF THE ENTITIES PARTICIPATING IN THE SECURITIZATION PROCESS COVERED BY THIS BROCHURE

II.15.1 Absence of Guarantees of the Assigning Entity

There are no guarantees by the BANK regarding the Loan Rights contained in the Fund or regarding the Bonds, except for the representations and warranties made by the BANK regarding the characteristics and conditions of the Loans covered by Clause 8 of the Formation Document and by Section IV.1. of this Brochure regarding Securitization Requirements.

II.16 TRADING OF THE SECURITIES.

The bonds in this issuance are not subject to special restrictions on free transferability, which will be accomplished subject to the legal provisions applicable to them.

Ownership of each Bond is transferred by accounting entries. Registration of the transfer in favour of the acquirer in the accounting records produces the same effects as transfer of the certificates and, from that point forward, the transfer may be enforced against third persons.

II.17 LISTING OF ISSUED SECURITIES FOR TRADING.

The Managing Company immediately after the grant of the Formation Document will request listing of this issuance of Bonds with AIAF, which is recognized as an official secondary securities market.

Also, the Managing Company will request registration of the Bonds with Iberclear so that clearing and liquidation of the Bonds will be accomplished in accordance with the operating rules that, with respect to securities listed

with AIAF and represented through account annotations, are established or in the future may be approved by Iberclear.

The Managing Company expressly states that it knows the requirements and conditions necessary for listing, maintenance and exclusion of securities on the AIAF market, under applicable legislation and the requirements of its governing bodies, and the Fund, through the Managing Company, agrees to comply with them.

Definitive listing with AIAF will occur no more than thirty (30) days after the Disbursement Date.

If within the term of thirty (30) days the Bonds are not listed on AIAF, the Managing Company will immediately make that fact known to the owners of the Bonds, together with the reasons the breach has occurred, all in accordance with the provisions of Section III.5.3. of this Brochure, without prejudice to the possible contractual liability the Managing Company may incur by reason of that breach.

II.18 REQUESTS FOR SUBSCRIPTION AND ACQUISITION

II.18.1 Pool of Potential Investors to Which the Securities Are Offered.

The placement of the issuance of Bonds will be targeted exclusively at institutional investors, that is, by way of illustration and not limitation, Pension Funds, Collective Investment Institutions, Insurance Entities, Credit Entities, Securities Companies and Agencies, or Entities qualified in accordance with Articles 64 and 65 of the Securities Market Law to manage third-person securities portfolios, as well as entities that professionally and habitually make investments in negotiable securities.

In the case of entities qualified for the management of securities portfolios, the applications for subscription and acquisition will be made by those management entities for the account of the investors, who previously must have signed with those entities the appropriate securities portfolio management agreement.

II.18.2 Legal Classification of the Bonds to Be Issued.

The Securitization Bonds to be issued by the Fund have the following legal classification, for purposes of being subscribed by specific investors:

- (i) in accordance with Law 1/1994, of 11 March 1994, regarding the legal regime of Mutual Guarantee Companies and Royal Decree 2345/1996, of 8 November 1996, regarding governmental authorization rules and solvency requirements of Mutual Guarantee Companies, the Bonds are appropriate for inclusion in the obligatory reserves of Mutual Guarantee Companies;
- (ii) in accordance with Royal Decree 2486/1998, of 20 November 1998, approving the Regulations regarding Arrangement and Supervision of Private Insurance, as modified by Royal Decree 297/2004, of 20 February 2004, the Bonds to be issued by the Fund may be acquired by insurance companies to satisfy their technical reserve obligations;
- (iii) in accordance with Royal Decree 304/2004, of 20 February 2004, approving the Regulations of Pension Plans and Funds, the Bonds may be acquired by Pension Funds;
- (iv) in accordance with Royal Decree 1393/1990, of 2 November 1990, modified by Royal Decree 91/2001, of 2 February 2001, unless contrary to Law 35/2003, of 4 November 2003, regarding Collective Investment Institutions, and until the entrance into effect of the regulatory rules issued by virtue of the authority contained therein, the Bonds may be acquired by Collective Investment Institutions with the limitations established in specific regulations for each kind. The Order of 28 May 1999, partially modifying the Order of 7 June 1990, regarding Cooperation Agreements related to Funds for Investment in Governmental Debt (Fondtesoros) is applicable in this regard;
- (v) in accordance with the Order of 30 December 1992 regarding solvency rules for credit entities, the fixed income securities issued by asset securitization funds regulated by Royal Decree 926/1998, of 14 May 1998, the redemption of which is not subordinated to other fixed income securities issued by the fund or to the loans granted to the fund by credit entities contemplated in Article 1 of Royal Decree 926/1998, of 14 May 1998, will have the weighting that corresponds

to the asset having greatest weighting of those that may be included in the fund.

II.18.3 Subscription Period.

The subscription period (hereinafter the "*Subscription Period*") will have a duration of eight (8) hours, between 9:00 AM and 5:00 PM (C.E.T.) on the Working Day following the date of publication of the announcement of formation of the Fund and the issuance of the Bonds in the manner contemplated in Section III.5.3.b.b' of the Brochure. It is contemplated that this publication will occur on 20 December 2004.

II.18.4 Where and before Whom the Subscription or Acquisition May Be Processed

Applications for subscription must be presented using any of the means permissible in law during the Subscription Period established in Section II.18.3 above, in the offices of the Underwriting Entities for the issuance identified in Section II.19.1 below.

II.18.5 Form and Date of Disbursement.

The investors to whom Bonds have been awarded must pay to the corresponding Underwriting Entity on 22 December 2004 (hereinafter the "*Disbursement Date*"), before 1:00 PM Madrid time, value on that same date, the issuance price (one hundred percent (100%) of the nominal value) corresponding to each Bond awarded in the subscription.

The BANK, in its capacity as Payment Agent, once the amount of the total fees for underwriting and placement have been deducted, will proceed to pay the total amount of subscription for the issuance of the Bonds in accordance with the provisions of the Management, Underwriting and Placement Agreements. This payment will be made before 3:00 PM Madrid time, value on that same day, by means of the appropriate transfer to the Fund.

II.18.6 Form and Term for Delivery to Subscribers of Copies of Subscription Vouchers or Provisional Receipts.

The Underwriting Entities will deliver to the subscribers of the Bonds that have so requested, within a term of not more than five (5) days after the Disbursement Date, a document evidencing the subscription by them of the awarded Bonds and the effective amount they have disbursed for the subscription. This evidentiary document will not be a negotiable security, its validity expiring on the date of the account annotation in the corresponding annotation records.

II.19 PLACEMENT AND AWARD OF SECURITIES.

The Underwriting Entities will proceed in their free discretion to accept or not accept the applications for subscription received, in any event seeing to it that there is no discriminatory treatment of applications that have similar characteristics. Nevertheless, the Underwriting Entities may give priority to the requests of their customers they consider to be appropriate.

The Underwriting Entities commit to subscribe in their own names, at the end of the Subscription Period, the number of Bonds necessary to complete the figure to which their respective underwriting commitments amount, as determined in the following paragraph.

II.19.1 Entities That Participate in the Placement or Marketing, Stating Their Various Commitments, with Specific Descriptions Thereof. Total Amount of Fees Agreed upon with the Various Placement Entities and the Managing Company.

The placement of the issuance of Bonds will be divided into two tranches:

- (i) *Domestic Tranche*: thirty-seven million (37,000,000) euros will be placed, equivalent to three hundred seventy (370) Bonds of Series B (which represents 100% of the total nominal value of that Series).
- (ii) *International Tranche*: one billion eight hundred thirteen million (1,813,000,000) euros will be placed, equivalent to eighteen thousand one hundred thirty (18,130) Bonds of Series A (which represents 100% of the total nominal value of that Series).

The BANK will receive an underwriting and placement fee on the nominal amount underwritten by it by virtue of the Management, Underwriting and Placement Agreement for the Domestic Tranche of the issuance of the

Bonds described in Chapter V, in the following percentages: 0.100% on the nominal value of Series B. The total amount of the underwriting and placement fee to be received by the BANK will be thirty-seven thousand euros (€37,000).

There is no underwriting and placement fee regarding Series A and the Underwriting and Placement Entities for Series A will not receive remuneration from any other source.

The payment of the referenced fee will be for the account of the Fund.

The BANK does not intend to initially subscribe any of the Bonds to be issued.

II.19.2 Entities Managing the Issuance.

The BANK and Société Générale have been appointed by the Managing Company as the managing entities (hereinafter, each of them being the “*Managing Entity*” and all of them collectively being the “*Managing Entities*”) for the placement of the Bonds.

Reproduced below are statements of the Managing Entities signed by persons with sufficient representation, which also are incorporated in this Brochure as **Annex 5**:

For the Bank:

“Mr. José Antonio Alvarez Alvarez, in the name and in representation of BANCO SANTANDER CENTRAL HISPANO, S.A., as the Managing Entity, with domicile in Santander, Paseo de Pereda 9-12, duly authorized for this purpose, and with respect to the formation of the FONDO DE TITULIZACIÓN DE ACTIVOS SANTANDER PÚBLICO 1 and the issuance of securities in an amount of one thousand eight hundred fifty (1,850,000,000) euros, in fulfillment of article 20 of Royal Decree 291/1992, of 27 March 1992, regarding Issuances and Public Offerings for the Sale of Securities,

STATES

- I.** *That the necessary verifications have been performed to assure the truthfulness and integrity of the information contained in the Brochure.*

- II.** *That, as a result of these verifications, no circumstances were noted that contradict or alter the information contained in the Brochure, nor does it omit significant facts or information that may be relevant to the investor.*

In witness whereof, for the appropriate purposes, I issue this document in Madrid on 10 December 2004.

BANCO SANTANDER CENTRAL HISPANO, S.A.

By Mr. José Antonio Alvarez Alvarez "

:

For Société Générale

Mr. Álvaro Huete Gómez and Mr. Demetrio Salorio Simonet, in the name and in representation of Société Générale Sucursal Sucursal en España as the Managing Entity, with domicile at, Plaza Pablo Ruiz Picasso 1, 28020 Madrid duly authorized for this purpose, and with respect to the formation of the FONDO DE TITULIZACIÓN DE ACTIVOS SANTANDER PÚBLICO 1 and the issuance of securities in an amount of one thousand eight hundred fifty (1,850,000,000) euros,

STATES

- I.** *That the necessary verifications have been performed to assure the truthfulness and integrity of the information contained in the Brochure.*
- II.** *That, as a result of these verifications, no circumstances were noted that contradict or alter the information contained in the Brochure, nor does it omit significant facts or information that may be relevant to the investor.*

In witness whereof, for the appropriate purposes, I issue this document in Madrid on 10 December 2004.

By Mr. Alvaro Huete Gómez

By Mr. Demetrio Salorio Simonet

II.19.3 Entities That Underwrite the Issuance, with a Description of the Characteristics of the Underwriting Relationship or Agreement, Guarantees Required of the Issuer or Offeror, Types of Risks Assumed, Type of Consideration Required of the Underwriter in Case of Breach, and Other Relevant Matters.

The Managing Company, in representation and for the account of the Fund, will enter into a Management, Underwriting and Placement Agreement for the Domestic Tranche (as defined in Section V.4.1 of this Brochure) with the BANK and Société Générale and another Underwriting and Placement Agreement for the International Tranche (as defined in Section V.4.1) with the BANK, Société Générale and Depfa Bank PLC., by virtue of which the indicated entities will proceed to award the Bonds in their free discretion in the amounts established for each of them in the referenced agreements, and will assume the joint commitment, once the Subscription Period has closed, to subscribe in their own names the amount of Bonds that remain to be subscribed by virtue of their respective underwriting commitments.

The Underwriting Entities for the issuance of the Bonds will assume the obligations contained in the Management, Underwriting and Placement Agreement for the Domestic Tranche and the Underwriting and Placement Agreement for the International Tranche, which, basically, are the following: 1) joint commitment to subscribe the Bonds that have not been subscribed when the Subscription Period has closed, up to the amounts established for each Underwriting Entity in its agreement; 2) commitment to achieve placement by subscription by third persons of the issuance of the Bonds; 3) payment to the Payment Agent by Depfa Bank PLC. and Société Générale on the Disbursement Date, value on that day, of the underwritten nominal amount for each of them, the BANK thereafter in its capacity as Payment Agent proceeding to pay the Fund, before 3:00 PM Madrid time on the same day, value on that same day, the total amount for subscription of the issuance of bonds, after deduction of the amount of the total underwriting and placement fee; and 4) delivery to the subscribers of a document evidencing the subscription, if so requested.

The Management, Underwriting and Placement Agreement for the National Tranche and the Underwriting and Placement Agreement for the International Tranche will be terminated by operation of law if the Rating Agencies, prior to commencement of the Subscription Period, do not

confirm, as final, the ratings assigned on a provisional basis to each of the Series.

II.19.4 Proration of Placement, Procedure Therefor, When It Will Occur, Manner of Publicizing Its Results and, If Applicable, Return to Applicants of Amounts Paid in Excess of the Awarded Amounts, As Well As Compensation for Corresponding Interest

Not applicable.

II.20 TERM AND FORM CONTEMPLATED FOR DELIVERY TO SUBSCRIBERS OF CERTIFICATES OR DOCUMENTS EVIDENCING SUBSCRIPTION OF THE SECURITIES

The Bonds will be constituted as securities represented by account annotations by virtue of their registration in the corresponding accounting records, in accordance with the provisions of Royal Decree 116/1992, of 14 February 1992, regarding Representation of Securities through Account Annotations and Clearing and Liquidation of Exchange Transactions (hereinafter "*Royal Decree 116/1992*"), with the habitual terms and procedures of the entity responsible therefore, Iberclear.

The Underwriting Entities will deliver to the subscribers of the Bonds that have so requested, within a term of not more than five (5) days after the Disbursement Date, a document evidencing the subscription by them of the awarded Bonds and the effective amount they have disbursed for the subscription. This evidentiary document will not be a negotiable security, its validity expiring on the date of the account annotation in the corresponding annotation records.

II.21 DOMESTIC LEGISLATION UNDER WHICH THE SECURITIES ARE CREATED AND INDICATION OF COMPETENT JURISDICTIONAL BODIES IN CASE OF DISPUTE

This issuance is covered by Spanish law as provided in Royal Decree 926/1998, of 14 May 1998, regulating Assets Securitization Funds and Management Companies of Securitization Funds, Law 19/1992, of 7 July 1992, regarding the Regime of Real Estate Investment Companies and Funds and regarding Mortgage Securitization Funds, to the extent not contemplated in Royal Decree 926/1998, Law 24/1998, Modified by Law

37/1998, of 16 November 1998, and as provided in Royal Decree 291/1992, of 27 March 1992, regarding Issuances and Public Offerings for the Sale of Securities, modified by Royal Decree 2590/1998, of 7 December 1998, and the Order of 12 July 1993 implementing it, as well as Circular 2/1994, of 16 March 1994, regarding the National Securities Market Commission, approving the model Information Brochure for the formation of Mortgage Securitization Funds, and Circular 2/1999, of 22 April 1999, regarding the National Securities Market Commission, approving certain models for brochures to be used in issuances or public offerings of securities.

All questions and disputes that may arise between the Fund, in its capacity as issuer of the Securitization Bonds, and the holders thereof will be resolved by Spanish courts, except for the Management, Underwriting and Placement Agreement for the International Tranche, which is subject to and will be interpreted in accordance with English law, and the Swap Agreement, which will be governed and interpreted in accordance with English legislation.

II.22 PERSONAL INCOME TAXATION DERIVING FROM THE OFFERED SECURITIES, DISTINGUISHING BETWEEN RESIDENT AND NON-RESIDENT SUBSCRIBERS

Set forth below is a brief summary of the tax regime applicable to the investments arising from this offering, which considers only the applicable national legislation and the matters of a general nature that may affect the investors, which must take into account their possible special tax circumstances, as well as rules of limited territorial application and the rules in the legislation applicable at the time of obtaining and declaring the corresponding income.

Given that this offering will be represented by account annotations and listing for trading and quotation will be requested on an official Spanish secondary securities market, these being relevant circumstances at the time of determining taxability, it has been assumed that these conditions will be satisfied. Also, it has been assumed that the Bonds, at the time of issuance, will be classified as financial assets with explicit yield, when this classification is relevant for tax purposes.

The withholdings, payments on account and taxes that are established or may be established in the future on principal, interest, or the income from

disposition of Bonds will be for the account of their owners, and the amount thereof will be deducted, if applicable, in the legally established manner.

Finally, it is noted that the tax treatment described herein is of a general nature and, therefore, the taxation applicable to income obtained through entities in systems providing for attribution of income have not been included, nor has the regime applicable to all categories of investors, some of which (such as, for example, financial entities, Collective Investment Institutions, Cooperatives, etc.) may be subject to special rules.

II.22.1 Individuals or Companies Resident in Spain

a) Individual Income Tax

The income obtained by owners of Bonds who are subject to the Individual Income Tax (IRPF), with respect to both interest and the transfer, repayment or redemption thereof, will be considered to the income from personalty obtained from the assignment to third persons of personal capital on the terms of Article 23.2 of Royal Legislative Decree 3/2004, of 5 March 2004, approving the Restated Text of the Personal Income Tax Law.

In this regard, in the case of income derived from receipt of coupons (interest) on the Bonds, the taxable income will be determined by the amount of the interest received, including the withholding for personal income tax, if any, that has been made.

On the other hand, in the event of transfer, reimbursement or redemption of the Bonds, the amount included as income from personalty will be the difference between the value of the transfer, reimbursement or redemption (decreased by such expenses related to such transactions as may be appropriately justified), and the acquisition or subscription value (increased by such expenses related to acquisition as may be appropriately justified). Nevertheless, negative income derived from transfer of the Bonds, when the taxpayer has acquired other homogeneous financial assets within the two months prior to or following that transfer, will be consolidated until transfer of the homogeneous financial assets remaining in the taxpayer's patrimony.

Net income on personalty will be determined by deducting from the consolidated income the expenses of management and deposit of the Bonds, provided that those expenses do not correspond to payment for a discretionary and individualized management of the investment portfolio. Net income derived from transfer, reimbursement or redemption of Bonds having a holding period greater than two years will be reduced by 40%.

Income received as interest will be subject to 15% withholding for personal income tax against the recipient.

Nevertheless, there is no obligation to withhold on income derived from transfer or reimbursement of Bonds, because they are represented by account annotations and traded on an official Spanish secondary securities market, except for the part of the price that is equivalent to the current coupon in transfers made within the thirty (30) days immediately preceding the maturity of the coupon, when (i) the acquirer is an individual or entity not resident in Spanish territory, or is subject to the Companies Tax, and (ii) this explicit income is exempt from the withholding requirement by reference to the acquirer.

b) Companies Tax

The income obtained, both as interest and based on the transfer, redemption or reimbursement of the Bonds, by entities that are subject to the Companies Tax will be included in the taxable base of the Companies Tax in the manner contemplated in Title IV of Royal Legislative Decree 4/2004, of 5 March 2004, approving the Restated Text of the Companies Tax Law (hereinafter "Royal Decree 4/2004").

The referenced income will not be subject to withholding for Companies Tax, as provided in Article 59 q) of Royal Decree 1777/2004, of 30 July 2004, approving the Regulations of the Companies Tax, because the Bonds fulfil the following requirements:

1. They are represented by account annotations.
2. They are traded on an official Spanish secondary securities market.

The procedure for effectuating the exemption from withholding or inclusion in income of interest on Bonds, in accordance with the

Ministerial Order of 22 December 1999, will be subject to the following requirements:

1. The Managing Company, in the name and in representation of the Fund as the issuing entity, will pay to the depository entities, through the Payment Agent, the liquid amount that results from application of the general withholding rate applicable on that date (currently 15%) to the total of the interest.
2. Before the 10th day of the month following the month of maturity of each coupon, the depository entities must present to the Managing Company or the Payment Agent a detailed report of the owners subject to Companies Tax with their identifying information, the ISIN code of the securities, the number of securities of which they are owners on the maturity date of each coupon, and the corresponding gross income and amount withheld.
3. The owners of the Bonds who are subject to the Companies Tax must demonstrate that circumstance to the depository entities for the securities before the 10th day of the month following the month of maturity of the coupon, so that the depository entities may prepare the report indicated in the preceding paragraph.
4. The Managing Company, as soon as it receives the referenced report, will immediately pay to the depository entities, through the Payment Agent, the amount withheld against those taxpayers.
5. The depository entities will immediately pay the amount withheld to the owners subject to tax.

For purposes of showing the condition as a taxpayer under the Companies Tax, the owners of the Bonds may use any means of proof permissible under law, being required to provide the corresponding justifying documentation, which must remain in the possession of the depository entity for the Bonds, available to the issuer for its verification and to the National Tax Administration Agency. For these purposes, a photocopy of the card showing the Tax Identification Number will be considered to be justifying documentation.

II.22.2 Individuals or Companies Not Resident in Spain

Income obtained by owners of Bonds that are taxpayers under the Non-Resident Income Tax, both as interest and based on transfer, reimbursement or redemption thereof, will be considered to be income obtained in Spain, with or without a permanent establishment, on the terms of Article 13 of Royal Legislative Decree 5/2004, of 5 March 2004, approving the Restated Text of the Non-Resident Income Tax Law (hereinafter "*Royal Legislative Decree 5/2004*").

a) Income Obtained through a Permanent Establishment

Income on Bonds obtained by a permanent establishment in Spain will be taxed in accordance with the rules of Chapter III of the referenced Royal Legislative Decree 5/2004, without prejudice to the provisions of the Treaties for the Avoidance of Double Taxation signed by Spain, which may provide for nontaxability of the corresponding income or the application of reduced rates. The referenced income will be subject to withholding for Non-Resident Income Tax on the terms indicated above for taxpayers under the Spanish Companies Tax.

b) Income Obtained without the Participation of a Permanent Establishment

Income on Bonds obtained by individuals or entities not resident in Spain who act, for these purposes, without a permanent establishment, will be taxed in accordance with the rules of Chapter IV of Royal Legislative Decree 5/2004. Of its rules, the following matters may be emphasized, without prejudice to the fact that the provisions of the Treaties for the Avoidance of Double Taxation signed by Spain may provide for nontaxability of the corresponding income or the application of reduced rates:

- The taxable base will consist of the total amount of the income received, calculated in accordance with the rules of Royal Legislative Decree 3/2004, without the reductions under the law being applicable for this purpose.
- In the case of transfer, reimbursement or redemption, for calculation of the income the expenses related to acquisition and alienation will be taken into account, to the extent they are appropriately justified. The

tax will apply separately to each total or partial accrual of income subject to tax, with no setoff being possible among them.

- Income obtained from Bonds, both as interest and based on their transfer, reimbursement or redemption, will be exempt when obtained without the participation of a permanent establishment by residents of another member State of the European Union, or by permanent establishments of those residents located in another member State of the European Union (Article 14.1, letter c) of Royal Legislative Decree 5/2004).
- Also exempt will be income derived from transfer of those securities made on any of the official Spanish secondary securities markets, obtained by non-resident individuals or entities, without the participation of a permanent establishment in Spanish territory, who are resident in a State that has signed with Spain a treaty for the avoidance of double taxation, with a clause for the exchange of information.
- In no case will the two referenced exemptions apply when the income is obtained through countries or territories classified by regulation as tax havens.
- The tax will be calculated by applying a rate of 15% to the taxable base corresponding to interest and other income on Bonds, unless an exemption or lower rate applies by virtue of the provisions of an internal rule or a Treaty signed by Spain. When by virtue of the residence of the investor a Treaty for the Avoidance of Double Taxation signed by Spain is applicable, the reduced rate or exemption contemplated in the Treaty for this kind of income will be applied, if applicable.
- The application of any exemption or reduced rate contemplated in internal rules or a Treaty signed by Spain requires proper showing of the tax residence of the investor in accordance with the forms contemplated in Spanish legislation.
- Also, Bond coupons in principle are subject to withholding, unless the propriety of exemption or payment of the tax is shown. The amount of the withholding is an amount equivalent to the final tax.

- In accordance with the Ministerial Order of 13 April 2000, in cases of participation in the payment procedure for Bond interest by financial entities domiciled, resident or represented in Spain that are depositories or manage the collection of the income on those securities, the exclusion of tax withholding, or the withholding of a reduced rate by application of the taxation limits established in the Treaties for Avoidance of Double Taxation, will be performed in the manner described below.
1. The Managing Company, in the name and in representation of the Fund as the issuing entity, will pay to the depository entities, through the Payment Agent, the liquid amount that results from application of the general withholding rate applicable on that date to the total of the interest.
 2. Before the 10th day of the month following the month of maturity of each coupon, the depository entities must present to the Managing Company or to the Payment Agent a detailed report of the owners that are subject to Non-Resident Income Tax on income obtained in Spanish territory without the participation of a permanent establishment with identifying information, the number of securities of which they are owners on the maturity date of each coupon, the corresponding gross income and the excess amount withheld against each owner.
 3. The owners of Bonds who are subject to Non-Resident Income Tax without a permanent establishment in Spain must have demonstrated to those depository entities their right to the application of the taxation limits in a Treaty, or exemption from withholding. The depository entities will prepare the report indicated in the preceding number, including the owners of the securities that, at the time that the report of the Managing Company is to be issued, have demonstrated that right.
 4. The Managing Entity, as soon as it receives the detailed report referred to in number 2 above in this section, will immediately pay to the depository entities, through the Payment Agent, the excess amount withheld against those taxpayers.

5. The depositary entities will immediately pay the amount withheld to the owners subject to Non-Resident Income Tax.
6. For purposes of demonstrating the right to withholding applying the taxation limits of a Treaty or exemption therefrom, the taxpayers must show their tax residence by means of the following documentation:
 - When the exemption arises by application of internal Spanish rules, by means of a residence certificate issued by the tax authorities of the country of residence.
 - When there is exemption from withholding or reduced withholding by application of a Treaty, with a certificate issued by the corresponding tax authority, which must expressly state that the taxpayer is resident in the sense defined in the Treaty. Nevertheless, when the withholding applies a limit on taxation fixed in a Treaty implemented by an Order that provides for the use of a specific form, it will be shown using that form in place of the certificate.
 - The certificates of residence referred to in the preceding paragraphs will be valid for one year from the date of issuance. If the tax residence cannot be shown, amounts received on the Loans for both interest and based on their transfer, reimbursement or redemption, by non-resident owners, will be subject to tax under the general regime indicated above, although a refund of the excess withholding or tax may be requested using the procedure contemplated in the applicable legislation.
 - In addition, and independent of taxability or nontaxability, income from the transfer or reimbursement of the Bonds will not be subject to withholding, because they are financial assets with explicit yield represented by account annotations, and are traded on an official Spanish secondary securities market, on the terms and conditions contemplated in Article 73.3 f) of Royal Decree 1775/2004, of 30 July 2004, approving the Regulations of the Personal Income Tax, by express reference to Article 10.3 b) of Royal Decree 1776/2004, of 30 July 2004, approving the Regulations of the Non-Resident Income Tax. The reference made by the article just mentioned to the rule in the Regulations of the

Personal Income Tax does not expressly exclude application of the so-called coupon anti-laundering rule if the investor is a non-resident without a permanent establishment in Spain¹, although it is a questionable matter. All of the foregoing is without prejudice to the joint and several liability that may be incurred by the depository entity or the manager of the Bonds, and the obligations of declaration and payment of any resulting tax by the non-resident owner.

c) Indirect Taxation on the Transfer of the Bonds.

The transfer of the Bonds is exempt from the Tax on Patrimonial Transfers and Documented Legal Acts, and from the Value Added Tax.

d) Patrimony Tax.

Individuals subject to this tax by reason of a personal obligation, who are required to present a return for this tax and are owners of Bonds at December 31 of each year, must include them in the taxable base of this tax at their average transfer price for the fourth quarter of each year.

Non-resident individuals who own Bonds at December 31 of each year will be subject to the tax by reason of an in rem obligation, and also be subject to the Patrimony Tax, except as provided in Treaties for the Avoidance of Double Taxation. Nevertheless, residents of other countries in the European Union will be exempt (unless they hold the financial assets through a tax haven) regarding the Bonds the income of which is exempt from Non-Resident Income Tax, on the terms set forth above.

e) Inheritance Tax.

The transfer of the Bonds by reason of death or donation to individuals is subject to the general rules of the Inheritance and Gift Tax, without prejudice to the provisions of Treaties for the Avoidance of Double

¹ The application of which will result in withholding on the part of the price equivalent to the current coupon on transfers made during the 30 days immediately before the maturity of the coupon when (i) the acquirer is a person or entity not resident in Spanish territory, or a taxpayer under the Companies Tax, and (ii) this income for the acquirer is exempt from the withholding obligation.

Taxation signed by Spain. In the cases where the beneficiary is a legal person, the income obtained will be taxed in accordance with the rules of the Companies Tax or the Non-Resident Income Tax, as applicable, in the latter case without prejudice to the provisions of Treaties for the Avoidance of Double Taxation that may be applicable.

II.23 PURPOSE OF THE TRANSACTION

II.23.1 Use of the Net Amount of the Issuance

The net amount of the issuance of Bonds will be fully used for payment of the acquisition price of the Loan Rights contained in the assets of the Fund.

II.24 SECONDARY PLACEMENT

Not applicable.

I.25 INDIVIDUALS OR COMPANIES THAT HAVE PARTICIPATED IN A RELEVANT MANNER IN THE DESIGN OF OR IN ADVISING REGARDING THE FORMATION OF THE FUND, OR IN ANY OF THE SIGNIFICANT INFORMATION CONTAINED IN THE BROCHURE

II.25.1 List.

- a) SANTANDER DE TITULIZACIÓN, S.G.F.T., S.A. participates as the Managing Company for the Fund.
- b) BANCO SANTANDER CENTRAL HISPANO, S.A. is the entity Assigning the Loan Rights.
- c) BANCO SANTANDER CENTRAL HISPANO, S.A. participates as Managing Entity, the Underwriting Entity for the placement of the National Tranche, the Managing, Underwriting Entity for the placement of the International Tranche and Payment Agent.
- d) Depfa Bank PLC participates as Underwriting Entity for the placement of the International Tranche.

- e) Société Générale participates as Managing Entity and Underwriting Entity for the placement of the International Tranche and as Managing Entity for the National Tranche.
- f) SANTANDER DE TITULIZACIÓN, S.G.F.T., S.A., participates as legal and financial adviser for the structure of the transaction.
- g) CUATRECASAS participates as legal adviser for the structure of the transaction and legal adviser for the Managing and Underwriting Entities regarding matters of Spanish legislation.

II.25.2 Statement of One Responsible for the Brochure, in the Name of the Managing Company, As to Whether It Knows of Any Kind of Link (Political Rights, Labour, Family, Etc.) or Economic Interests of Those Experts, Advisors, and Other Participating Entities, Both with the Managing Company and with the Former Owners of the Assets Acquired by the Fund.

Mr. IGNACIO ORTEGA GAVARA, in the name and in representation of SANTANDER DE TITULIZACIÓN, SGFT, S.A., domiciled in Ciudad Grupo Santander, Avenida de Cantabria, without number, Boadilla del Monte, 28660 (Madrid), regarding the formation of the FONDO DE TITULIZACIÓN DE ACTIVOS SANTANDER PÚBLICO 1, in the amount of one billion eight hundred fifty million euros (€1,850,000,000), and in performance of the provisions of point II.25.2 of Circular 2/1994, of 16 March 1994, regarding the National Securities Market Commission, in turn implemented by Royal Decree 291/1992, of 27 March 1992.

STATES

That on the date of presentation of this Brochure, Banco Santander Central Hispano, S.A. has an 89% participation in the capital of the Managing Company.

And that there is no kind of link or economic interest of the experts that participated in the design of or advice regarding the formation of the Fund, or regarding any significant information contained in the Brochure, including the underwriting of the placement, referenced in Section II.25.1 of the Information Brochure regarding the issuance, nor with the Managing Company itself, nor with the Assignor of the Loan Rights, BANCO SANTANDER CENTRAL HISPANO, S.A.

In witness whereof, for the appropriate purposes, I issue this document in Madrid on 10 December 2004.

*SANTANDER DE TITULIZACIÓN,
SOCIEDAD GESTORA DE FONDOS DE TITULIZACIÓN, S.A.
By Mr. Ignacio Ortega Gavara*

The letter of the Managing Company with the referenced statements is attached to this Brochure as **Annex 8**.

II.25.3 Statement of the Assigning Entity of the Loan Rights.

The letter of the BANK as Assignor of the Loan Rights with the referenced statements is attached to this Brochure as **Annex 6**.

CHAPTER III
INFORMATION OF A GENERAL NATURE REGARDING THE ASSETS
SECURITIZATION FUND

III.1 LEGAL BACKGROUND AND PURPOSE OF THE FUND

The FONDO DE TITULIZACIÓN DE ACTIVOS SANTANDER PÚBLICO 1 (the “Fund”) is regulated by the provisions of (i) the Formation Document of the Fund, (ii) Royal Decree 926/1998 and the provisions implementing it, (iii) Law 19/1992, regarding matters not contemplated in Royal Decree 926/1998, to the extent applicable, (iv) the Securities Market Law, to the extent applicable to its supervision, inspection and sanctioning, (v) Article 18 of Law 44/2002, of 22 November 2002, regarding Measures for Reform of the Financial System (hereinafter “*Law 44/2002*”) which gives a new drafting to the fifth additional provision of Law 3/1994, of 14 April 1994, adapting Spanish legislation regarding credit entities to the Second Directive of Banking Coordination and introducing other modifications regarding the financial system (hereinafter “*Law 3/1994*”) regarding the Mortgage Transfer Certificates to which the current legislation applicable to mortgage participations will apply, to the extent pertinent, and (vi) the other legal and regulatory provisions in effect from time to time that are applicable.

The Fund will constitute a separate patrimony, lacking legal personality, and will be closed as to assets and liabilities, in accordance with Article 3 of Royal Decree 926/1998.

The Fund will be formed with the purpose of serving as a vehicle for grouping the Loan Rights and issuing the Series A and B Bonds against it.

Under the Fifth Additional Provision of Law 3/1994, modified by Law 44/2002, in the case of declaration of bankruptcy of the Assignor of the Loan Rights, the appropriate provisions of Law 22/2003, of 9 July 2003, regarding Bankruptcy (hereinafter the “*Bankruptcy Law*”) will apply.

III.2 COMPLETE NAME OF THE FUND

The name of the Fund is FONDO DE TITULIZACIÓN DE ACTIVOS SANTANDER PÚBLICO 1 and, if applicable, the abbreviated or commercial name provided for identification of the Fund or its securities on the secondary markets.

III.3 MANAGEMENT AND REPRESENTATION OF THE FUND AND THE OWNERS OF THE SECURITIES ISSUED AGAINST IT

III.3.1 Description of the Functions and Responsibilities Assumed by the Managing Company In the Management and Legal Representation of the Fund and of the Owners of the Securities Issued against It.

The management and legal representation of the Fund corresponds to the Managing Company, on the terms contemplated in Royal Decree 926/1998 and other applicable rules, without prejudice to the provisions of the Formation Document.

The Managing Company, in its capacity as manager of third-person business, also has representation and defence of the interests of the owners of the Bonds. Therefore, the Managing Company at all times must see to the interests of the owners of the Bonds, subordinating its actions to the defence thereof and adhering to the provisions established by regulations for that purpose.

In this regard, the Managing Company will be liable to the owners of the Bonds and other creditors for all damages caused to them by failure to perform its legally imposed functions or failure to comply with the provisions of the Formation Document. Also, it will be liable within the applicable sanctioning framework, in accordance with the provisions of Law 19/1992, which in turn refers to the provisions of Law 35/2003, of 4 November 2003, regulating Collective Investment Institutions (hereinafter "*Law 35/2003*").

The owners of the Bonds will have no action against the Managing Company, except for failure to perform its legally imposed functions, or as established in the Formation Document. In addition, they may file with CNMV for commencement of a sanctioning file in the cases contemplated in Law 19/1992.

III.3.1.1. Actions of the Managing Company

The actions that the Managing Company will undertake in fulfilment of its function as manager and legal representative of the Fund are, merely by way of illustration and without prejudice to other actions contemplated in this Brochure, as follows:

- (i) Open a financial account in the name of the Fund (hereinafter the "*Treasury Account*"), initially with the Bank, so long as the short-term rating of the Bank does not fall from F1 (on the Fitch scale) or P-1 (on the Moody's Investors Service Limited scale).

If during the life of the issuance the short term rating of the debt of the Bank falls below F-1 or P-1 (on the Fitch Ratings España and Moody's Investors Service Limited rating scales, respectively), the Managing Company, in the name and in representation of the Fund, will transfer the Treasury Account of the Fund to an entity having a minimum short term debt rating of F-1 and P-1, so that when the funds are deposited in the Treasury Account of the new entity, the Bank will cease carrying out reinvestment thereof, and the Managing Company will contract for the maximum possible yield on the balance, which may be different from the yield contracted with the Bank, within a maximum term of thirty (30) Working Days counted from the occurrence of that situation, it being permissible to thereafter transfer it to the Bank, when its short term debt again achieves F-1 and P-1 ratings, on the scales referenced above;

- (ii) Exercise the rights inherent in ownership of the Loan Rights contained in the assets of the Fund and, in general, undertake all acts of administration and disposition that may be necessary for the correct performance of the management and legal representation of the Fund;
- (iii) Perform the financial administration of the assets with diligence and rigor, without prejudice to the management functions assumed by the Assignor in its capacity as Manager as provided in Section IV.2 of this Brochure;
- (iv) Verify that the amount of income effectively received by the Fund is consistent with the amounts the Fund is to receive in accordance

with the conditions of each Loan Right and the conditions of the various agreements;

- (v) Validate and control the information it receives from the Manager (as defined in Section IV.2.1 of this Brochure) on the Loans, regarding collection of ordinary instalments, prepayments of principal, payments of delinquent instalments received, and status and control of delinquencies;
- (vi) Calculate the funds available and movements of funds to be paid once they are applied in accordance with the corresponding priority of payments, ordering the transfer of funds between the various asset and liability accounts and giving the corresponding payment instructions, including those allocated to see to the financial servicing of the Bonds.
- (vii) Calculate and pay the amounts of interest and fees that are to be received and paid by the various asset and liability financial accounts, as well as the fees to be paid for the various contracted financial services, and the amounts corresponding to each Series of the Bonds for redemption of principal and for interest;
- (viii) If the ratings assigned by the Rating Agencies to the BANK, at any time during the life of the Bonds, fall below the ratings provided for in the Agreement for Reinvestment at a Guaranteed Rate of the Treasury Account, the Swap Agreement, the Agreement for Management, Underwriting and Placement of the National Tranche and the Agreement for Management, Underwriting and Placement of the International Tranche, take the actions contemplated in these agreements which are described in Sections V.3. and V.4 of this Brochure;
- (ix) Perform its calculation obligations contemplated in this Brochure and in the various agreements related to formation of the Fund, which are described in Section V.3 of this Brochure;
- (x) Closely monitor the actions of the Manager for the recovery of delinquencies, giving instructions, when appropriate, for the filing of executory actions and, if applicable, regarding the position to be

taken in auctions of real estate. Exercise the corresponding actions when circumstances occur that require it;

- (xi) Maintain the accounting of the Fund with the proper separation from the accounting of the Managing Company, render accounts and comply with the tax obligations of any legal system that may affect the Fund;
- (xii) In order to allow operation of the Fund on the terms contemplated in the Formation Document, in this Brochure and in the rules applicable from time to time, extend or modify the agreements that it has signed in the name of the Fund, replace each of those rendering services to the Fund by virtue of those agreements and even, if necessary, enter into additional agreements, including new credit line agreements, all subject to the legislation applicable from time to time, with the prior authorization, if necessary, of the CNMV or the competent governmental authority and notice to the Rating Agencies, provided that these actions do not result in withdrawal or a decrease of the rating of the Bonds and do not prejudice the interests of the holders of the Bonds. Any modification of the Formation Document will be notified in advance to the Rating Agencies, will be formalized in a public document and will be communicated to the CNMV so that it may be made available to the public as a matter relevant or supplemental to this Brochure.
- (xiii) Appoint and, if applicable, replace the auditor of accounts performing the audits of the annual accounts of the Fund;
- (xiv) Prepare and submit to the CNMV, and to the competent agencies, all documents and information that must be submitted as provided in the applicable rules, in the Formation Document and in this Brochure, or that are requested of it, and prepare and send to the Rating Agency the information reasonably requested of it;
- (xv) Adopt the appropriate decisions regarding liquidation of the Fund, including the decision for early maturity of the issuance of the Bonds and liquidation of the Fund, in accordance with the provisions of this Brochure;

- (xvi) Not take action that may decrease the rating of the Bonds, and arrange for the adoption of those measures that are reasonably within its authority so that the rating of the Bonds is not negatively affected at any time;
- (xvii) Manage the Fund in such manner that its patrimonial value is always zero.

III.3.1.2. Level of Diligence of the Managing Company.

a) Level of Diligence

The Managing Company will conduct its activities with the diligence required of it in accordance with Royal Decree 926/1998, representing the Fund and defending the interests of the holders of the Bonds and the other creditors of the Fund as if they were its own interests, carrying the levels of diligence, information and defence of their interests to an extreme, and avoiding situations that imply conflicts of interest, giving priority to the interests of the holders of the Bonds and the interests of the other creditors of the Fund over its own interests. The Managing Company will be liable to the holders of the Bonds and other creditors of the Fund for all damages caused to them by breach of its obligations. In addition, it will be liable within the sanctioning system that is applicable under the provisions of Law 19/1992.

b) Availability of Resources

The Managing Company will have the necessary resources, including appropriate computer systems, to perform the functions of management of the Fund given to it by Royal Decree 926/1998.

c) Code of Conduct

The Managing Company will comply with the applicable code of conduct.

The Managing Company has established Internal Conduct Regulations in application of the provisions of Chapter II of Royal Decree 629/1993, of 3 May 1993, regarding rules of conduct in the securities markets and obligatory records, which have been communicated to the CNMV.

d) Absence of Conflicts

The Managing Company may act as the Managing Company of the Fund, and of any other securitization fund, without the simultaneous management thereof constituting any violation of its obligations of diligence as the Managing Company of the Fund or other securitization funds.

III.3.1.3. Replacement of the Managing Company.

The Managing Company may be replaced in management and representation of the Fund in accordance with the provisions established by regulations for that purpose. Thus, in accordance of the provisions of Articles 18 and 19 of Royal Decree 926/1998, the replacement of the Managing Company will be accomplished through the following procedure:

- (i) The Managing Company may resign its position when it considers it to be appropriate, and voluntarily request its replacement, by means of a document addressed to the CNMV in which it gives evidence of the appointment of a replacement managing company. To that document will be attached a document of the new managing company, duly authorized and registered as such in the special registries of the CNMV, in which the new managing company states that it is willing to accept the position and is interested in the corresponding authorization. The resignation of the Managing Company and the appointment of a new company as the managing company of the Fund must be approved by the CNMV. In no case may the Managing Company resign the exercise of its functions until all requirements and processing for its replacement to be in a position to fully assume its functions with respect to the Fund have been satisfied. Nor may the Managing Company resign its functions if, by reason of the referenced replacement, the rating granted to any of the series of Bonds issued

against the Fund would decrease or be withdrawn. All of the expenses arising as a result of the replacement will be paid by the Managing Company itself, and in no case will be imputed to the Fund.

- (ii) If any of the causes of dissolution contemplated in item 1 of Article 260 of Royal Legislative Decree 1564/1989, of 22 December 1989, approving the restated text of the Corporations Law (hereinafter the "*Corporations Law*") affects the Managing Company, the applicable replacement will be undertaken. The occurrence of any of those causes will be communicated by the Managing Company to the CNMV. In this case, the Managing Company will be required to comply with the provisions of paragraph (i) above prior to its dissolution.
- (iii) If the Managing Company is declared in bankruptcy, or if its license is revoked, it must proceed to appoint a managing company to replace it. The replacement must be effectuated within four (4) months after the date of occurrence of the event requiring the replacement. If the Managing Company does not find another managing company willing to assume the management and representation of the Fund, or the CNMV does not consider the proposal to be suitable, this agency may assign management to another managing company willing to assume it. If within four (4) months after the occurrence of the event requiring the replacement, neither the Managing Company nor, if applicable, the CNMV has appointed the new managing company, the Fund will be liquidated in advance and the Bonds will be redeemed, for which purpose the actions contemplated in Section III.8 of this Brochure must be taken.
- (iv) The replacement of the Managing Company and the appointment of a new company, approved by the CNMV in accordance with the provisions of the preceding paragraphs, must be communicated to the Rating Agencies and will be published, with a term of fifteen (15) days, by means of an announcement in two newspapers of national circulation, and in the bulletin of the AIAF Market.

The Managing Company commits to grant the public and private documents that may be necessary to replace it with another managing

company in accordance with the rules contemplated in the preceding paragraphs of this section. The replacement managing company must be subrogated to the rights and obligations of the Managing Company with respect to this Brochure. Also, the Managing Company must deliver to the new managing company such documents and accounting and computer records regarding the Fund as may be in its possession.

III.3.2 Remuneration Structure in Favour of the Managing Company for the Performance of Its Functions.

The Formation Document will provide that the Managing Company will have a right to:

- (i) a one-time Management Fee payable on the Disbursement Date equal to one hundred twenty-five thousand (125,000) euros; and
- (ii) on each Bond Payment Date, a Periodic Management Fee equal to 0.025% per annum, with a minimum of SIXTY THOUSAND euros (€60,000) per annum, which will be earned on the basis of the effective days of each Interest Accrual Period, will be paid quarterly on each of the Payment Dates and will be calculated on the sum of the Unpaid Balances of the Bonds of all Series, on the first date of the Determination Period prior to the current Payment Date. The fee earned from the Date of Formation of the Fund until the first Bond Payment Date will be adjusted in proportion to the number of days elapsed between those dates, being calculated on the nominal amount of the issued Bonds.

The calculation of the Periodic Management Fee, payable on a given Payment Date, will be made in accordance with the following formula

$$A = B \times 0.025\% \times \frac{d}{365 \times 100}$$

Where:

A = Fee payable on a given Payment Date..

B = Sum of the Unpaid Balances of the Bonds of all Series, on the Determination Date corresponding to that Payment Date.

d = Number of days elapsed during each Interest Accrual Period.

The fee will be paid provided that the Fund has sufficient liquidity, and in accordance with the order of priority of payments contemplated in Section V.5.2.1.2'1. of this Information Brochure.

All payments to third persons for ordinary expenses (such as auditing, publicity and maintenance of the Bond ratings) and extraordinary expenses related to the management of the Fund, will be paid directly by the Management Company, without prejudice to its right to be reimbursed by the Fund provided that the Fund has sufficient liquidity, in accordance with the priority of payments contemplated in Section V.5.2.1.2 of this Information Brochure.

III.4 NET EQUITY OF THE FUND AND SUMMARY OF THE ASSETS DETERMINING THE INITIAL AMOUNT THEREOF AND THE AMOUNT AFTER THE COMMENCEMENT OF OPERATIONS. FORMATION EXPENSES. PERIODIC EXPENSES CHARGEABLE TO THE FUND AND REVENUES GENERATED FROM OPERATIONS

The Fund shall be separately formed without legal personality, having closed assets and liabilities in accordance with article 3, Royal Decree 926/1998. Consequently, neither the assets nor the liabilities of the Fund shall be changed after its formation.

At the Date of Formation, the Fund's assets shall comprise the Loans and the Reserve Fund described in section V.3.4. below, and its liabilities shall comprise the Bonds and the Subordinated Loan for Initial Expenses described in section V.3.2. below, such that the net equity of the Fund shall be zero.

The Fund's assets and liabilities, operations entered into to hedge risks and the services that may be contracted by the Fund are defined in the following sub-sections.

III.4.1 Net Equity of the Fund

III.4.1.1. Assets

a) Initial assets

At the Date of Formation, the Fund shall have as its principal asset:

The nominal sum of Loans assigned by the BANK and grouped in the Fund.

The balance on the Treasury Account (the Treasury Account includes the Reserve Fund) formed by the amounts obtained from the Subordinated Loan for Initial Expenses made by the BANK, which is described in section V.3.2. below.

The capitalised initial expenses.

b) Assets generated from the operations of the Fund

As from the Date of Formation and subsequent to the Disbursement Date, the principal assets of the Fund shall comprise:

The Outstanding Balance of Loans as a consequence of repayments of the principal on the Loans.

The ordinary nominal interest accruing on the Loans from the date of assignment calculated at the nominal interest rate for the Loans.

The nominal arrears interest accruing on the Loans calculated at the arrears interest rate applicable to the Loans.

The Net Amounts receivable, where applicable, in accordance with the terms of the Interest Rate Swap described in section V.3.3. below.

Any amounts or assets received as a result of legal or notarial enforcement of the guarantees for the Loans or the sale or operation of properties awarded to the Fund upon the execution of mortgage guarantees, or properties subject to interim administration and possession (in the foreclosure process), or acquisition at the auction price or at the price established by the courts. Similarly, all possible claims or indemnities that might arise in favour of the BANK, including such as may be derived from any supplementary rights associated with the Loans and, in particular, in

respect of the commissions payable by Debtors under the Loan Agreements.

- The amounts comprising the Reserve Fund.
- Other balances existing in the Treasury Account described in section V.3.1. below, plus the interest accruing thereon.
- The unamortized balance of capitalised initial expenses.
- Any other amounts due to the Fund in respect of other agreements entered into by the Management Company on behalf of the Fund.

III.4.1.2. Liabilities

a) Initial liabilities

At the Date of Formation, the Fund shall have as its principal liability:

- The amount payable in respect of the acquisition of the Loans.
- The Subordinated Loan for Initial Expenses awarded by the BANK as described in section V.3.2. below.

b) Liabilities generated from the operations of the Fund

At the Date of Formation, the Fund shall have as its principal liability:

- The Balance of Outstanding Principal Payable on the Series and B bonds in accordance with Chapter II of this Prospectus.
- The outstanding balances on the Subordinated Loan for Initial Expenses.

- The net amounts payable, where applicable, in accordance with the terms of the Interest Rate Swap described in section V.3.3. below.
- Any interest, commissions and other expenses established in accordance with the various agreements for the operation, as well as such as may be incurred by the Fund.

III.4.2 Revenues generated from the operations of the Fund

The Fund shall have the following revenues, which shall be deposited in the Treasury Account for use at a specific Payment Date:

- a) Amounts received in respect of the repayment of the principal on the Loans in the preceding Determination Period.
- b) Ordinary and arrears interest on the Loans calculated at the ordinary interest rate, financial charge or arrears rate applicable to each of the underlying loans and collected in the preceding Determination Period.
- c) The return obtained in the preceding Determination Period on amounts deposited in the Treasury Account in accordance with section V.3.1 below.
- d) Commissions on Loans paid by the Debtors in the preceding Determination Period.
- e) The net amount receivable, where applicable, in accordance with the terms of the Financial Swap described in section V.3.3. or, in the case of non performance by the BANK, the settlement payment on the Swap.
- f) Amounts drawn down on the Subordinated Loan for Initial Expenses.
- g) Any other amounts the Fund may receive, including such as may arise on the sale of properties awarded to the Fund.

III.4.3. Expenses payable by the Fund

The Management Company shall pay all expenses (both ordinary and extraordinary) necessary for operations on behalf of the Fund and shall be reimbursed in accordance with the priority of payments established in section V.5.2.1.2 below. By way of illustration, the Management Company shall settle the following initial and periodic expenses.

- All expenses incurred on the formation of the Fund and such as may arise in connection with mandatory verifications, registration and official authorisations.
- Expenses incurred in respect of the official advertising of the offer for subscription of the Bonds.
- Expenses incurred in the drafting and formalisation of the Deed of Formation, this Prospectus and related agreements, as well as the commissions and expenses provided for therein.
- The Fees charged by Rating Agencies in respect of services provided in rating the Bonds and maintaining such ratings.
- Expenses incurred in the issue and amortisation of the Bonds.
- Expenses incurred in bookkeeping for the Bonds in connection with their representation through book entries and trading on the AIAF secondary market for fixed interest securities.
- Any expenses that may be incurred in respect of the sale of the Loans and remaining assets of the Fund for the purposes of liquidation.
- Any expenses required to foreclose on the Loans.
- Any expenses incurred in respect of the administration of the Fund and the Loans.
- Commissions chargeable to the Fund under the financial services agreements entered into.

- Expenses incurred in announcements and notifications related with the Fund and/or the Bonds. Expenses incurred in respect of audit services and legal advice.
- In general, any other expenses incurred by the Fund or the Management Company acting on behalf of and representing the Fund.

An estimate of initial formation and issue expenses for the Fund is provided in section II.14 of this Prospectus.

Any Value Added Tax (VAT) paid by the Fund may represent an allowable expense for Corporate Income Tax purposes to the extent that it is not treated as input VAT or included as an increase in the value of assets.

III.5 PREPARATION, VERIFICATION AND APPROVAL OF ANNUAL ACCOUNTS AND OTHER ACCOUNTING DOCUMENTATION OF THE FUND

III.5.1 Requirements and periods for the preparation, verification and approval of the annual accounts and the management report

The annual accounts of the Fund shall be examined and verified by the auditors on an annual basis.

The financial year of the Fund shall be of equal duration to (1) calendar year and shall end on 31 December of each year.

The Management Company shall present the annual accounts of the Fund to the Spanish National Securities Market Commission (CNMV) together with the audit report thereon with the period of four (4) months following the close of the Fund's financial year (prior to 1 May of each year).

The Management Company shall appoint the Auditor for minimum periods of three (3) years, during which period the said Auditor shall examine the annual accounts of the Fund. The CNMV shall be informed of the Auditor appointed.

III.5.2. Requirements and periods for public reporting and delivery to the Spanish National Securities Market Commission (CNMV) of the periodic financial information of the Fund

In the course of its duties with regard to the management and administration of the Fund, the Management Company undertakes with due diligence to furnish the CNMV with the information referring to the Bonds, the performance of Loans, early redemptions and the financial situation of the Fund as described below on a quarterly basis subsequent to each Payment Date (except the information referred to in point e, which shall be reported annually).

a) Information referring to each Series of Bonds

1. Balances of Outstanding Principal and the percentage of the initial nominal amount of each Series represented thereby.
2. Accrued interest paid.
3. Accrued interest payable.
4. Accrued amortisation paid.
5. Estimated average life of the Bonds forming each Series assuming the Rate of Early Repayment of Loans determined in accordance with point d) below is maintained.

b) Information referring to Loans

1. Outstanding Balance of Loans.
2. Accrued interest receivable and collected.
3. Amount of repayments in arrears in respect of the Loans at the date of the report.

c) Information referring to the financial situation of the Fund

Report on the source and application of available funds in accordance with the order of priority of payments set forth in section V.5.2.1.2 below.

d) Information referring to early redemption of the Loans

List providing the actual Average Rate of Early Redemption of the Loans.

e) Annual Accounts of the Fund

Balance sheet, profit and loss account, management report and auditor's report as prepared within the four (4) months following the year end.

III.5.3 Reporting requirements for key events

For the purpose of full compliance with the terms and conditions of the issue, the Management Company undertakes to make the following disclosures:

a) Ordinary periodic disclosures

- a) In accordance with section II.10.1.d) of this Prospectus, through the medium of the Management Company the Fund shall report to the Bondholders the nominal interest rates for each Bond Series as calculated for the following Interest Accrual Period on the basis of the criteria set forth in the aforementioned section within the period commencing with the Moment of the Interest Rate Calculation and ending at the latest three (3) Business Days after the Payment Date.
- b) As provided in sections II.10.3 and II.11.3, through the medium of the Management Company the Fund shall provide a quarterly report to the Bondholders at least one (1) calendar day prior to each Payment Date setting out not only the resulting interest on the Bonds comprising the two Series, together with the redemption thereof where applicable, but also:
 - (i) The actual Average Rates of Early Repayment of the Loans at the Determination Date.

- (ii) The average residual life of the Bonds forming the two Series as calculated under the assumption that such actual rate and the early redemptions established in accordance with section II.12.b will be maintained.
- (iii) The Outstanding Balances Payable (after the amortisation due at each Payment Date) on the Bonds forming each Series and the percentage of the initial nominal amount of the Bonds represented by such Outstanding Balances Payable.

In addition, and where appropriate, the Bondholders shall be informed of the amount of interest accruing in their favour but not paid due to the insufficiency of Available Funds, in accordance with the rules for the priority of payments established in section V.5.2.1.2 below.

The disclosures referred to in this point a) shall be made in accordance with point c) below and shall also be reported to Iberclear at least three (3) Business Days prior to each Payment Date.

b) Extraordinary disclosures

- b')** Upon the formation of the Fund and the issue of the Bonds, on the day following the Formation Date the Management Company shall proceed on behalf of the Fund to announce (in accordance with the procedure set forth in point c) below) the formation of the Fund and the issuance of the Bonds, together with the annual nominal interest rates, the variable quarterly rates for each Bond Series as calculated for the First Interest Accrual Period, all in conformity with section II.10 of the Information Prospectus. Such disclosure may be made on any calendar day, whether it be a Business Day or a Holiday (for the purposes of this Prospectus).

b'') Other disclosures

Via the Management Company, the Fund shall also disclose to the Bondholders any relevant events that may arise in connection with the Loans, the Bonds, the Fund, or the Management Company itself that could significantly affect trading in the Bonds and, in general, any possible decision regarding the early redemption of the Bonds on any of the grounds provided in the Information Prospectus, in which case the Notarial Certificate of Settlement and Procedure referred to in section III.8.2 of the Information Prospectus shall be delivered to the CNMV.

c) Procedure

Any disclosures to bondholders that the Fund may be required to make through the medium of the Management Company shall be made as follows:

1. The periodic ordinary disclosures referred to in point a) above shall be published either in the daily AIAF, Fixed Interest Market bulletin, such publication as may in future replace the same or another publication of a similar nature, or in a high circulation Spanish daily newspaper.
2. The extraordinary disclosures referred to in point b) above shall be published in a high circulation Spanish newspaper.

The aforementioned disclosures may also be made by means of publication in other general communications media.

Such disclosures shall be deemed made on the date of their publication, for which purpose any calendar day shall be apt whether it be a Business day or a Holiday (for the purposes of this Prospectus).

d) Reporting to the Spanish National Securities Market Commission

The Management Company shall report all ordinary periodic and extraordinary disclosures published in accordance with the preceding points to the CNMV and the Rating Agencies, as well as any information that may be required independently of the above.

III.6 TAX REGIME FOR THE FUND

The following discussion provides a brief overview of the tax regime applicable to the Fund in accordance with section 2, article 1 of Royal Decree 926/14 May 1998 governing Asset-Backed Securitisation Fund and Securitisation Fund Management Companies; article 5.10 of Law 19/1992; article 7.1.h) of Royal Legislative Decree 4/5 March 2004 approving the Amended Corporate Income Tax Act; article 20.One.18 of the Value Added Tax Act, 1992 (Law 37/28 December 1992); article 59.k of Royal Decree 1777/30 July 2004 approving the Corporate Income Tax Regulations; article 45.I.B).15 of Royal Decree 1/24 September 1993 approving the Amended Transfer Tax and Stamp Duties Act; article 16 of Royal Decree 3/1993; and the fifth additional provision of Law 3/1994.

- (i) The formation of the Fund is exempt from Transfer Tax and Stamp Duties on “corporate operations”.
- (ii) The issuance of the Bonds is exempt from Value Added Tax and Transfer Tax and Stamp Duties.
- (iii) The Fund is subject to Corporate Income Tax, taxable income being assessed in accordance with Title IV of the Corporate Income Tax Act, to which the general tax rate prevailing from time to time (currently 35%) shall be applicable.
- (iv) The Fund shall not be applied to apply withholdings at source or make payments on account of Corporate Income Tax in respect of returns earned on Mortgage Assignment Certificates, loans or other claims constituting revenues of the Fund.
- (v) The Management and deposit services provided to the Fund by the Management Company shall be exempt from Value Added Tax.

III.7 EXCEPTIONAL GROUNDS FOR AMENDMENT OF THE DEED OF FORMATION OF THE FUND

In accordance with Royal Decree 926/1998, the Deed of Formation shall have essentially the following content:

- (i) It shall identify the Loans assigned by the BANK to the Fund, the proposed regime for the management and collection thereof and, where appropriate, rules for their substitution. It shall also detail the legal and financial characteristics of the Loans and balances, returns, financial flows, terms of collection, maturity dates and amortisation systems.
- (ii) It shall precisely define the characteristics of the Bonds to be issued, as well as the loans and other contributions.
- (iii) It shall establish any other rules governing the Fund, determining the operations that the Management Company may carry out on behalf of the fund in order to assure the security of the Bonds or regular payments, neutralise differences in the rates of interest earned on the assets forming part of the Fund and the Bonds and, in general, to transform the financial characteristics of all or some of the said assets.
- (iv) It shall determine the rules by which the process of liquidation of the Fund shall be governed.
- (v) It shall specify the Assignor of the Loans.
- (vi) It shall specify the time limit for the life of the Fund, as well as the maximum amount thereof.
- (vii) It shall establish the mechanism to safeguard the rights of investors in the event of any latent defects, misrepresentations or negligence affecting the Loans.

In accordance with point (iii) of the preceding paragraph, the Deed of Formation shall establish that the Fund may enter into the contracts enumerated in section V.3 below through the Management Company.

The Deed of Formation of the Fund may only be amended in exceptional circumstances, where permitted by prevailing legislation and subject to legally established conditions, provided such amendment would not affect the rating accorded to the Bonds by the Rating Agencies or the interests of the Bondholders, subject to prior notification of the Rating Agencies and prior approval of the CNMV, if applicable. The Deed of Formation may also be corrected at the behest of the CNMV. Any amendment to the Deed of Incorporation shall be formalised in a public deed and shall be reported to the CNMV for public disclosure as a relevant event or supplement to this Prospectus.

III.8 SETTLEMENT AND WINDING UP OF THE FUND

III.8.1 Early liquidation of the Fund

The Management Company shall be empowered to proceed with the early liquidation of the Fund, subject to notification of the CNMV, and to make early repayment of all of the Bonds issued at a given Payment Date in the following circumstances:

- (i) When the amount of the Current Balance of the loans is less than 10% of the Current Balance of the Loans on the Formation Date, in accordance with the provisions of article 5.3 of the Law 19/1992, provided that the sale of the outstanding loans together with the balance on the Treasury Account at the time would permit the cancellation in full of all outstanding obligations with the Bondholders, respecting other payments with preference in the order of priority and that all requisite authorisations are obtained from the competent authorities for this purpose.
- (ii) When amendments to prevailing legislation or the occurrence of exceptional circumstances should cause, in the opinion of the Management Company, a substantial alteration or permanent change in the financial balance of the Fund.
- (iii) In the circumstances provided in article 19 of Royal Decree 926/1998, which establishes the obligation to liquidate the Fund in advance if a period of four (4) months has elapsed since the occurrence of any event determining the mandatory substitution of the Management Company, due to a declaration of insolvency on its part, without any

other management company being found to take over the management of the Fund.

- (iv) Where any non payment occurs indicating a grave and permanent imbalance in relation to any Bond or any non subordinated loan, or where it is foreseen that such situation will occur.
- (v) After a maximum period of fifty-four (54) months has elapsed from the date of the last maturity of the Loans.

The liquidation of the Fund shall be notified first to the CNMV and then to the Bondholders in the manner provided in section III.5.3.b).b”) and c) of this Prospectus thirty (30) Business Days in advance of the date of the early repayment, which shall necessarily take place on a Payment Date. The distribution of the available amounts from the Fund will be made in accordance with the following order of priority of liquidation payments, which is different than the order of priority of payments in Section V.5.2.1.2:

1. Payment of the ordinary and extraordinary expenses of the Fund set forth merely by way of illustration in Section III.4.3 of this Brochure, whether or not paid by the Managing Company and duly justified, including its management fee of 0.025% per annum calculated on the Unpaid Principal Balance of the Bonds). The Bank will enjoy this priority with respect to management of the Loan Rights only with respect to the expenses that have been advanced or paid to third persons for the account of the Fund and are to be returned to them, all duly justified.
2. Payment to the Bank of the net amount owed by the Fund under the Swap Agreement, in accordance with the provisions of Section V.3.3. and, in the event of termination of that agreement for breach of the Fund, represented by the Managing Company, the liquidating payment of the Swap Agreement.
3. Payment of the accrued interest on the Series A Bonds.
4. Payment of the pending principal of the Series A Bonds.

5. Payment of the accrued interest on the Series B Bonds.
6. Payment of the Pending Principal of the Series B Bonds.
7. Payment of the amount owed by reason of termination of the swap, if applicable, in case of breach by the BANK.
8. Payment of accrued interest on the Loan for Initial Expenses.
9. Repayment of the pending principal of the Subordinated Loan.
10. Payment to the Bank of the Fixed Fee for management of the Loans, equal to six thousand (6000) euros per quarter, VAT included.
11. Payment to the Bank of a variable amount as remuneration or compensation for the process of financial intermediation undertaken, equal to the difference between the accounting income and expenses of the Fund on the corresponding Payment Date.

The liquidation shall also be notified to Iberclear, the AIAF Fixed Interest Market and the Rating Agencies.

III.8.2 Winding up of the Fund

The Fund shall be would up (i) upon the repayment in full of all of the Loans included therein; (ii) in accordance with the early liquidation proc provided for in the preceding section and in Clause 5 of the Deed of Formation; (iii) in the case that the provision classification of the Bonds is not confirmed prior to the commencement of the Subscription Period; and (iv) at the Legal Maturity Date.

In the event that any of the situations described in the preceding sections should arise, the Management Company shall notify the CNMV thereof and commence the relevant procedures to wind up the Fund.

In the event that any of the grounds for winding up the Fund set forth in section (iii) above should occur, the formation of the Fund shall be

terminated, as well as the Bond issue and the Contracts entered into by the Management Company on behalf of the Fund, with the exception of the Subordinated Loan Agreement for Initial Expenses, in accordance with which any formation expenses that the Fund may have incurred shall be settled. Such termination shall be reported forthwith to the CNMV and after one (1) month has elapsed from the moment at which the ground for the termination of the formation of the Fund may have occurred, the Management Company shall make a Notarial Certificate declaring the winding up of the Funds and the grounds for the same, which shall be delivered to the CNMV, Iberclear and the Rating Agencies.

III.8.3 Actions for the liquidation and winding up of the Fund

With a view to the winding up of the Fund through the Management Company, its liquidation and, where applicable, early settlement of the Bonds issued in those circumstances defined in section III.8.1 above, and, specifically in order to ensure that the Fund has sufficient cash to meet its payment obligations, the Management Company may, on behalf of the Fund, undertake the following actions:

- (i) sale of the Loans at a price that may not be less than market. For these purposes, the Management Company shall seek bids from at least five (5) institutions active in the purchase and sale of the Loans in question and shall not sell the same at a price less than the best bid received. The BANK shall have a right of pre-emption to acquire such Loans under the terms and conditions established by the Management Company. For the purposes of the exercise of the said right of pre-emption, the BANK shall have a period of five (5) Business Days from the date at which the Management Company notifies the terms and conditions under which it intends to proceed with the sale of the Loans. The aforementioned right of pre-emption does not imply, under any circumstances, a pact, declaration or obligation to repurchase the Loans by the BANK.
- (ii) cancellation of those contracts that are not essential for the process of liquidation of the Fund.
- (iii) in the event that the aforementioned actions should prove insufficient or that any assets should remain, the Management Company shall proceed to sell all other assets or claims remaining to

the Fund. The Management Company shall be empowered to accept such bids as, in its judgement, cover the market value of the asset or claim in question and offer immediate payment in cash. In order to establish the market value, the Management Company may obtain such appraisals as it may deem necessary.

In the event that any remainder should exist after the liquidation of the Fund and the settlement of all payments provided in section V.5.2.1.2 below, such amount shall be settled by the BANK. In the event that such remainder should not be a cash sum, representing Loans pending resolution of judicial or notarial proceedings commenced as a consequence of non payment by the Debtor in accordance with Clause 6 of the Deed of Formation, both the continuation of such proceeding and the amount of the resolution shall be due to the BANK.

In any event, the Management Company, acting on behalf of and representing the Fund, shall not wind up the Fund and cancel entries in the pertinent official registries until such time as all remaining assets of the Fund have been liquidated and its available funds distributed in accordance with the order of priority of payments provided in section V.5.2.1.2 of this Prospectus.

After a period of six (6) months has elapsed since the liquidation of the remaining assets of the Fund and the distribution of the available funds, the Management Company shall make a notarial certificate declaring (i) the winding up of the Fund and the grounds established in the Deed of Formation and in this Prospectus on which such winding up was based; (ii) the procedure for notification of the Bondholders and the CNMV carried out; and (iii) the distribution of the amounts available to the Fund following the order of priority of payments provided in section V.5.2.1.2 below, complying with all other pertinent official procedures. Such notarial document shall be delivered by the Management Company to the CNMV.

CHAPTER IV
INFORMATION CONCERNING THE CHARACTERISTICS OF THE ASSETS
SECURITIZED VIA THE FUND

IV.1 DESCRIPTION OF THE LOANS GROUPED IN THE FUND

The BANK shall transfer to the Fund in the manner specified below and for the purpose of writing them off, loan rights (the "*Loan Rights*") it owns, derived from loans (the "*Loans*") granted to municipalities, autonomous communities and entities belonging to them (the "*Debtors*").

The Loan Rights derived from Loans secured by real estate mortgages (respectively, the "*Loan Rights Derived from Mortgage Loans*" and the "*Mortgage Loans*") are distinguished from the Loan Rights derived from Loans not guaranteed by real estate mortgages (respectively, the "*Loan Rights Derived from Nonmortgage Loans*" and the "*Nonmortgage Loans*").

Securitization Requirements

All of the Loans shall individually meet all of the securitization requirements (hereinafter the "*Securitization Requirements*") described below:

- (i) bilateral loans awarded by the Bank to municipalities, autonomous communities and entities belonging to them;
- (ii) denominated and payable in euros.
- (iii) backed by collateral guarantee (property mortgage) in the case of Loan Rights Derived from Mortgage Loans.
- (iv) earning fixed or variable interest referred to some market index.
- (v) maturing prior to 23 December 2031;
- (vi) title held by the Bank free of charges and liens.
- (vii) meeting the Bank's criteria for the award of loans at the time of the award.

- (viii) loans in connection with which the Bank has not received any notification of claims or petitions for compensation whatsoever prior to assignment to the Fund.
- (ix) payments by the Debtor in respect of the Loan are not subject to any tax deductions or withholdings.
- (x) absence of any impediment to the free assignment of the Fund.
- (xi) constituting a valid and binding obligation to make payment for the Debtor, enforceable in accordance with the terms and conditions of the Loan (except in the case of limitations on enforcement derived from insolvency).
- (xii) governed by Spanish law.
- (xiii) formalised in a public deed or policy witnessed by a notary public, the first copy of which is public deed or formalised policy, as applicable, is held by the Bank.
- (xiv) initial repayment period of not less than one year.
- (xv) all Loans fully drawn down.
- (xvi) no person shall have preferential rights to the Loans over and above the Fund.
- (xvii) at the time of assignment the Debtor shall be up-to-date with payment obligations with respect to the underlying Loan;
- (xviii) the BANK has no knowledge of the existence of litigation of any kind regarding the underlying Loans that could affect their validity and enforceability;
- (xix) the respective agreements, public deeds or public documents documenting the underlying Loans do not contain clauses preventing their assignment or requiring any approval or notice to undertake the assignment;

- (xx) the grant of the Loans and their assignment to the Fund and all matters related thereto are acts within the ordinary business activities of the BANK and have been undertaken under normal conditions.

b) Representations and Guarantees of the Assignor of the Loans

As the holder of title to the Loans, the BANK makes the following representations and guarantees to the Management Company, representing the Fund, and to the Underwriting Institutions:

b.1) In relation to the BANK:

- (1) The BANK is a duly incorporated credit institution in accordance with prevailing Spanish legislation and is entered in the Santander Companies Registry.
- (2) The governing bodies of the BANK have validly adopted all of the corporate resolutions necessary for the assignment of the Loans to the Fund and to make the Formation Deed, the contracts and the secondary commitments assumed.
- (3) The BANK is permitted to participate in the Mortgage Market and, in particular, to make all of the Loans assigned in accordance with the Formation Deed.
- (4) The BANK has not been and is not involved in bankruptcy proceedings at the date of this Prospectus or at any other time since its incorporation.
- (5) The BANK has audited annual accounts for the last three years reflecting, at least, an unqualified opinion on the part of the Auditors for the last years, and has deposited the annual accounts for the last year with the CNMV.

b.2) Information referring to the Loans

- (1) The Loans exist, are valid and enforceable in accordance with prevailing Spanish legislation, all appropriate legal requirements having been observed in the formalisation thereof.

- (2) One hundred percent (100%) of the Loans individually meet all of the Securitization Requirements enumerated in section IV.1 above.
- (3) The BANK has faithfully followed the risk policy set forth in the Internal Memorandum attached hereunto as **Annex 7** in the award of each and every one of the Loans and the acceptance, where appropriate, of subrogation of the latest borrowers to the position of the initial borrower.
- (4) The data referring to the Loans included in the Prospectus faithfully reflect the situation at the date of selection of the portfolio and are accurate.
- (5) From the moment of award or subrogation, as the case may be, the Loans have been managed by the BANK in accordance with its usual procedures.
- (6) For the purposes contemplated in the Ministerial Order of 30 December 1992 regarding solvency rules for credit entities, the Loan Rights may be considered to be assets with a maximum weighting of 20%.

b.3) Information referring to Mortgage Loans

- (1) Each of the Mortgage Loans is guaranteed by a mortgage guarantee established over the full ownership of each and every one of the properties in question, and such mortgaged properties are not affected by any charges prohibiting sales, conditions subsequent or other limitations on ownership.
- (2) All of the Mortgage Loans are formalised in public deeds and all of the mortgages have been duly formalised and entered in the pertinent Property Registers. The entry of the mortgaged properties is current and without contradiction.
- (3) The Mortgage Loans are not instrumented through any registered securities, securities to the order or bearer securities.
- (4) The Mortgage Loans are not tied to the issue of mortgage bonds or mortgage securities other than the issue of the Mortgage Transfer

Certificates (CTH) and, as from the issuance thereof, the Mortgage Loans shall not be tied to any other issue of mortgage warrants, mortgage bonds, mortgage securities or other Mortgage Transfer Certificates (CTH).

- (5) The copies of the mortgage deeds to which the Mortgage Loans refer have been duly deposited in the archives of the BANK, which are appropriate for the purpose, and are at the disposal of the Management Company acting on behalf of and representing the Fund, and all of the Mortgage Loans are clearly identified both in computer formats and through the relevant deeds.
- (6) There is no knowledge of the existence of litigation of any kind in connection with the Mortgage Loans such as might adversely affect their validity or give rise to the application of article 1.535 of the Spanish Civil Code, or of the existence of circumstances that might result in the unenforceability of the contract for the acquisition of the property mortgaged by way of guarantee for the Mortgage Loans.
- (7) At the date of the issue, no communications have been received notifying the early repayment in full of any of the Mortgage Loans.
- (8) There is no knowledge of any other circumstance that might impede the execution of the mortgage guarantee.

b.4) Information referring to the Mortgage Transfer Certificates

- (1) The Mortgage Transfer Certificates are issued under market conditions and in accordance with Law 2/1981, Royal Decree 685/1982, except section 2 of Royal Decree 1289/1991, the fifth additional provision of Law 3/1994, following the wording established by article 18 of Law 44/2002 in accordance with which prevailing legislation applicable to mortgage securities shall be applied to the issue of Mortgage Transfer Certificates, for all applicable matters, and other applicable legislation, and meet all of the requirements established in the aforesaid legislation.
- (2) The Mortgage Transfer Certificates are issued for the term remaining to maturity and at the same rate of interest as each of the relevant Mortgage Loans.

- (3) There is no knowledge that any of the Debtors in respect of the Mortgage Loans is the holder of any claims against the BANK conferring upon the same any right of compensation that could have a negative effect upon the rights established in the Mortgage Transfer Certificates.
- (4) At the date of issue the current balance of the principal of each of the Mortgage Loans is equivalent to the capital per the Mortgage Transfer Certificate concerned.
- 5) Upon the issue of the Mortgage Transfer Certificates, the current balance of principal under the mortgage warrants issued by the BANK does not exceed ninety percent (90%) of the sum of outstanding principal on the mortgage loans forming part of its portfolio, less such as are tied to other mortgage securities.

c) Assignment of Loans

The preliminary loan portfolio out of which the Loans to be assigned to the Fund will be drawn is formed by forty five (45) mortgage Loans with outstanding principal at 16 November 2004 of thirty two million seventy seven thousand one hundred and sixty nine euros and twenty four cents (€32,077,169.24), and one thousand four hundred and seventy (1,470) Non Mortgage Loans with outstanding principal at 16 November 2004 of one billion eight hundred and seventy million five hundred and twenty two thousand and eighty eight euros and eighty seven cents (€1,870,522,088.87).

c.1) Assignment of the Loans

The assignment of the Loans assigned by the BANK upon the formation of the Fund shall be instrumented via the Deed of Formation and shall be carried out as described below, differentiating between Claims Derived from Mortgage Loans and Claims Derived from Non Mortgage Loans.

1) Assignment of Claims Derived from Non Mortgage Loans

The assignment of the Claims Derived from Non Mortgage Loans shall be carried out in accordance with the Deed of Formation, which shall set out the relevant terms for such assignment.

Such assignment shall be full and unconditional and shall be carried out until the maturity in full of the Claims Derived from Non Mortgage Loans assigned.

2) **Assignment of Claims Derived from Mortgage Loans**

The assignment of the Claims Derived from Mortgage Loans shall be carried out by virtue of the Formation Deed, which shall set forth the appropriate terms and conditions for the issue by the BANK of the Mortgage Transfer Certificates in accordance with the fifth additional provision of Law 3/1994 in the wording established by article 18 of Law 44/2002, in accordance with which prevailing legislation applicable to mortgage securities is applicable to the issue of Mortgage Transfer Certificates in all applicable matters for subscription by the Management Company on behalf of the Fund.

Such assignment shall be full and unconditional and shall be carried out until the maturity in full of the Mortgage Loans assigned.

Issue of the Mortgage Transfer Certificates (CTH)

In the act at which the Deed of Formation is granted the Assignor shall issue the Mortgage Transfer Certificates, each one of which shall represent a one hundred percent (100%) participation in the Outstanding Balance of the Claims Derived from the relevant Mortgage Loans.

The Mortgage Transfer Certificates shall be issued by the Assignor subject to the fifth additional provision of Law 3/ 1994 in the wording established by article 18 of Law 44/2002 in accordance with which prevailing legislation applicable to mortgage securities is applied to Mortgage Transfer Certificates, Law 19/1992 and legislation governing the Mortgage Market (Mortgage Market Regulation Act, 1981 ("*Law 2/1981*"), Royal Decree 685/17 March 1982 implementing certain aspects of Law 2/1981, as amended by Royal Decree 1289/ 2 August 1991 ("*Royal Decree 685/1982*"), and other applicable legislation.

Representation of the Mortgage Transfer Certificates

The methodology issued by the Assignor in the act of formation of the Fund shall be represented in a multiple nominative security which shall contain the minimum references established by article 64 of Royal Decree 685/1982.

Both in the case that it may be necessary to substitute any Mortgage Transfer Certificate, as provided in the Formation Deed, and for the case that the Management Company, acting on behalf of and representing the Fund, or the BANK should foreclose on any Mortgage Loan in respect of a given Mortgage Transfer Certificate, and if the early liquidation of the Fund should go ahead in accordance with the grounds and conditions established in Clause [5] of the Deed of Formation and section III.8 above making it necessary to sell the said Mortgage Transfer Certificates, the Assignor undertakes to split any multiple security, where applicable, into as many individual or total securities as may be necessary to replace or swap the same in order to achieve the aforesaid purposes.

Transmissibility and registration of the Mortgage Transfer Certificates

As established in Royal Decree 685/1982, the Mortgage Transfer Certificates shall be transmissible through a written representation made on the certificate itself and, in general, in any way permitted by Law. The acquirer shall notify the Assignor of the transfer of the certificate and the address of the new holder.

The transferor shall not be liable for the solvency of the Assignor or the Debtor of the Mortgage Loan, or for the sufficiency of the mortgage guaranteeing the certificate.

As the issuer of the Mortgage Transfer Certificates, the Assignor shall keep a special book in which it shall record the Mortgage Transfer Certificates issued in respect of each Mortgage Loan, as well as any transfers of the same that may be notified. The provisions of article 53 of Royal Decree 685/1982 regarding

nominative securities shall apply to the Mortgage Transfer Certificates. Changes of address notified by the holders of Mortgage Transfer Certificates shall be entered in this book.

The aforesaid book shall also contain the following data:

- a) Date of opening and maturity of the Mortgage Loan, initial amount thereof and manner of liquidation.
- b) Registry data for the mortgage.

Transfer Tax and Stamp Duties

The issue, transfer, repayment and cancellation of the Mortgage Transfer Certificates shall be exempt from Transfer Tax and Stamp Duties in accordance with article 71 of Royal Decree 685/1982.

3) Price of the assignment of the Loans

The Loans shall be assigned at par, which is to say at a price equal to the outstanding principal on the Loans grouped in the Fund at the Date of Formation of the Fund.

The price shall be paid in full by 15:00 hours (Madrid time) on the same Business Day on which the Bond issue is fully paid up 22 December 2004) at the value on that day, in accordance with Clause 6.1.3 of the Deed of Formation. The payment shall be made by means of an order issued by the Management Company to the BANK to proceed to charge the amount of the acquisition price of the Loans to the treasury account open in the BANK in the name of the Fund (hereinafter the "*Treasury Account*").

c.2) Closed nature of the Fund

The Fund shall be a closed-end fund both as regards its assets and liabilities in accordance with article 3 of Royal Decree 926/1998. Consequently, as from the moment of its formation, the assets of the Fund may not be changed and, therefore, no new Loans may be included in the Fund. Likewise, its liabilities may not be changed and, consequently, the Fund may not issue any further Bonds.

c.3) Liability of the Assignor

The Assignor shall not be liable for the solvency of the Debtor nor for the sufficiency of the guarantees backing the Loans.

The Assignor shall only be liable for the existence and legitimacy of the Loans at the time of assignment in accordance with the terms and conditions established in the Deed of Formation of the Fund, and for the personality under which the assignment is made and the representations set forth in section IV.1 of this Prospectus with regard to the Securitization Requirements and section IV.1.b) with regard to the Assignor, the Claims and, in general, the Mortgage Loans in particular and in relation to the Mortgage Transfer Certificates.

c.4) Formalisation of the assignment of the Loans

At the date of Formation of the Fund, the Management Company, acting on behalf of and representing the Fund, shall enter into an agreement with the BANK setting out the relevant conditions for the formalisation of the assignment of the Claims Derived from Non Mortgage Loans and the issue and subscription of the Mortgage Transfer Certificates, as established in the Formation Deed.

(1) Object

The object is the assignment of the Loans by the BANK to the Fund at the Date of Formation of the Fund.

(2) Legislation applicable to the assignment of the Loans

The assignment of the Loans shall be subject to ordinary Spanish legislation. In accordance with ordinary Spanish legislation, the validity of the assignment of the Loans by the Assignor to the Fund is subject to compliance with the following conditions:

- (i) The Loan agreement in question does not prohibit assignment of the Loan or, where such is the case, the consent of the Debtor and any other necessary consent, where appropriate, has been obtained.

- (ii) All and any conditions or requirements related with such assignment and established in the relevant Loan agreement have been complied with, or where otherwise the consent of the Debtor and any other consent required, where applicable, has been obtained.

In accordance with article 1,527 of the Spanish Civil Code, any debtor paying the creditor prior to obtaining knowledge of the assignment shall be released from any obligation. After the Debtors have been notified of the assignment, they shall only be released from their obligations upon making payment to the Payment Agent in the corresponding account specified by the Managing Company. In accordance with article 1,198 of the Civil Code, any Debtor who may consent to the assignment may not seek compensation from the Fund such would have been the liability of the Assignor.

In the case that the Management Company should revoke the mandate conferred upon the Assignor as the Administrator of the Loans referred to in section IV.2.1 of this Prospectus, it must require the outgoing to notify the relevant Debtors, absorbing the costs of that notice, of the assignment of the Claims Derived from Non Mortgage Loans and the issue of the Mortgage Transfer Certificates, as well as the fact that the payments derived from the same shall only release the payer from obligations if made to the account designated by the Management Company. In the event that the Assignor should fail to comply with any requirement of the Management Company within five (5) Business Days after receiving the same, the Management Company shall make the aforementioned notification, without prejudice to the contractual liability that the Assignor may incur as a result of such non performance.

The ordinary Spanish law applicable to the assignment of the Claims Derived from Mortgage Loans is the legislation naturally applicable to the assignment made through the issue by the BANK of the Mortgage Transfer Certificates for subscription in their entirety by the Fund, in accordance with the fifth additional provision of Law 3/1994 in the wording established by article 18

of Law 44/2002, Law 2/1981 of Royal Decree 685/1982 and other legislation prevailing from time to time with regard to the transmissibility and acquisition of mortgage market securities.

(3) Terms and conditions for the assignment of the Loans

The assignment of the Loans shall be made in accordance with the following conditions:

- (i) The assignment shall comprise the total outstanding principal at the Date of Formation of the Fund and the total ordinary and arrears interest calculated on the basis of the ordinary interest for each Loan pending the settlement, on the Date of Formation of the Fund, of the Loans.

The Loans shall be assigned at par, which is to say at a price equal to the outstanding principal on the Loans grouped in the Fund on the date at which they are assigned to the Fund.

- (ii) The assignment of the Loans to the Fund shall be full and unconditional for the entire period remaining to maturity thereof.
- (iii) The assignment of the Loans shall also comprise any collateral established in respect of each Loan (hereinafter "*the Guarantees*") and additional rights.
- (iv) The BANK shall carry out any legal action that may be required against the debtors as a result of the Claim in question (including, where appropriate, those relating to the execution of the guarantees) in its own name and on behalf of the Fund.
- (v) In the event that it is discovered, after the Formation Date, that any of the Loans is affected by latent defects, not being in accordance with the Securitization Requirements set forth in section IV.1 of this Prospectus or the representations contained in sections IV.1.b.2), IV.1.b.3) and IV.1.b.4) at the Date of Formation of the Fund, as the

case may be, or because at the said date it does not have the characteristics communicated by the BANK to the Management Company, the party becoming aware of such circumstance shall notify the same in writing to the other. Both parties shall then have a period of five (5) Business Days to correct such latent defect, or where the defect is not susceptible of correction to replace the Claim affected with another or others with an equal or lower total current balance, the selection of which shall be carried out in accordance with section IV.1.c.4)(2) above.

Such substitution shall be carried out by means of a simultaneous resolution for the assignment of the Loan affected by the latent defect and the assignment to the Fund of the Claim or Claims to be replaced. Where such are Claims Derived from Mortgage Loans, this shall be effected by means of the cancellation of the Mortgage Transfer Certificate affected and the issue and subscription by the Fund of the Mortgage Transfer Certificate that will replace it, by means of the corresponding stamp on the certificate, duly completed for that purpose, and the issuance of another Mortgage Transfer Certificate with similar characteristics of remaining term, interest rate, pending principal and credit quality by reference to the relationship between the pending balance of the Loan Right Derived from the Mortgage Loan and the appraised value of the real estate securing the underlying loan, once there has been verification, prior to the replacement, of the suitability of the replacement loan by an external auditing company, in accordance with the provisions of Section I.3 of this Brochure, so that the financial structure of the Fund is not affected by the replacement. This issuance of the Mortgage Transfer Certificate by the BANK and replacement by the Managing Company, representing the Fund, will be effectuated by means of the grant of the corresponding notarial act that will contain the information regarding the Mortgage Transfer Certificate to be replaced and the mortgage loan underlying it, and regarding the newly issued Mortgage Transfer Certificate, with the information regarding the mortgage loan, as well as the

reason for the replacement and the variables that determine the homogeneous nature of both Mortgage Transfer Certificates, as described above. A copy will be delivered to the National Securities Market Commission, to the entity responsible for the accounting records, and to AIAF, also sending it to the Rating Agencies.

Regarding Loan Rights derived from Nonmortgage Loans, the suitability of the Loan Rights derived from Nonmortgage Loans that are to replace them will be verified by the external auditing company, contemplated in Section I.3 of this Brochure, so that the financial structure of the Fund will not be affected by the replacement. The BANK and the Managing Company, in the name of the Fund, will grant a notarial deed terminating the assignment of the unsuitable Loan Right derived from a Nonmortgage Loan and assigning the new Loan Right derived from a Nonmortgage Loan. A copy of the deed will be delivered to the National Securities Market Commission, to the entity responsible for the accounting records, and to the AIAF market, also sending it to the Rating Agencies.

The BANK shall reimburse the Fund for any unpaid amounts in connection with the Loan substituted by means of a debit to the Treasury Account. In the event that the Outstanding Balance on the substitute Loan should be less than the Claim replaced, the BANK shall reimburse the Fund for the difference, based on the nominal value, accrued interest receivable and any other unpaid amounts in respect of the said Loan through a credit to the Treasury Account at the relevant date.

In the event that the said substitution cannot be or is not effected within the aforementioned period of five (5) Business Days, the Management Company shall terminate the assignment of the Loan affected by the latent defect or shall repay the Mortgage Transfer Certificate affected in advance. In such case the BANK shall reimburse the Fund for the current balance on the Loan, together with accrued

interest receivable and any other unpaid amounts in respect of such loans by debiting the Treasury Account.

- (vi) The BANK shall be liable to the Fund for any damages the latter may incur as a result of the exercise of the right to compensation by any of the Debtors, as a result of which the Fund may be required to pay an amount equal to such as would have comprised compensation due to the Debtor plus, where appropriate, any accrued interest payable on such amount from the date at which the compensation arose (inclusive) until the date of payment by the BANK to the Fund (exclusive), calculated at the rate established for the corresponding Claim.
- (vii) The BANK shall not be under any obligation to repurchase the Claims, except in accordance with section IV.1.c.4) (4) (vi) above.

d) Description of the rights conferred upon the holder by the Claims on the underlying Loans

The Fund, as the holder of the Claims, shall have the rights recognised in favour of the assignee in article 1528 of the Spanish Civil Code.

Specifically, the Claim confer the following rights:

- a) the total amount of all sums accruing in respect of the amortisation of the capital or principal on the Claims.
- b) the total amount of all sums accruing in respect of ordinary interest on the Claims, calculated on the basis of the ordinary interest rate for each claim.
- c) the total amount of all sums accruing in respect of arrears interest on the Claims, calculated on the basis of the ordinary interest rate for each claim.
- d) Any amounts or assets received as a result of legal or notarial enforcement of the guarantees or, in the case of Mortgage Loans, on the sale or operation of properties awarded to the Fund upon the

execution of mortgage guarantees, or properties subject to interim administration and possession (in the foreclosure process), or acquisition at the auction price or at the price established by the courts.

- e) all possible claims or indemnities that might arise in favour of the BANK, including not only such as may be derived from the credit insurance contracts assigned by the BANK to the Fund but also such as are derived from any additional right in respect of the Claims.

All of the rights referred to above shall accrued in favour of the Fund from the Date of Formation.

The Fund rights arising in respect of the Claims shall be linked to the payments made by the Debtors against the Loans and, accordingly, shall be directly affected by the evolution thereof, arrears, advances or any other matters affecting the same.

IV.2 SHORT DESCRIPTION AND SUMMARY OF THE REGIME AND ORDINARY PROCEDURES FOR THE MANAGEMENT AND CUSTODY OF THE CLAIMS, WITH SPECIAL ATTENTION TO THE PROCEDURES ESTABLISHED IN RELATION TO LATE PAYMENTS AND NON PAYMENTS OF PRINCIPAL AND INTEREST, EARLY REPAYMENT, FORECLOSURE OF MORTGAGES AND, WHERE APPLICABLE, AMENDMENT OR RENEGOTIATION OF THE CLAIMS

IV.2.1. Administration

The BANK, which is the Assignor of the Claims in conformity with the provisions of article 2.2. of Royal Decree 926/1998, shall be required to provide the custody and administration of the Claim, the regulations between the BANK and the Fund being governed by the provisions of the Deed of Formation.

The BANK (hereinafter the "*Administrator*"), or such entity as may replace the BANK in its functions, shall accept the mandate received from the Management Company and, in accordance therewith, undertakes the following:

- (i) To administer and manage the Claims acquired by the Funds in accordance with the terms of the ordinary regime and procedures for administration and management established in the Formation Deed.
- (ii) To continue to administer the Claims, dedicating the same time and attention and the same level of professionalism, care and diligence in the administration thereof as it would use and exercise the administration of its own loans. In any event, it shall exercise an appropriate of professionalism, care and diligence in the provision of the services provided in this Prospectus and in the Deed of Formation.
- (iii) To ensure that the procedures applied and to be applied in the administration and management of the Claims are and remain in conformity with the applicable law and regulations.
- (iv) To comply with the instructions given by the Management Company in good faith.
- (v) To indemnify the Fund for any damages that may arise from non performance of its contractual obligations.

A short description and summary of the regime and ordinary administration and custody procedures (hereinafter the “*Services*”) for the Claim regulated by the Deed of Formation of the Fund.

IV.2.2 Term

The Services shall be provided by the BANK until the repayment of all of the Claims and the consequence extinction of all of the obligations assumed by the BANK in relation with the said Claims, without prejudice to the possible early termination of the mandate in accordance with the terms of the Deed of Formation.

Both in the case of non performance by the Administrator with the obligations established in the Deed of Formation and in the case of a reduction in the credit rating such as might prejudice or jeopardise the financial structure of the Fund or the rights and interests of the Bondholders, the Management Company may, where legally possible, take any of the following actions:

- (i) It may require the Administrator to subcontract or delegate to another entity or have such guarantee the obligations, the said entity having, in the judgement of the Management Company, appropriate legal and technical capacity, provided that such action does not have a negative impact on the rating of the Bonds.
- (ii) In the event that the above action should prove impossible, the Management Company may directly assume the provision of the Services.

The Management Company shall take into consideration the proposals made by the Administrator with regard to subcontracting, delegation or the designation of a substitute to carry out its obligations, as well as the entity that might guarantee the performance thereof.

The Administrator may voluntary opt not to carry out the administration and management of the Claims where possible in conformity with legislation prevailing from time to time and provided that: (i) it is so authorised by the Management Company; (ii) the Management Company may have designated a new Administrator; (iii) the Administrator may have indemnified the Fund for any damages that such option and the substitution of the Administrator may cause; and (iv) there should be no negative impact on the rating of the Bonds.

If the BANK should be replaced as the Administrator of the Claims by any entity that does not form part of its consolidated group on any of the grounds provided in this section, such substitute entity shall be entitled to receive an administration commission, which shall be placed first in the order of priorities set forth in section V.5.2.1.2 of this Prospectus.

IV.2.3. Responsibility of the BANK for custody and administration

The BANK undertakes to act with due diligence in the custody and administration of the Claims and shall be liable to the Fund, through the Management Company, for any damages that may arise as a result of negligence.

The BANK shall indemnify the Fund through the Management Company for any damages, loss or expenses it may incur as a result of no

performance of the obligations of custody and administration of the Claims.

IV.2.4. Responsibility of the BANK for collection management

The BANK undertakes to act with due diligence in the collection of the Claims and shall be liable to the Fund, through the Management Company, for any damages that may arise as a result of negligence.

The BANK does not accept any liability to directly or indirectly guarantee the success of the operation, nor does it give any guarantees or surety or make any agreements for the repurchase of the Claims, except for those that are not in accordance with the representations and guarantees set forth in section IV.1 with regard to the Securitization Requirements and Clause 8 of the Deed of Formation and in accordance therewith.

IV.2.5. Custody of contracts, deeds, documents and files

The Administrator shall keep all contracts, copies of deeds, documents and computer record related with the Claims, as well as insurance policies related to the Loan Rights derived from Mortgage Loans, in safe custody and shall not hand over the possession, custody or control thereof without the prior written consent of the Management Company, unless the document concerned is required to commence procedures for the execution of the Claim.

The Administrator shall allow the Management Company or the duly authorised Auditor of the Fund reasonable access to the said contracts, deeds, documents and records. Where the Management Company so requests, copies or photocopies of the said contracts, deeds and documents shall be provided free of charge within five (5) Business Days of such request. The Administrator shall proceed in the same manner in the case of requests for information made by the Fund's Auditor.

The Administrator waives all privileges conferred by law on its condition as the collection manager for the Fund and the custodian of the Loans and, in particular, it waives those established in articles 1730 and 1780 of the Civil Code (relating to the holding in pledge of the items deposited) and 276 of the Commercial Code (similar guarantee to the holding in pledge of the item deposited).

IV.2.6. Collection management

As the collection manager, the BANK shall receive all amounts settled by the Debtors in respect of the Loans on behalf of the Fund, whether such amounts represent principal or interest, as well as any other items including commissions and the insurance contracts assigned to the Fund. The BANK shall proceed to pay amounts corresponding to the Fund into the Treasury Account, in accordance with the provisions of section IV.1.c) above immediately or, in any event, within a maximum period of forty eight (48) hours.

The BANK shall also pay any amounts corresponding to the Fund in accordance with this Section that may be received, where applicable, from the Debtors by way of early repayment of the Loans into the said Treasury Account and within the said period.

IV.2.7. Interest rates

In the case of Loans subject to variable interest rates, the Administrator shall continue to establish such interest rates in accordance with the Loan agreements, making the relevant communications and notifications established for that purpose.

IV.2.8. Advances of funds

The BANK shall not, under any circumstances, advance any amounts not previously received from the Debtors in respect of outstanding principal or instalments, interest, financial charges, prepayments or other items in respect of the Claims.

IV.2.9. Insurance Policies

The BANK shall make all reasonable efforts to ensure that insurance policies subscribed in connection with each of the Mortgage Loans remain in force. The BANK shall be liable to the Fund for any damages or loss the latter may sustain in the event that insurance policies are not kept in force and with full effect, and in the event that such policies may not have been made.

The Administrator shall be required to advance payment of premiums not settled by the Debtors wherever it may be aware of such circumstances, without prejudice to its right to receive reimbursement of the amounts paid from the Fund.

As the Administrator of the Mortgage Loans, the BANK shall coordinate actions to collect the indemnities due under the insurance policies in the event of claims, in accordance with the terms and conditions of the Mortgage Loans and the insurance policies.

IV.2.10 Information

The Administrator shall provide the Management Company with regular reports on compliance by the Debtors with their obligations in connection with the Claims, compliance by the Administrator with its obligation to deposit the amounts received in respect of the Loans and the actions taken in the event of arrears, foreclosure on properties and the existence of latent defects in the Claims.

The Administrator shall prepare and deliver to the Management Company any additional information that the Management Company may reasonably request in relation to the Loans or the rights arising in connection therewith.

IV.2.11 Subrogation of the Debtor under the Claims

The Administrator shall be authorised to permit subrogation to the position of Debtor in the Loan agreements exclusively in circumstances where the characteristics of the new Debtor are similar to those of the former Debtor and are in accordance with the criteria set forth in the Memorandum on Criteria for the Award of Loans described in Annex 7 of this Prospectus, and providing that the expenses arising in respect of such changes are payable by the Debtors in their entirety. The Management Company may completely limit this power of the Administrator where such substitutions could have a negative effect on the ratings accorded by the Bonds by the Rating Agencies.

In any event, any subrogation carried out in conformity with the conditions established in the preceding paragraph shall immediately be notified by the Administrator to the Management Company. The subrogation of the Loan shall not affect the portfolio of Claims.

IV.2.12 Powers and actions in connection with Loan renegotiation processes

The Management Company generally empowers the Administrator to undertake any renegotiations without its prior consent in accordance with the terms and conditions set out below.

The Administrator may not voluntarily cancel the guarantees for the Loans for any reason other payment of the Loan, or waive or breach the same, condone Claims in whole or in part or extend terms, or in general carry out any action that might reduce the priority, legal efficacy or financial value of the guarantees or the Claims, without prejudice to its obligation to attend to the petitions of the Debtors with equal diligence and following the same procedures as in the case of other loans.

Under no circumstances may the Administrator undertake renegotiations of interest rates that might result in a reduction in the rate applicable to a loan without a prior application from the Debtor.

Notwithstanding the above, the Management Company authorises the Administrator to proceed with the renegotiation of the interest applicable to the Loans as requested by the Debtors subject to the following requirements:

- a) The Administrator shall renegotiate the interest rate applicable to loans at a market rate that shall not differ from the rate applied by the Administrator to the renegotiation of credit facilities and loans awarded by the same. For these purposes, the market interest rate shall be deemed to be the rate offered by credit institutions in the Spanish market for loans or credit facilities for amounts and under conditions that are substantially the same as those of the Loan concerned.
- b) Under no circumstances shall the renegotiation of the applicable interest rate result in a change to a variable interest rate or index other than the interest rates or indices used by the Administrator for its own credit facilities and loans.

In addition, the power of renegotiation recognised to the Administrator in this section shall be subject to the following limits:

- a) The amount of the Loan shall not be increased under any circumstances.
- b) The term of a specific Loan may be extended provided the following conditions are met:
 - λ The period between instalments for the repayment of the principal on the Loans shall in any event be maintained or reduced, and the same amortisation system shall be applied.
 - λ The new maturity date or final repayment date for the Loan shall be, at the latest, 31 December 2031.

In any event, after any renegotiation process carried out in accordance with this section, the Administrator shall immediately notify the Management Company of the terms and conditions resulting from each process.

The Management Company, representing the Fund, may at any time suspend or modify authorisation and requirements for renegotiation by the Administrator as recognised in this section.

IV.2.13 Powers of the holder of the Claims in the event of non performance by the Debtor

The Administrator shall apply equal diligence and procedures to claim unpaid amounts due in respect of the Loans as in the case of the other loans in its portfolio.

In addition, the BANK undertakes to provide the Management Company, as the representative of the Fund, with a quarterly report and, in any event, where so required. This report shall detail non payments, early repayments and changes in interest rates and, where appropriate, final demands for payment, legal action and any other circumstances affecting the Loans. Also, the BANK shall provide the Management Company with all documentation that the latter may request in relation with the said

Loans and, in particular, with the documentation necessary for the Management Company to commence legal action, where applicable.

a) Executive action against Debtors

As the holder of the Claims, the Fund shall be entitled to take all legal action arising as a consequence of the ownership of the Claims in accordance with prevailing legislation. Such action may be taken through the appropriate legal process in conformity with articles 517 and following of the Civil Procedures Act, 2000 (Law 1/7 January 2000).

For the above purposes, the Management Company shall confer wide and sufficient powers as required by Law on the BANK in the act at which the Deed of Formation of the Fund is made to enable the latter, acting through any of its attorneys with sufficient powers to that end, to require the Debtor in respect of any of the Claims, in the name of and representing the Management Company, to pay the debt and to take legal action against the Debtor, as well as any other powers required for the performance of its functions as Administrator. These powers may also be conferred in a separate document to the Deed of Formation or extended where necessary for the performance of such functions.

In the event of non performance by the Debtor under Claims Derived from Mortgage Loans, the Fund shall take executive action against such Debtors through the Management Company or through the Administrator after completing all legitimating requirements to empower the same in accordance with the procedure for such process established in the Civil Procedures Act.

By virtue of the powers conferred by the Management Company on behalf of the Fund, the Administrator shall, in general terms, seek the foreclosure of the mortgage guarantee in the name of the Fund, if the Debtor has failed to perform its payment obligations for a period of six (6) months and does not recommence payments to the Administrator and the latter, with the consent of the Management Company, does not succeed in obtaining payment commitments that are satisfactory for the interests of the Fund. In any event, the Administrator shall immediately proceed to execute guarantees if the Management Company, representing the Fund, considers the

same necessary subject to prior analysis of the specific circumstances in each case.

In the event of enforcement of the Loan Rights against a given Debtor, the Fund, represented by the Management Company, will participate on an equal basis in proportion to the proceeds of the enforcement.

b) Action against the Administrator

The Management Company, on behalf of and representing the Fund, shall take executive action against the Administrator to enforce the maturities of Claims in respect of principal and interest where non performance of the obligation to pay such amounts is not a consequence of non payment of the Loans by Debtors.

In the event the BANK should fail to perform the obligations described in the preceding section, the Fund, acting through the Management Company, shall take legal action against the BANK for the non performance of the said obligations in relation with the Mortgage Loans, in accordance with the procedures established in the Civil Procedures Act.

Upon the extinction of the Claims, the Fund, through the Management Company, shall maintain the action against the Administrator until full compliance with all obligations is obtained.

b) Actions in the case of non payment of Mortgage Loans

The Fund, acting either through the Management Company or through the Administrator, shall take action against debtors who fail to perform the payment obligations derived from the Mortgage Loans. This action shall be taken in accordance with the pertinent legal execution procedure provided in article 517 and following of the Civil Procedures Act.

In the event of non payment of principal or interest on a Mortgage Transfer Certificate due to non payment by the Debtor of the Mortgage Loan, the Management Company, acting on behalf of and representing the Fund, shall have the following powers, as established in article 66 of Royal Decree 1289/1991:

- (i) To require the Assignor, as the Administrator, to execute the mortgage guarantee.
- (ii) To participate in the execution procedure brought against the Debtor with equal rights as the Assignor, as the issuer of the Mortgage Transfer Certificates, and to appear for that purpose in any execution procedure brought by the latter.
- (iii) If the Assignor does not commence the procedure within a period of sixty (60) calendar days from the date of the notarised demand for payment of the debt, the Management Company, on behalf of and representing the Fund, shall have subsidiary rights to commence foreclosure proceedings on the Mortgage Loan, both in respect of principal and interest, and the Assignor shall be required to issue a certificate of the balance on the Mortgage Loan.
- (iv) In the event proceedings brought by the Assignor should be suspended, the Fund, duly represented by Management Company, acting as the holder of the corresponding Mortgage Transfer Certificate may subrogate to the position of the Assignor and continue the execution procedure without the need to wait until the aforementioned period has elapsed.

In the cases provided for in paragraphs (iii) and (iv), the Management Company, representing the Fund, may petition the competent Judge to commence or continue the corresponding mortgage execution procedure, accompanying such claim with the original itemised title to the Mortgage Transfer Certificate, the notarial demand provided for in section (iii) above and the Registry Certificate detailing the entry and existence of the mortgage for the case of Mortgage Transfer Certificates, and the document accrediting the balance claimed as indicated in section (iii) above.

Where legally necessary, and for the purposes provided in articles 581.2 and 686.2 of the Civil Procedures Act, 2000 (Law 1/7 January 2000), the Administrator may confer irrevocable, wide and sufficient powers as required in Law upon the Management Company in the Deed of Formation to allow the latter, acting on behalf of and

representing the Administrator, to issue a notarised demand for payment of the debt to the mortgage Debtor in respect of any of the Mortgage Loans.

The Fund, in its capacity as the holder of the Mortgage Transfer Certificates, may also participate through the Management Company with equal rights to the Administrator in any execution proceedings. In this regard, it may seek the award of the mortgaged property in payment of the debt in accordance with the terms provided in articles 691 and following of the Civil Procedures Act. The Management Company shall proceed with the sale of properties awarded under market conditions in the shortest possible time.

Costs and expenses, where appropriate, in respect of the executive procedures referred to in this section shall be payable by the Fund.

IV.2.14 Commission for the provision of services

A fixed commission (the "*Fixed Commission*" of €6,000, including VAT, shall accrue to the BANK on a quarterly basis in respect of the administration of the claims at each payment date. Should the BANK be replaced as the Administrator of the Claims by another entity not forming part of the BANK'S consolidated group, the substitute entity shall be entitled to receive an administration commission, which shall be placed first in the order of priority established in section V.5.2.1.2 below.

If the Fund, acting through the Management Company, should fail to pay the commission in its entirety at any given Payment Date due to lack of available funds in the Treasury Account, the unpaid amounts shall accumulate without penalty, in accordance with the order of priority of payments provided in section V.5.2.1.2 below, and shall fall due together with the next quarterly commission at the next Payment Date.

At each Payment Date, the BANK shall be entitled to the reimbursement of all extraordinary expenses in may have incurred, subject to vouching of the same to Management Company, in connection with the administration of the Loans. Such expenses shall include, inter alia, expenses incurred in respect of the execution of the guarantees and, where applicable, the sale of properties and shall be payable provided the Fund has a sufficient balance available on the Treasury Account and in accordance with the

conditions set forth in section V.5.2.1.2 of this Prospectus concerning the order of priority of payments.

IV.2.15 Other expenses and remuneration

The BANK shall also be entitled to receive a subordinated and variable annual amount equal to the difference between the accounting revenues and expenses of the Fund during the year, on the basis of which the financial margin obtained may be calculated, by way of remuneration or compensation for the process of financial intermediation carried out. Expenses in this respect may be settled quarterly at each Payment Date in accordance with the order of priority of payments provided in section V.5.2.1.2 below by way of payments on account.

IV.3 SHORT DESCRIPTION AND SUMMARY OF GENERAL POLICIES OF THE ASSIGNOR WITH REGARD TO THE AWARD OF LOANS AND THE CONDITIONS FOR FORMALISATION OF THE ASSETS GROUPED IN THE FUND BY THE ASSIGNOR.

IV.3.1 Description of the procedures established by the Assignor for the analysis of risk and the formalisation of loans and credit facilities (“Internal Memorandum”)

The risk policy followed by the BANK for the formalisation of loans and credit facilities is set out in [Annex 7](#).

IV.3.2 Statistical information on the evolution of the amount and number of operations, outstanding balances, average amounts, average interest and the average period for the award of loans in the BANK’S Loan portfolio in connection with the following items: new loans, arrears, non payments and non performing loans; renegotiation and recovery or balances in arrears, execution of guarantees and early repayments

Lending and arrears

The following chart reflects the evolution over the past three (3) years of lending, detailing arrears on the loans made by the BANK, in respect of Loans awarded to municipalities, autonomous communities and entities belonging to them.

PERIOD	NUMBER OF OPERATIONS	INVESTMENT (€M)	AMOUNT IN ARREARS (€M)	NPL RATE
March 2002	2697	1,840	3.0	0.16
September 2002	2726	2,230	3.0	0.13
March 2,003	2781	2,328	3.3	0.14
September 2,003	2807	2,517	2.0	0.08
March 2004	2849	2,698	2.3	0.08
August 2004	2874	2,836	0.9	0.03
September 2004	2902	2954	1.0	0.03

IV.4. DESCRIPTION OF LOAN PORTFOLIOS TO BE ASSIGNED TO THE FUND

IV.4.1. Number of loans and current outstanding amount or balance

The preliminary Loan portfolio from which the Claims to be awarded to the Fund shall be drawn upon the formation thereof is formed by one thousand five hundred and fifteen (1,515) Loans, the outstanding principal on which at 16 November 2004 totals one billion nine hundred two million five hundred ninety nine thousand two hundred and fifty eight euros and eleven cents (€1,902,599,258.11).

Loan portfolio at 16/11/2004		
	Loans (number)	Outstanding Principal (euros)
Mortgage Loans	45	32,077,169.24
Nonmortgage Loans	1,470	1,870,522,088.87
Total	1,515	1,902,599,258.11

IV.4.2. Maximum, minimum and average values of the principal on the Loans

The current balance of principal and outstanding instalments on the Loans at 16 November 2004 falls within a range of between five hundred and

thirty five euros and three cents (€535.03) and fifty nine million euros (€59,000,000).

The following chart shows the distribution of Loans in accordance with the outstanding principal.

OUTSTANDING BALANCES ON THE LOANS				
Interval (euros)	Outstanding balance		Loans	
	(thousands of euros)	%	N°	%
535.03 - 999,999.99	272,841.30	14.34	1.136	74.98
1,000,000 - 5,999,999.99	796.992.03	41.88	326	21.51
6,000,000-10.999,999.99	179.495.40	9.43	24	1.58
11,000,000 - 1,999,999.99	199.690.03	10.49	15	0.99
16,000,000 - 20,999,999.99	50,211.35	2.63	3	0.19
21,000,000 - 25,999,999.99	22,594.95	1.18	1	0.06
26,000,000 - 30,999,999.99	87,638.72	4.60	3	0.19
31,000,000 - 35,999,999.99	99,975.79	5.25	3	0.19
36,000,000 - 40,999,999.99	0.00	0.00	0	0.00
41,000,000 - 45,999,999.99	41,644.87	2.18	1	0.06
46,000,000 - 55,999,999.99	92,514.76	4.86	2	0.13
51,000,000 - 55,999,999.99	0.00	0.00	0	0.00
56,000,000 - 59,000,000.00	59,000.00	3.10	1	0.06
Total:	1,902,599,26	100.00	1,515	100.00

Maximum balance: 59,000,000.00 Euros
Minimum balance: 535.03 Euros
Average balance: 1,255,841.09 Euros

IV.4.3. Maximum, minimum and average values of the initial amount of the Loans

The Loans in the preliminary portfolio were awarded for amounts ranging between a minimum of four thousand seven hundred and thirty seven euros and thirty five cents (€4,737.35) and a maximum of fifty nine million euros (€59,000,000). The average initial amount of the loans in the portfolio is one billion five hundred and eighty two thousand four hundred and eighty nine euros and eighty eight cents (€1,582,489.88).

The following chart present a statistical overview of the Loans.

INITIAL AMOUNTS OF THE LOANS				
Interval (euros)	Amounts (thousands of euros)		Loans	
		%	N°	%
535.03 - 999,999.99	289,511.49	12.07	1,046	69.04
1,000,000-5,999,999.99	931,146.96	38.83	384	25.34
6,000,000-10,999,999.99	376,480.80	15.70	52	3.43
11,000,000-15,999,999.99	211,934.46	8.83	16	1.05
16,000,000-20,999,999.99	34,184.36	1.42	2	0.13
21,000,000-25,999,999.99	68,614.74	2.86	3	0.19
26,000,000-30,999,999.99	114,548.71	4.77	4	0.26
31,000,000-35,999,999.99	0.00	0.00	0	0.00
36,000,000-40,999,999.99	72,616.93	3.02	2	0.13
41,000,000-45,999,999.99	45,075.90	1.88	1	0.06
46,000,000-50,999,999.99	140,108.90	5.84	3	0.19
51,000,000-55,999,999.99	54,248.86	2.26	1	0.06
56,000,000-59,000,000.00	59,000.00	2.46	1	0.06
Total:	2,397,472,17	100.00	1,515	100.00

Max. initial amount:	59,000,000.00 Euros
Min. initial amount:	4,737.35 Euros
Av. initial amount:	1,582,489.88 Euros

IV.4.4. Current effective interest rate or financial charge applicable: Maximum, minimum and average interest on the Loans

The following table shows the distribution of the Loans in one percent (1%) intervals of current nominal interest rate.

CURRENT INTEREST RATES ON LOANS				
Interval (%)	Current Balances (thousands of euros)		Loans	
		%	N	%
1.97 - 1.99	3,839.97	0.20	6	0.39
2.00 - 2.99	1,718,950.78	90.34	1,350	89.10

3.00 - 3.99	73,398.45	3.85	59	3.89
4.00 - 4.99	32,502.43	1.70	44	2.90
5.00 - 5.99	63,599.19	3.34	45	2.97
6.00 - 6.99	8,520.65	0.44	7	0.46
7.00 - 7.99	0.00	0.00	0	0.00
8.00 - 8.99	76.70	0.00	3	0.19
9.00 - 9.99	0.00	0.00	0	0.00
10.00 - 10.25	1,711.04	0.08	1	0.06
Totals:	1,902,599.26	100.00	1,515	100.00
Weighted interest rate:	2.49%			
Maximum interest rate:	10.25%			
Minimum interest rate:	1.97%			

IV.4.5. Information regarding reference indexes for the Loans.

Approximately 50% of the Loan portfolio comprises Loans at variable interest rates consisting of the three (3) month EURIBOR rate plus an average spread of 0.13%.

Twelve percent (12%) of the Loan portfolio comprises variable interest Loans with rates calculated at the annual (1 year) EURIBOR rate plus an average spread of fourteen hundredths of one percent (0.14%).

Seven and one half percent (7.5%) of the Loan portfolio comprises Loans at variable interest rates consisting of the six (6) month EURIBOR rate plus an average spread of 0.20%.

The Loan portfolio includes three and sixty-three hundredths percent (3.63%) of variable interest Loans with rates calculated at the three (3) month MIBOR rate plus an average spread of 0.10%.

The portfolio includes nineteen and forty-one hundredths percent (19.41%) of Loans with variable interest indexed to a range of interest rates. None of the indexes has sufficient weight to be represented separately.

The average total spread on variable interest loans is three (3) month EURIBOR plus 0.16%.

The remaining seven and forty-six hundredths percent (7.46%) of the Loan portfolio comprises fixed interest loans at an average rate of four and eight hundredths (4.08%).

The following chart reflects the distribution of the Loans on the basis of the benchmark indices concerned.

BENCHMARK INTEREST RATES ON THE LOANS				
Interval	Outstanding balance		Loans	
	(thousands of euros)		N°	%
(Code)		%		
3-month Euribor - daily	948,699.99	49.86	549	36.23
1-year Euribor - daily	229,504.18	12.06	121	7.98
Fixed	142,103.52	7.46	91	6.00
6-month Euribor - daily	142,866.32	7.50	20	1.32
3-month Mibor - daily	69,166.93	3.63	133	8.77
Other	370,258.20	19.33	601	39.55
Total:	1,902,599,26	100.00	1,515	100.00

IV.4.6. Formalisation dates on the loans, and soonest and latest maturity dates

Formalisation date

The Loans included in the preliminary portfolio were formalised between 24 October 1991 and 17 July 2004.

The average age of the portfolio at 14 January 2002, less than (3) years. The average age is calculated as the weighted average (by outstanding principal on each loan) of the number of months between the formalisation date and the date at which the calculation is made.

FORMALISATION DATE OF LOANS				
Interval	Outstanding balance		Loans	
	(thousands of euros)		N°	%
		%		
24/10/1991 - 31/12/1991	80.13	0.00	1	0.06
1/01/1992 - 30/06/1992	0.00	0.00	0	0.00
1/07/1992 - 31/12/1992	0.00	0.00	0	0.00

1/01/1993 - 30/06/1993	98.34	0.00	9	0.59
1/07/1993 - 31/12/1993	1,315.40	0.06	2	0.13
1/01/1994 - 30/06/1994	120.72	0.00	1	0.06
1/07/1994 - 31/12/1994	456.29	0.02	2	0.13
1/01/1995 - 30/06/1995	1,991.88	0.10	6	0.39
1/07/1995 - 31/12/1995	2,812.34	0.14	19	1.25
1/01/1996 - 30/06/1996	6,323.73	0.33	29	1.91
1/07/1996 - 31/12/1996	19,853.64	1.04	52	3.43
1/01/1997 - 30/06/1997	7,775.16	0.40	41	2.70
1/07/1997 - 31/12/1997	70,751.85	3.71	67	4.42
1/01/1998 - 30/06/1998	18,826.18	0.98	61	4.02
1/07/1998 - 31/12/1998	30,979.48	1.62	89	5.87
1/01/1999 - 30/06/1999	60,231.47	3.16	85	5.61
1/07/1999 - 31/12/1999	50,651.47	2.66	59	3.89
1/01/2000 - 30/06/2000	75,441.51	3.96	78	5.14
1/07/2000 - 31/12/2000	175,972.16	9.24	108	7.12
1/01/2001 - 30/06/2001	102,746.93	5.40	99	6.53
1/07/2001 - 31/12/2001	258,339.73	13.57	107	7.06
1/01/2002 - 30/06/2002	101,914.32	5.35	73	4.81
1/07/2002 - 31/12/2002	249,481.19	13.11	160	10.56
1/01/2003 - 30/06/2003	138,213.33	7.26	113	7.45
1/07/2003 - 31/12/2003	281,843.44	14.81	137	9.04
1/01/2004 - 30/06/2004	162,420.20	8.53	109	7.19
1/07/2004 - 7/07/2004	83,958.27	4.41	8	0.52
Total:	1,902,599.26	100.00	1,515	100.00

Latest formalisation date:	7/07/2004
Earliest formalisation date:	24/10/1991
Average formalisation date:	14/01/2002

Final maturity date

The Loans included in the preliminary portfolio mature between 30 October 2004 and 23 December 2031.

The repayment of the Loans takes place of the remaining term to maturity, during which period the Debtors are required to pay monthly instalments comprising reimbursements of principal and interest or financial charges.

The following chart shows the distribution of the Loans on the basis of final maturity dates in annual intervals.

MATURITY DATES OF LOANS				
<u>Interval</u>	Current Balances		Loans	
	(thousands of euros)	%	N°	%
30/10/2004 - 31/12/2004	3,070.95	0.16	14	0.92
1/01/2005 - 30/06/2005	31,083.90	1.63	12	0.79
1/07/2005 - 31/12/2005	5,290.56	0.27	29	1.91
1/01/2006 - 30/06/2006	2,426.63	0.12	28	1.84
1/07/2006 - 31/12/2006	27,617.03	1.45	41	2.70
1/01/2007 - 30/06/2007	14,638.14	0.76	56	3.69
1/07/2007 - 31/12/2007	15,612.07	0.82	55	3.63
1/01/2008 - 30/06/2008	17,902.56	0.94	77	5.08
1/07/2008 - 31/12/2008	40,293.81	2.11	86	5.67
1/01/2009 - 30/06/2009	26,539.01	1.39	53	3.49
1/07/2009 - 31/12/2009	84,068.34	4.41	57	3.76
1/01/2010 - 30/06/2010	34,912.96	1.83	47	3.10
1/07/2010 - 31/12/2010	76,616.96	4.02	74	4.88
1/01/2011 - 30/06/2011	58,463.29	3.07	58	3.82
1/07/2011 - 31/12/2011	172,104.64	9.04	72	4.75
1/01/2012 - 30/06/2012	61,449.89	3.22	57	3.76
1/07/2012 - 31/12/2012	127,509.63	6.70	78	5.14
1/01/2013 - 30/06/2013	67,181.64	3.53	72	4.75
1/07/2013 - 31/12/2013	218,218.84	11.46	89	5.87
1/01/2014 - 30/06/2014	70,312.60	3.69	48	3.16
1/07/2014 - 31/12/2014	43,525.26	2.28	45	2.97
1/01/2015 - 30/06/2015	43,722.15	2.29	32	2.11
1/07/2015 - 31/12/2015	64,712.36	3.40	41	2.70
1/01/2016 - 30/06/2016	43,373.78	2.27	34	2.24
1/07/2016 - 31/12/2016	60,887.77	3.20	29	1.91
1/01/2017 - 30/06/2017	65,537.19	3.44	22	1.45
1/07/2017 - 31/12/2017	68,855.04	3.61	47	3.10
1/01/2018 - 30/06/2018	60,602.68	3.18	33	2.17
1/07/2018 - 31/12/2018	125,669.20	6.60	41	2.70
1/01/2019 - 30/06/2019	38,793.74	2.03	24	1.58
1/07/2019 - 31/12/2019	25,460.04	1.33	10	0.66
1/01/2020 - 30/06/2020	23,575.93	1.23	12	0.79
1/07/2020 - 31/12/2020	667.31	0.03	2	0.13
1/01/2021 - 30/06/2021	7,357.80	0.38	2	0.13
1/07/2021 - 31/12/2021	0.00	0.00	0	0.00
1/01/2022 - 30/06/2022	1,282.70	0.06	1	0.06
1/07/2022 - 31/12/2022	13,518.59	0.71	4	0.26
1/01/2023 - 30/06/2023	8,605.69	0.45	9	0.59
1/07/2023 - 31/12/2023	6,718.19	0.35	3	0.19
1/01/2024 - 30/06/2024	22,994.54	1.20	8	0.52
1/07/2024 - 31/12/2024	2,270.74	0.11	2	0.13

1/01/2025 - 30/06/2025	0.00	0.00	0	0.00
1/07/2025 - 31/12/2025	928.50	0.04	1	0.06
1/01/2026 - 30/06/2026	716.83	0.03	1	0.06
1/07/2026 - 31/12/2026	2,875.46	0.15	1	0.06
1/01/2027 - 30/06/2027	0.00	0.00	0	0.00
1/07/2027 - 31/12/2027	983.22	0.05	1	0.06
1/01/2028 - 30/06/2028	1,908.74	0.10	1	0.06
1/07/2028 - 31/12/2028	433.99	0.02	1	0.06
1/01/2029 - 30/06/2029	0.00	0.00	0	0.00
1/07/2029 - 31/12/2029	0.00	0.00	0	0.00
1/01/2030 - 30/06/2030	0.00	0.00	0	0.00
1/07/2030 - 31/12/2030	0.00	0.00	0	0.00
1/01/2031 - 30/06/2031	0.00	0.00	0	0.00
1/07/2031 - 23/12/2031	11,308.13	0.59	5	0.33
Totals:	1,902,599,26	100.00	1,515	100.00
Latest maturity date:	23/12/2031			
Earliest maturity date:	30/10/2004			
Average maturity date:	28/03/2014			

IV.4.7. PURPOSE OF THE LOANS ASSIGNED BY THE BANK

All (100%) of the Loans have been awarded by the BANK to fund municipalities, autonomous communities and entities belonging to them.

The following charts show the distribution of the Loans on the basis of the sectors to which borrowers belong.

	Sub Account	Balance	% of Balance	No. of Loans	% No. of Loans
PUBLIC SECTOR	Regional Govs.	57,193,522.35	3.01%	5	0.33%
	Local Govs.	1,417,047,416.60	74.48%	1,471	97.10%
	UNIVERSITIES	288,729,339.40	15.18%	25	1.65%
	Regional and local administrations	20,013,703.03	1.05%	4	0.26%
	Others *	119,615,276.73	6.29%	10	0.66%
Total		1,902,599,258.11	100%	1,515.00	100%

*Others are understood to be autonomous agencies of the State, public entities and entities belonging to public agencies.

IV.4.8. GEOGRAPHICAL DISTRIBUTION BY AUTONOMOUS COMMUNITIES

The following chart shows the geographical distribution of the Loans at 1 October 2004 by the Autonomous Community (region) in which the Debtors have their registered address:

BREAKDOWN OF OUTSTANDING BALANCES ON LOANS BY AUTONOMOUS COMMUNITIES				
Autonomous Communities	Outstanding balance		Loans	
	(thousands of euros)	%	Nº	%
01 Andalusia	528,697.17	22.53	240	15.84
02 Aragon	121,591.06	6.39	77	5.08
03 Asturias	26,349.16	1.38	12	0.79
04 Balearic Islands	64,957.94	3.41	49	3.23
05 Canary Islands	84,363.48	4.43	55	3.63
06 Cantabria	27,689.41	1.45	35	2.31
07 Castile-La Mancha	24,613.80	1.29	40	2.64
08 Castile-León	75,438.10	3.96	123	8.11
09 Catalonia	311,180.13	16.35	393	25.94
11 Extremadura	38,596.43	2.02	63	4.15
12 Galicia	44,433.39	2.33	22	1.45
13 La Rioja	26,100.46	1.37	20	1.32
14 Madrid	296,246.00	15.57	116	7.65
16 Murcia	77,207.58	4.05	80	5.28
17 Navarre	10,703.51	0.56	33	2.17
18 Basque Country	26,868.91	1.41	13	0.85
19 Valencia	217,562.65	11.43	144	9.50
Total:	1,902,599,26	100.00	1,515	100.00

IV.4.9 LOANS IN ARREARS INCLUDED IN THE PORTFOLIO ASSIGNED BY SCH

The BANK guarantees that none of the Loans that will be assigned to the Fund will have outstanding payments due by more than 30 days at the Date of Formation of the Fund.

INSTALMENTS IN ARREARS				
Interval	Outstanding balance		Loans	
	(thousands of euros)	%	Nº	%
0 - 29	1,900,304.28	99.87	1,511	99.73
-30 - 59	2,238.90	0.11	3	0.19
60 - 60	56.06	0.00	1	0.06
Total:	1,902,599,256	100.00	1,515	100.00

CHAPTER V
INFORMATION CONCERNING THE FINANCIAL OPERATIONS OF THE
FUND

V.1 FINANCIAL STRUCTURE OF THE FUND AND DESCRIPTIVE SYNOPSIS OF THE MAIN ASSUMPTIONS AND ESTIMATED PERFORMANCE OF FINANCIAL FLOWS OF THE FUND. BALANCE SHEET

The Balance Sheet of the Fund based on the assumptions described in this chapter is as follows.

BALANCE SHEET			
ASSETS		LIABILITIES	
Claims (*)	€1,850,000,000.00	Securitization bonds	€1,850,000,000.00
Treasury Account	€27,750,458.94	Subordinated Loan for	€28,450,000.00
Formation and Bond issue expenses	€699,541.06	Initial Expenses	
Total Assets	€1,878,450,000.00	Total Liabilities	€1,878,450,000.00

(*) This amount may be slightly higher at the Date of Formation.

Over the life of the Fund, its Assets shall be formed by the following:

- The Outstanding Balance on the Claims assigned to the Fund (described in Chapter IV of this Prospectus).
- The balance on the Treasury Account described in section V.3.1. below at any given time.
- The unamortized portion of the formation expenses of the Fund.

The Liabilities of the Fund over its life shall comprise the following:

- The Outstanding Balance Payable on the Bonds issued (described in Chapter II of this Prospectus).
- The outstanding balance payable on the Loan for Initial Expenses (described in section V.3.2 below).

The net worth of the Fund shall be zero at all times.

The amount of the Fund's assets and liabilities will decrease over the life thereof as a consequence of the payment of the Claims and the consequent progressive amortisation of the Bonds by the Management Company on behalf of the Funds, as well as the amounts drawn down on the Loan for Initial Expenses, where appropriate, in accordance with the Order of Priority of Payments established in section V.5.2.1.2 of this Information Prospectus.

V.1.1 Assumptions made in relation with the central indices or most likely parameters for early repayment, payments in arrears, default and non performance with regard to the Claims grouped in the Fund.

a) Debt service schedule

The chart presented in section V.1.3 below refers to one of the possible scenarios for revenues and payments made by the Fund that could arise over the life of the Fund and this Bond issue.

To facilitate the composition and comprehension of the said chart, and avoid the presentation of two additional columns showing the same amounts but with opposite signs representing interest accruing on the Claims and payments in respect of the Swap, respectively, only the interest collected by the Fund after the application of the Swap is shown. Nevertheless, the relevant revenues and payments in respect of the Claims and the aforesaid Swap are reflected in the accounts of the Fund.

The following assumptions have been employed in the preparation of the debt service schedule.

b) Claims

- (i) Volume of the portfolio of Claims at the Date of Formation, the amount securitized being approximately €1,850,000,000, as shown in the above Balance Sheet.

- (ii) Interest rate: the average rate of interest applied to the Claims is 2.49% per annum.
- (iii) CAPR: 3% per annum; 0.33% per month(*);
- (iv) Percentage NPL rate: 0.10% per annum; 0.01 % per month
- (v) Default rate: 0.00%.

c) Bonds

- (i) Volume: €1,850,000,000 without distinction between Series A and B Bonds.
- (ii) Interest rate: variable interest rate for the Series A and B Bonds, assuming interest rates for each Series remain constant at 2.227% and 2.477%, respectively, based on quarterly EURIBOR of 2.177
- (iii) Exercise by the issue of the Early Amortisation Option on the Bonds for all Series when the Outstanding Balance of the Claims is less than 10% of the initial amount.

d) Supplementary contracts

d.1) Agreement for Reinvestment at Guaranteed Rate of Treasury Account

It has been assumed that the rating of the BANK'S short-term debt will at no time fall below F-1 or P-1 per the Fitch Ratings Spain and Moody's Investors Service Limited scales respectively. Consequently, the Treasury Account will be kept with the BANK (although the Management Company has made a commitment to the BANK to move the Account to another institution in the event of a reduction in the aforementioned rating in accordance with the terms described in section V.3.1. below) and will be reinvested pursuant to the Agreement for Reinvestment at

(*) The formula applied is $1-(1-TACP)^{(1/12)}$.

a Guaranteed Rate of the Treasury Account which will be made with the BANK.

d.2) Subordinated Loan for Initial Expenses

- Volume: €28,450,000, which will be applied to finance the formation of the Fund and the issue of the Bonds (approximately €699,541.06), partially fund the acquisition of the Claims (approximately €458.94) and to set up the Reserve Fund (€27,750,000).
- Interest rate: interest rate of 2.927% (three month EURIBOR plus a spread of 0.75%).
- Repayment: the part of the Subordinated Loan for Initial Expenses applied to finance the formation expenses of the Fund and the issue of the Bonds will be repaid on a quarterly basis in line with the amortisation of the said expenses over the first three (3) years from the Disbursement Date. The part of the Subordinated Loan for Initial Expenses applied to partially finance the acquisition of the Claims will be repaid on the payment date following the Legal Maturity Date of the said Claims (23 December 2031) or, where applicable, at the date of early repayment thereof. The remaining principal on the Subordinated Loan for Initial Expenses will be applied to set up the Reserve Fund and will be repaid at each of the Payment Dates for amounts equal to the difference between balances required for the Reserve Fund at the prior Calculation Date and at the current Calculation Date.

d.3) Swap operation

- Variable interest rate payable by the Fund: this is the annual interest rate resulting from the division of the sum of all amounts received in respect of

interest on the Claims during the most recent Calculation Period by the Notional Balance of the Claims, multiplied by the result of dividing the number of days in the Calculation period by 360.

- Interest rate received by the Fund: this will be the annual interest rate resulting from the application of the benchmark rate for the Bonds in the current Interest Accrual Period plus the average spread on the Bonds at the Payment Date, weighted by the Outstanding Balance of Principle on the Bonds during the Calculation Period immediately prior to the Payment Date, plus 0.18%.

d.4) Reserve Fund

The Reserve Fund will be set up for an initial amount of €27,750,000, equivalent to 1.5% of the initial amount of the Issue (€1,850,000,000). The Reserve Fund may be reduced quarterly at each Payment Date, once it reaches 3% of the Current Balance of the Issuance, maintaining the aforesaid percentage until the balance on the Reserve Fund is equal to €13,875,000, at which time it shall remain constant at that level until the Legal Maturity Date of the Fund or Early Amortisation, when it will be applied to meet the payment obligations of the Fund.

e) Commissions

Fixed commission for the administration of loans: a quarterly fixed commission of SIX THOUSAND euros (€6,000), including VAT, will accrue to the BANK.

Financial Intermediation Margin: an intermediation margin calculated will also accrue to the BANK at each Payment Date. This margin will be equal to the difference between the revenues and expenses of the Fund for the Calculation Period.

f) Ordinary Expenses

- (i) Management Company Commission: 0.025% per annum of the sum of all Balances of Outstanding Principal Payable on all Bond Series. This commission may not be less than SIXTY THOUSAND euros (€60,000) per annum.
- (ii) Expenses in respect of the annual audit of the Fund, publication of announcements and maintenance of ratings.

V.1.2 Analysis and discussion of the impact of possible variations in the assumptions described in the preceding point on the financial balance of the Fund.

The possible interest rate risk derived from the difference between the benchmark interest rates applicable to the Claims on the one hand and the Bonds on the other is covered by the Swap operation to be arranged by the BANK as described in section V.3.3 below.

V.1.3 Numerical outline of the Fund's revenue and expense flows

The numerical outline set out below refers to collections and payments on a cash basis in order to provide greater clarity for the investor. Nevertheless, and as mentioned in section V.2 below, the Fund will account for its revenues and expenses on the accruals basis.

The said outline is based not only on the assumptions mentioned in section V.1.1 above, but also on the fact that such assumptions will remain constant throughout the life of the Fund. Clearly, however, the variables concerned, and particularly the interest rates on the Bonds forming each Series, as well as actual Rates of Early Repayment of the Loans, are subject to continual change.

Consequently, the numerical outline is provided exclusively for the purposes of illustration.

Explanation of the numerical system

a) Collections

- (0) Balance on the Reserve Fund.
- (1) Outstanding balance on the Claims portfolio at the Calculation Date corresponding to each Payment Date after the collection of the said Claims.
- (2) Payment Dates for principal and interest on the Bonds until final maturity thereof.
- (3) Amount of capital repaid on the Claims portfolio, less amounts in arrears, from the prior Payment Date until the Payment Date indicated.
- (4) Interest collected by the Fund between the prior Payment Date and the Payment Date indicated in the Claims.
- (5) Yield on (i) the Treasury Account of the Fund pursuant to the Agreement for Reinvestment at a Guaranteed Rate of the Treasury Account.
- (6) The total revenues at each Payment Date are represented by the sum of amounts (3), (4) and (5).

b) Payments

- (7) Amounts in respect of the operating expenses of the Fund.
- (8) Amount of interest payable to the holders of Series A and B Bonds.
- (9) Principal on the Series A and B Bonds.
- (10) Amounts in respect of the payment of interest on the Subordinated Loan for Initial Expenses applied to finance the formation expenses of the Fund and the issue of the Bonds, and to partially fund the acquisition of the Claims and set up the Reserve Fund.

- (11) Periodic repayment of the part of the Subordinated Loan for Initial Expenses applied to finance the formation expenses of the Fund and the issue of the Bonds. The repayment schedules for the Subordinated Loan for Initial Expenses does not reflect amounts in respect of the reduction in the Reserve Fund, because such reduction is not included as a source. Neither do the schedules include the part destined to partially finance the subscription of the Claims.
- (12) Fixed commission payable to the Bank for administration of the Loans.
- (13) Amount payable to the Bank in respect of financial intermediation services in relation to the Claims.
- (14) The total payments at each Payment Date are represented by the sum of amounts (7), (8), (9), (10), (11), (12) and (13).

V.2 ACCOUNTING PRINCIPLES APPLIED BY THE FUND

The Fund records revenues and expenses on the accruals basis.

The financial year of the Fund coincides with the calendar year. Exceptionally, however, the first financial year of the Fund shall commence at the Date of Formation of the Fund, and the last financial year shall end at the date at which the Fund is wound up.

V.3 DESCRIPTION OF THE PURPOSE OR OBJECT OF THE FINANCIAL OPERATIONS CONTRACTED BY THE MANAGEMENT COMPANY ON BEHALF OF THE FUND IN ORDER TO IMPROVE THE RISK, ENHANCE THE REGULARITY OF PAYMENTS, NEUTRALISE DIFFERENCES INTEREST RATES ON THE CLAIMS AND, IN GENERAL TRANSFORM THE FINANCIAL CHARACTERISTICS OF ALL OR PART OF THE CLAIMS

In order to consolidate the financial structure of the Fund and ensure the greatest possible cover for the risks inherent in the issue, the Management Company, representing the Fund, shall formalise the contracts and carry out the actions described below at the date the Deed of Formation is made.

For the purpose of ensuring that the operations of the Fund are carried out in accordance with the terms set forth in the Deed of Formation and legislation prevailing from time to time, the Management Company, acting on behalf of and representing the Fund, may extend or amend the contracts entered into in the name of the Fund, replace each of the Fund's service providers pursuant to such contracts and, where necessary, enter into additional contracts. All such actions shall be taken in accordance with legislation prevailing from time to time and subject, where applicable, to the prior authorisation of the CNMV or of the competent government agency, and subject to prior notification of the Rating Agencies. Such actions may not under any circumstances prejudice the interests of the Bondholders or reduce or result in withdrawal of the credit ratings of the Bonds.

V.3.1 Agreement for Reinvestment at a Guaranteed Rate of the Treasury Account

The Management Company, on behalf of and representing the Fund, and the BANK shall enter into an agreement for reinvestment at a guaranteed rate of the treasury account (the "*Agreement for Reinvestment at a Guaranteed Rate of the Treasury Account*"), in accordance with which the BANK shall guarantee that the interest rate earned on amounts deposited by the Fund in the account opened in the said credit institution (the "**Treasury Account**") shall be the Guaranteed Rate as defined in this section.

Specifically, this refers to the amounts receivable by the Fund in respect of:

- (i) principal and interest on the Claims.
- (ii) any other amounts in respect of the Claims grouped in the Fund pursuant to section IV.1.c) above.
- (iii) the amounts forming the Reserve Fund at any time.
- (iv) the amounts payable to the Fund, where applicable, in respect of the Swap operation.

- (v) amounts in respect of the total returns obtained on the Treasury Account.
- (vi) the amounts representing total withholdings on account of capital yields made at each Payment Date on the Bond interest paid by the Fund until such tax may fall due for payment to the tax authorities. These amounts shall be deposited in the Treasury Account opened in the BANK by the Management Company in the name of the Fund.

The BANK guarantees a return on the account in accordance with the following characteristics:

- The interest rate applicable to each interest period shall be the benchmark interest rate (hereinafter the *“Guaranteed Rate”*) established for the Bonds in respect of the subsequent Interest Accrual Period following the last date of settlement of accrued interest payable on the Treasury Account. Interest shall be paid into the Treasury Account on a monthly basis five (5) Business Days prior to the 15th day of each month. Exceptionally, the annual nominal interest rate applicable to the First Interest Accrual Period shall be equal to the four (4) month EURIBOR rate existing at 11:00 a.m. (*Central European Time -C.E.T*) on the Formation Date.
- The calculation of interest on the amounts deposited in the account shall be carried out taking effective days into consideration and on the basis of three hundred and sixty five (365) days.
- In the event that the short-term debt of the BANK should suffer a withdrawal of or reduction in the rating during the life of the Bond issue, falling below F-1 or P-1 (per the Fitch Ratings Spain and Moody’s Investors Service Limited scales respectively), the Management Company, on behalf of and representing the fund, may move the Fund’s Treasury Account to another entity whose short-term debt has a minimum rating of F-1 and P-1. As a result of such transfer, the BANK shall cease to carry out the reinvestment of the funds deposited in the Treasury Account at the new entity, and the Management Company shall contract the maximum return possible on the balance, which may differ from that contracted with the BANK, for a maximum period of thirty (30) Business Days as from the moment at

which such situation arises. It may subsequently transfer the Treasury Account back to the BANK at such time as its short-term should once again obtain ratings of F-1 and P-1 in the aforementioned scales.

The Agreement for Reinvestment at a Guaranteed Rate of the Treasury Account eliminates the risk of a time lag between the Fund's revenues in respect of principal and interest, which accrue monthly, and its quarterly payments in respect of principal and interest on the Bonds.

Returns on the Claims currently representing the Fund's revenues are not subject to withholdings in accordance with article 59 k), Chapter II, Title VII of the Corporate Income Tax Regulations approved by Royal Decree 1777/30 July 2004.

V.3.2. Subordinated Loan Contract for Initial Expenses

The Management Company, on behalf of and representing the Fund, shall enter into a Subordinated Loan contract with the BANK (the "*Subordinated Loan for Initial Expenses*") for a total of twenty eight million four hundred and fifty thousand euros (€28,450,000), which shall be applied to finance the Fund's formation expenses and the Bond issue expenses, to partially finance the acquisition of the Claims and to set up the Reserve Fund.

This loan shall accrue annual nominal interest calculated quarterly for each Interest Accrual Period as the sum of: (i) the Benchmark Interest Rate established for the Bonds; and (ii) a spread of 0.75%. This interest shall be payable only if the Fund has sufficient cash reserves in accordance with the order of priority of payments and the order of priority of liquidation payments established in Sections V.5.2.1.2 and III.8.1, respectively, of this Prospectus, as applicable. The interest accrued shall fall due at each Payment Date, calculated on the following basis: (i) the effective days in each Interest Accrual Period and (ii) a year of three hundred and sixty (360) days.

Any accrued interest payable that is not settled at a given Payment Date shall accumulate, in turn accruing interest at the nominal rate for the Subordinated Loan for Initial Expenses and shall be paid, provided the Fund has sufficient cash and in accordance with the order of priority of payments established in section V.5.2.1.2 and the order of priority of

liquidation payments established in Section III.8.1 of this Brochure, as applicable, at the immediately following Payment Date.

The part of the Subordinated Loan for Initial Expenses applied to finance the formation expenses of the Fund (an estimation of which is set forth in section II.14 of this Prospectus) and the part applied to finance the Bond issue expenses (estimated in section II.14 above) shall be repaid on a quarterly basis in line with the amortisation of the said expenses over the first three (3) years from the formation of the Fund and the issue of the Bonds. The part of the Subordinated Loan for Initial Expenses applied to partially finance the acquisition of the Claims will be repaid on the payment date following the maturity date of those Loan Rights, 23 December 2031, or, where applicable, at the date of early repayment thereof. The remaining principal on the Subordinated Loan for Initial Expenses shall be repaid at each of the Payment Dates for an amount equal to the difference between the balances required on the Reserve Fund (described in section V.3.4 below) at the prior and current Calculation Dates. This interest shall be payable only if the Fund has sufficient cash reserves in accordance with the order of priority of payments established in section V.5.2.1.2 and the order of priority of liquidation payments established in Section III.8.1 of this Prospectus, as applicable.

If the Fund does not have sufficient cash available to proceed with the partial amortisation of Loan for Initial Expenses at any given Payment in conformity with the order of priority of payments provided in section V.5.2.1.2, the unpaid part of the principal shall be settled at the immediately sq Payment Date together with the amount due at such Payment Date, until the total reimbursement of the amount.

Unpaid amounts carried forward from prior Payment Dates shall be paid in preference to the amounts due in relation with the Subordinated Loan for Initial Expenses at the said Payment Date. Unpaid interest payable shall be settled first, followed by the amortisation of the principle in accordance with the order of priority of payments for the Fund established in section V.5.2.1.2 below.

V.3.3 Swap Contract

The Management Company, in representation and on behalf of the Fund, will execute a financial interest swap agreement (the "*Financial Interest*

Swap Agreement” or “*Swap Agreement*”) with the BANK in the terms published by the International Swap and Derivatives Association, Inc. (ISDA), whose most relevant terms are described below.

The conclusion of the Swap is in response to the need to hedge risks in Fund interest rates due to the fact that the Credit Rights are subject to variable interest rates with varying base indexes and varying revision and settlement periods for the variable interest established for each one of the Bond Series issued against the Fund.

By means of the Swap, the Fund will effect payments to the BANK calculated on the interest rate of the Credit Rights and, in exchange, the BANK will make payments to the Fund calculated on the average weighted nominal interest rate of the Bond Series, pursuant to the following description.

Part A: The Fund, represented by the Management Company.

Part B: The BANK

Settlement Dates

The Settlement Dates will coincide with the Payment Dates of the Bonds, in other words, January 15, April 15, July 15 and October 15 of each year or, if any of these days is not a Business Day, the immediately subsequent Business Day.

Settlement Periods

The Settlement Periods for Part A and Part B are exactly alike, with these being the days that actually elapse between two consecutive Settlement Dates, including the first and excluding the last. Exceptionally the first Settlement Period for each one of the Parts will have a term equivalent to the days that actually elapse between the Disbursement Date of the Bond Issuance, 22 December 2004 (inclusive) and 15 April 2005 (exclusive).

Quantities to be paid for Part A

This will be the result of applying the Interest Rate for Part A to the Swap Notional for Part A, adjusted to the number of days of the Settlement

Period (in other words, equal to or the equivalent of: number of days/360).

Part A Interest Rate

On each Settlement Date this will be the interest rate per annum that results from dividing (i) the sum of the interest received from the Credit Rights and deposited in the Fund during the Settlement Period that expires, by (ii) the Swap Notional for Part A, all of which is multiplied by the result of dividing the number of days of the Settlement Period by 360.

Swap Notional for Part A

This will be the Balance of the Credit Rights defined as the daily average during the Settlement Period that expires of the Outstanding Balance of Credit Rights that do not have outstanding payments due by more than ninety (90) days.

Quantities to be paid for Part B

This will be the result of applying the Part B Interest Rate to the Swap Notional for Part B, adjusted to the number of days in the Settlement Period (in other words, equal to or the equivalent of: number of days/360).

Part B Interest Rate.

For each Settlement Period this will be the interest rate per annum that results from adding (i) the Reference Interest Rate, plus (ii) the Margin. For this purpose, the "Margin" is defined as the average spread of each Bond Series weighted by the Balance of Outstanding Principal Payable for each Series during the Interest Accrual Period underway plus a spread of 0.18%.

Swap Notional for Part B.

This will be the greater amount of: (i) the Swap Notional for Part A, and (ii) the Notional Adjusted to the Return on Credit Rights.

The Notional Adjusted to the Return on Credit Rights for each settlement date will be the lesser amount of:

- (i) The sum of the interest received from the Credit Rights and deposited in the Fund during the Settlement Period that expires, divided by the Part B Interest Rate, multiplied by the result of dividing the number of days in the settlement period by 360.
- (ii) The Outstanding Balance of the Credit Rights on the immediately preceding Settlement Date or, where appropriate, the Outstanding Balance of the Credit Rights on the Date of Fund Formation.

Possible notionals for Part B mentioned in the preceding paragraph are:

- a) Swap Notional for Part A. This notional is equal to the Notional Balance of Credit Rights defined as the daily average, during the settlement period that expires, of the Outstanding Balance of Credit Rights that do not have outstanding payments due by more than ninety (90) days.
- b) The interest collected from the Credit Rights and deposited in the Fund during the Settlement Period that expires, divided by the Part B Interest Rate, all of which is multiplied by the result of dividing the number of days in the Settlement Period by 360.
- c) The Outstanding Balance of the Credit Rights on the immediately preceding Settlement Date or, where appropriate, the Outstanding Balance of the Credit Rights on the Date of Fund Formation.

POSSIBLE SCENARIOS:

By definition, the notional described in paragraph c) above is always greater than the notional described in paragraph a).

Scenario 1: If the notional described in paragraph b) is greater than the notional described in paragraph c), this would mean that no interest rate risk shall have

materialised and, in turn, that the portfolio's default rate is such that it will not affect the financial equilibrium of the Fund. In this case, the BANK would pay the Part B Interest Rate to the fund on the notional described in paragraph c). The net Swap in this case is positive for the BANK.

Scenario 2: If the notional value described in paragraph b) is included among the notional values described in paragraphs a) and c), this would mean that the portfolio's default rate is such that it affects the financial equilibrium of the Fund. In this case the BANK would pay the Fund the sum of the interest received from the Credit Rights and deposited into the Fund during the settlement period that expires. The net Swap in this case would equal zero.

Scenario 3: If the notional described in paragraph b) is lower than the notional described in paragraph a), this would mean that an interest rate risk has materialised. In this case the Bank would pay the Fund the Part B Interest Rate on the notional described in paragraph a). The net Swap in this case would be positive for the Fund.

The net Swap in this case would be positive for the Fund, in that the Swap notional is the same for Part A and Part B and the interest rate collected by the Fund is lower than the Part B interest rate that the BANK would pay to the Fund.

With regard to the Swap Contract, the Bank assumes the commitment vis-à-vis the Management Company, on behalf of the Fund, that should the Bank's rating fall below A1 or A+ at any time during the life of the issuance (as per the long-term rating scale of Moody's Investors Service Limited and Fitch Rating España respectively) or F1 (as per the short-term rating scale of Fitch Rating España) and within the maximum period of thirty (30) business days of the date of the notice of such circumstance, the Bank would decide upon one of the three following alternatives: (i)

a third entity to guarantee compliance with its contractual obligations on terms that allow maintenance of the Bond ratings, or (ii) a third entity to assume its contractual position and subrogate to the Contract in substitution of the Bank, in both cases always providing that such entity has at least the A1 and A+ ratings (as per the aforementioned long-term rating scales of Moody's Investors Service Limited and Fitch Ratings España respectively) and at least the F1 rating (as per the aforementioned short-term rating scale of Fitch Rating España), all of which will be subject to the terms and conditions that the aforementioned Rating Institutions and Management Company deem appropriate, in order to maintain the rating granted for the Funds of all Series, or (iii) to establish a cash or securities deposit in the account indicated by the Management Company in favour of the Fund, in an amount that allows maintenance of the ratings assigned to the Bonds.

V.3.4 Reserve Fund

The Management Company, in the name and on behalf of the Fund, will establish a reserve fund (the "*Reserve Fund*") with the following characteristics:

a) Amount:

Initially endowed with 27,750,000 euros, a quantity equivalent to 1.5% of the initial balance of Outstanding Principal Payable for the Bonds, which may be decreased quarterly on each Payment Date, once it reaches 3% of the current balance of the Issuance, so that the amount thereof is always equal to 1.5% of the Balance of Outstanding Principal Payable for the Bonds. Such percentage will be maintained until the Reserve Fund attains the amount of 13,875,000 euros, as of which time it will remain constant at such level through the date of final maturity of the Fund, when it will be utilised for the fulfilment of Fund obligations.

Notwithstanding the foregoing, in order for the Reserve Fund to be decreased on a Payment Date, it is a necessary condition that none of the following circumstances exist:

a) That the Reserve Fund has been utilised on any Payment Date and, as a result thereof, is at a lower level than the one required.

b) That on the Determination Date prior to the Payment Date when the Reserve Fund would be reduced, the Current Balance of the Loan Rights that are delinquent by 90 days or more is equal to or greater than 1% of the Current Balance of the Loan Rights.

b) Return:

The amount of the Reserve Fund will be credited to the Treasury Account, and will be the subject of the Agreement for Reinvestment at a Guaranteed Rate of the Treasury Account to be made with the Bank.

c) Application:

On each Payment Date the Reserve Fund will be applied toward the fulfilment of payment obligations established according to the order of payment priority contained in section V.5.2.1.2 below.

V.4. OTHER CONTRACTS

V.4.1 Contracts for Issuance Management, Insurance and Placement

The Management Company, in the name and on behalf of the Fund, will execute (i) a contract of issuance management, insurance and placement with the BANK and Société Générale, as the managing entities for the domestic tranche of the issue (hereinafter the “Contract for the Management, Insurance and Placement of the Domestic Tranche”) and (ii) a contract for issuance management, insurance and placement with the BANK, Depfa Bank PLC and Société Générale (hereinafter, the “Contract for the Management, Insurance and *Placement of the International Tranche*”).

The Insurance Entities for Bond issuances will assume the obligations contained in the Contract for the Management, Insurance and Placement of the Domestic Tranche and the Contract for the Insurance and Placement of the International Tranche and which are basically as follows: 1) to assume the joint subscription commitment of any Bonds that have not

been subscribed upon the close of the Subscription Period, up to the amounts established for each Insurance Entity in the corresponding contract; 2) to endeavour the subscription by third parties of the Bond issuance; 3) to pay the Payment Agent on the Disbursement Date, value that same day, by Depfa Bank PLC and Société Générale of the nominal amount insured by each one of them, with the BANK, in its capacity as Payment Agent, proceeding to effect payment to the Fund, prior to 15:00 hours on that same day value that same day, of the total subscription amount of the Bond issuance, less the sum of the total insurance and placement fee; and 5) to provide subscribers with a document accrediting the subscription if they so request.

In addition, by virtue of the Contract for Management, Insurance and Placement of the Domestic Tranche, in its capacity as Payment Agent the BANK will assume the following obligations summarised below:

- (i) To proceed to credit the Fund prior to 15:00 hours (Central European Time) on the Disbursement Date, value that same day, with the amount that, in accordance with the contents of the Contracts for Management, Insurance and Placement, are paid to it by the Insurance Entities plus the sum of its own insurance commitment, by deposit into the Fund's Treasury Account.
- (ii) To collect from each of the Insurance Entities and deliver to the Management Company the status of information on the disclosure control attained in the placement of the issuance, with regard to the amount placed, utilizing the model established for this purpose by the CNMV, duly completed and itemised for each one of the Series.
- (iii) On each one of the Bond Payment Dates, to effect payment of the interest and repayment of principal for the Bonds, after deducting the total amount of withholdings on account of income from capital that is to be made in accordance with applicable tax legislation.
- (iv) On each of the dates for the setting of interest rates, to notify the Management Company of the Reference Interest Rate that will serve as the basis for calculation of the nominal interest rate applicable to each of the Bond Series.

Should the short-term debt of the BANK suffer a reduction in the rating during the life of the Bond issuance, falling below F-1 or P-1 (per the Fitch Ratings Spain and Moody's Investors Service Limited scales respectively), the Management Company, on behalf of and representing the fund and within a maximum period of thirty (30) Business Days of the moment at which such situation takes place, should proceed to replace the BANK as the Payment Agent for the duration of the loss of the F1 or P-1 or equivalent rating with another entity whose minimum short-term credit rating is F1 and P-1 per the scales of Fitch Rating España and Moody's Investors Service Limited respectively, or equivalent rating.

The Contract for Management, Insurance and Placement of the Domestic Tranche and the Contract for the Insurance and Placement of the International Tranche will be terminated with full rights if the Rating Agents fail to confirm, prior to the commencement of the Subscription Period, the final rating provisionally assigned to each one of the Series.

V.5 RULES OF PRIORITY ESTABLISHED IN FUND PAYMENTS

V.5.1 Source and application of funds on Bond Disbursement Dates

The source and application of the quantities available for the Fund on the Disbursement Date for the issuance of the Bonds is as follows:

1. **Source:**
 - a) Bond issuance
 - b) Subordinated Loan for Initial Expenses.
2. **Application:** in turn, on the issuance date, the Fund will apply the above-described funds to the following payments
 - a) Purchase of Credit Rights
 - b) Payment of expenses for the formation of the Fund and issuance of the Bonds

c) Endowment of the Reserve Fund.

V.5.2 Source and application of funds as of the date of Fund formation and through the total repayment of the Bonds

V.5.2.1 Available Funds: Source and application

1. Source: the available funds (the “*Available Funds*”) on each specific Payment Date will be as follows:

- a) The quantities collected as principal from the Credit Rights during each preceding Determination Period. Such quantities shall have been deposited in the Treasury Account
- b) The interest collected from the Credit Rights during each preceding Determination Period (including, where appropriate, interest on arrears). Such quantities shall have been deposited in the Treasury Account in accordance with the provisions of section V.3.1 of this Prospectus.
- c) The return obtained during each preceding Determination Period on the reinvestment of the Reserve Fund, as set forth in section V.3.4, as well as on the quantities deposited in the Treasury Account. Such quantities shall have been deposited in the Treasury Account as set forth in section V.3.1 of this Prospectus.
- d) The Reserve Fund described in section V.3.4 of this Prospectus.
- e) The net quantity collected by virtue of the Swap terms, as described in section V.3.3 of this Prospectus.
- f) Any other quantities that the Fund may receive including those that may result from the execution of loan guarantees, if these exist.

2. Application:

The Management Company, on behalf of the Fund, will proceed on each Payment Date to apply the amount of the Available Funds to the

following payments and withholdings, in keeping with the following order of priority (the "*Order of Priority of Payments*"):

1. Payment of ordinary and extraordinary Fund expenses set forth for illustrative purposes in section III.4.3 of this Prospectus, incidental or otherwise by the Management Company and duly justified, including the administration fee in its favour of 0.025% per annum calculated on the Balance of Outstanding Principal Payable on the Bonds). Only those expenses advanced or paid to third parties, incurred on behalf of the Fund and that should be returned, which must all be duly justified, will be met solely in this order in favour of the BANK and with regard to the administration of the Credit Rights.
2. Payment to the Bank of the net amount owed by the Fund under the Swap Agreement, in accordance with the contents of Section V.3.3. and, in the event of the termination of the aforementioned agreement for breach of the Fund, represented by the Management Company, the settlement payment of the Swap Agreement.
3. Payment of interest accrued by the Series A Bonds
4. Payment of interest accrued by Series B Bonds.
5. Withholding of the Amount Accrued for Redemption in accordance with the contents of section II.11.3, b), 4) of the Prospectus.
6. Withholding of a sufficient quantity for maintenance of the required Reserve Fund.
7. Payment, in the event of the termination of the Swap Contract, due to breach of the Bank, of the settlement amount of the aforementioned Swap Contract.
8. Payment of interest accrued on the Subordinated Loan for Initial Expenses.
9. Repayment of the principal of the Subordinated Loan for Initial Expenses in an amount equal to the repayment of expenses for formation of the Fund and issuance of the Bonds, within a given period.
10. Repayment of the principal of the Subordinated Loan for Initial Expenses in an amount equal to the difference existing between the amount of the

required balance at the previous Determination Date and the Determination Date underway, from the Reserve Fund.

11. Payment to the Bank of the Fixed Fee for the administration of Loans equal to six thousand (6,000) euros quarterly, including V.A.T., and up to the Payment Date on which the total payment of the issue takes place, in other words, 15 January 2037 inclusive (or up to the Payment Date on which the early repayment of the issuance takes place).
12. Payment to the Bank of a variable quantity as payment or compensation for the financial intermediation process undertaken, equal to the difference between the accounting revenues and expenses for the Fund, on the corresponding Payment Date.

V.5.3 Exceptional order of priority for payments on account of the Fund

If the BANK should be replaced as the Administrator of the Loans by any entity that does not form part of its consolidated group on any of the grounds provided in this section, such new Administrator shall be entitled to receive a fee that shall be placed first in the order of priorities, whereby the order of successive payments contained in the preceding points will be modified.

When the accumulated current balance of the loans having delinquency of more than 18 months represent 8% of the initial amount of the portfolio, the payment of interest on Series B will be postponed until after the payment of the principal of the Series A Bonds through the total repayment of the latter so that, once the Series A Bonds are totally repaid, the ordinary rules for the order of payment priority will again apply.

CHAPTER VI GENERAL INFORMATION ON THE MANAGEMENT COMPANY

VI.1 THE COMPANY, WITH THE EXCEPTION OF ITS CAPITAL.

VI.1.1 Corporate name and registered offices

- *Corporate name:* Santander de Titulización, Sociedad Gestora de Fondos de Titulización, S.A.
- *Registered offices:* Ciudad Grupo Santander, Avenida de Cantabria, s/n, Boadilla del Monte, 28660 (Madrid)..
- *Tax Identification Number:* A-80481419.
- *C.N.A.E (National Rating of Financial Activities):* 81 99.

VI.1.2 Incorporation and registration in the Companies Register, as well as data relative to administrative authorisations and registration in the Spanish National Securities Market Commission.

The Management Company was incorporated in a public deed on 21 December 1992 before the Notary of Madrid, Mr. Francisco Mata Pallarés, under his protocol number 1,310, by virtue of the authorisation from the Ministry of the Economy and Treasury granted on 10 December 1992, following the report from the Spanish National Securities Market Commission. It was entered in the Madrid Companies Register on 28 January 1993, in Volume 4789, Sheet M-78658, Folio 75, inscription one in the Corporations Ledger and in the special Register of the Spanish National Securities Market Commission, on 10 February 1992, under number 1.

In addition, the Management Company amended its articles of association by resolution of its Board of Directors passed on 15 June 1998, and which was formalised in a public deed executed by the Notary of Madrid Mr. Roberto Parejo Gamir, on 20 July 1998, under his protocol number 3,070, in order to adapt to the requirements established for Management Companies of ABS Funds by Royal Decree 926/1998, May 14. Such amendment was authorised by the Ministry of the Economy and Treasury on 16 July 1998, in accordance with the requirements of the sole temporary provision of the aforementioned Royal Decree.

The change of name is recorded in the deed executed before the Notary of Madrid Mr. Roberto Parejo Gamir on 8 March 2004 under his protocol number 622, and

was registered in the Mercantile Register in Volume 4,789, Folio 95, Section 8, Sheet M-78658, Inscription 30, and has been appropriately notified to the CNMV.

The duration of the Management Company is unlimited, except in the event of any of the legally-established grounds for dissolution.

VI.1.3 Corporate Purpose

Pursuant to article 2 of the Articles of Association of the Management Company, its exclusive corporate purpose is *“the establishment, administration and legal representation of MBS Funds, in the terms of section six of Act 19/1992, July 7, on the system for Real Estate Investment Funds and Companies and MBS and ABS Funds, in accordance with the contents of section 12, point 1, of Royal Decree 926/1998, May 14, which regulates ABS Funds and Securitisation Fund Management Companies. In its capacity as manager of outside businesses, it is entrusted with the representation and defence of the interest of holders of securities issued against the Funds it administers and of any other ordinary creditors of these, as well as with the development of any other functions attributed to Securitisation Fund Management Companies by legislation in force”*.

VI.1.4 Place where the documents cited in the Prospectus or whose existence is ascertained from the contents thereof may be consulted.

The Articles of Association of the Management Company, annual and economic and financial accounts for the Management Company, as well as any other document indicated in this Prospectus or whose existence may be ascertained from the contents thereof, may be consulted in the corporate headquarters of the Management Company, Ciudad Grupo Santander, 28660 Boadilla del Monte (Madrid).

This Prospectus was registered in the Official Registers of the CNMV on 14 December 2004. It is available to the public, free-of-charge, in the corporate headquarters of the Management Company and in placement insurance entities. It may likewise be consulted in the CNMV, in Madrid, Paseo de la Castellana, 15 and in AIAF, Mercado de Renta Fija, Edificio Torre Picasso, Planta 43, Pza. Pablo Ruiz Picasso, s/n.

Following the execution of the deed of incorporation and prior to initiating the subscription period for the Bonds (hereinafter, the *“Subscription Period”*), the Management Company will provide the Spanish National Securities Market

Commission with an executed copy of the deed of incorporation. In addition, the Management Company itself, the Systems Company or the participating entity to which it delegates its functions and AIAF will at all times have copies of the Deed of Incorporation at the disposal of Bondholders and the interested public, for consultation purposes.

VI.2 SHARE CAPITAL

VI.2.1 Nominal amount subscribed and disbursed

The capital of Santander de Titulización, Sociedad Gestora de Fondos de Titulización, S.A. amounts to nine hundred and one thousand six hundred and fifty (901,650) euros, represented by fifteen thousand (15,000) registered shares with a face value of sixty euros and eleven cents (60.11) each one, correlatively numbered from one (1) through fifteen thousand (15,000), inclusive.

VI.2.2 Classes of shares

All shares are of the same series and grant identical political and financial rights.

VI.2.3 Evolution of the capital over the past three years

As a result of the redenomination of the share capital and the face value of the shares in euros, the share capital of the Management Company was increased by adjustment of the face value of the shares of one hundred and thirty one euros and eighty four cents (131.84), thereby going from one hundred and fifty million (150,000,000) pesetas to the current amount of nine hundred and one thousand six hundred and fifty (901,650) euros, by means of the deed for the redenomination of share capital and face value of the shares in euros and subsequent capital increase by adjustment of the value of the shares executed on 13 December 2001 before the Notary of Madrid Mr. Roberto Parejo Gamir, under his protocol number 4,426, and registered in the Madrid Companies Register in Volume 4,789, Folio 94, Section 8, Sheet M- 78658, Inscription 26".

VI.3 DATA RELATIVE TO STAKES

VI.3.1 Existence or otherwise of stakes in other companies

No stakes are held in any other company.

VI.3.2 Group of companies of which the Management Company forms a part.

For the purposes of section 42 of the Code of Commerce, SANTANDER DE TITULIZACIÓN, SOCIEDAD GESTORA DE FONDOS DE TITULIZACIÓN, S.A. forms a part of the SANTANDER GROUP.

VI.3.3 Holders of significant stakes.

As of the date of the preparation of this Prospectus, the following shareholders hold a direct stake equal to or greater than 5% of the share capital in the Management Company:

<i>Shareholders</i>	<i>Percentage</i>
Santander Central Hispano Investment, S.A.	19%
Banco Santander Central Hispano, S.A.	81%

VI.4 CORPORATE BOARDS

VI.4.1 Board of Directors

The Board of Directors is comprised of the following persons:

Board members:	Ms. Ana Bolado Valle
	Mr. Emilio Osuna Heredia
	Mr. Santos González Sánchez
	Mr. Ignacio Ortega Gavara
	Mr. Marcelo Alejandro Castro
	Mr. Eduardo García Arroyo
	Mr. Francisco Pérez Mansilla
	Mr. Fermín Colomé Graell
	Mr. José Antonio Soler Ramos *
Chairman:	Mr. José Antonio Álvarez Álvarez
Secretary:	María José Olmedilla González

* Appointed in the Universal Extraordinary General Meeting held on 2 December 2004, said appointment on the date of this Brochure pending registration with the Commercial Registry.

VI.4.2 General Directorship

The Director General of the Management Company is Mr. Ignacio Ortega Gavara.

VI.5 JOINT INTERESTS IN THE MANAGEMENT COMPANY OF THE PERSONS LISTED IN SECTION VI.4

The persons indicated in section VI. 4.1 above are neither direct nor indirect holders of any share or convertible debenture of the Company.

VI.6 LENDERS IN EXCESS OF 10 PERCENT (10%) TO THE MANAGEMENT COMPANY

The Management Company has not received any loan or credit from any person or entity whatsoever.

VI.7 MENTION ON WHETHER THE MANAGEMENT COMPANY IS INVOLVED IN ANY BANKRUPTCY SITUATION AND ON THE POSSIBLE EXISTENCE OF SIGNIFICANT LITIGATION THAT COULD AFFECT ITS ECONOMIC AND FINANCIAL STATUS OR, IN THE FUTURE, ITS CAPACITY TO CARRY OUT THE MANAGEMENT AND ADMINISTRATION DUTIES FOR THE FUND SET FORTH IN THIS PROSPECTUS

None exist.

CHAPTER VII

RECENT EVOLUTION AND PERSPECTIVES ON THE MARKET IN GENERAL AND ON THE LOAN MARKET IN PARTICULAR THAT COULD AFFECT THE FINANCIAL PERSPECTIVES OF THE ABS FUND

VII.1 FINANCIAL SUFFICIENCY OF LOCAL MUNICIPALITIES

Principle of financial sufficiency of Local Municipalities in the Spanish Constitution

Section 142 of the Spanish Constitution, 27 December 1978 (hereinafter, the "*Constitution*") establishes that:

"Local Municipalities should have sufficient means for the performance of the functions attributed by Law to the respective Local Authorities and will obtain revenue basically from taxes of their own and stakes in those of the State and Autonomous Communities."

This provision establishes the constitutional principle of financial sufficiency of Local Municipalities.

On the other hand, section 140 of the Constitution establishes that:

"The Constitution guarantees the autonomy of municipalities. These will have full legal personality. Their government and administration corresponds to their respective City Halls..."

Financial sufficiency in the Act Regulating Local Municipalities

Act 39/1988, December 28, which regulates Local Municipalities in its own Stated Purpose, and pursuant to the constitutional principle, determines that *"not only does financial sufficiency determine its institutional establishment, but furthermore encounters (...) the mechanisms necessary for materialisation. For such purpose and in keeping with the mandate of the constituent lawmaker, two basic and independent channels of financing, among others, are placed at the disposal of local Municipalities, which are its own taxes and the stake in State taxes which, for the first time, are to operate in an integrated fashion in*

order to provide the volume of financial resources to ensure the effectiveness of the principle of financial sufficiency”.

As established in section 2 of Royal Legislative Decree 2/2004, March 5, which approves the revised text of the Act Regulating Local Municipalities (hereinafter, the **“Revised Text of the Local Municipalities Act”**), the Treasury of local Entities will be comprised of the following resources:

- a) *Revenue from its net worth and other, private corporations.*
- b) *Its own levies classified into charges, special contributions and taxes, and the surcharges due on taxes and surcharges due on taxes of the Autonomous Communities or other local Entities.*
- c) *Stakes in levies of the State and Autonomous Communities.*
- d) *Grants.*
- e) *Those obtained from public prices.*
- f) *The product of credit transactions.*
- g) *The product of fines and penalties within the scope of its authority.*
- h) *Other public Law benefits.*

In terms of its own taxes, in accordance with section 59 of the Revised Text of the Local Municipalities Act, City Halls will levy the following taxes:

- a) *Real Estate Tax.*
- b) *Tax on Commercial and Professional Activities.*
- c) *Vehicle Excise Duty.*

City halls may likewise establish and demand the Tax on Construction, Installations and Building and the Tax on the Increase in Value of Urban Land, in accordance with the aforementioned Act, the provisions that develop it and the respective tax regulations.

In terms of the stake in State Taxes, section 11 of the Revised Text of Local Municipalities Act provides that:

“With the scope and conditions established in this chapter, and in the proportion established in section 112, the revenue obtained by the State in taxes relative to municipalities, will be granted in favour of those that fulfil one of the following conditions:

- a) *they must be capitals of a province or autonomous community, or*
- b) *They must have a legal population equal to or greater than 75,000 inhabitants. For this purpose, the population resulting from the updated Municipal Census of inhabitants, valid upon the entry into force of the model regulated in this section, will be considered”.*

In accordance with section 112 of the Revised Text of the Local Municipalities Act, *“each one of the municipalities included in the aforementioned subjective scope will be granted the following revenue percentages that shall not have been assigned to Autonomous Communities, obtained from the following State taxes:*

- a) *1.6875 % of chargeable income from the Personal Income Tax.*
- b) *1.7897 % of the net collection of Value Added Tax attributable to each municipality.*
- c) *2.0454 % of the net collection attributable to each municipality for Special Taxes on Beer, Wine and Fermented Beverages, on Intermediate Products, on Alcohol and Derivative Beverages, on Hydrocarbon and Tobacco Products.*

(...)

Municipalities may in no case assume regulatory, management, settlement, collection and inspection powers for the taxes whose revenue is granted to them, or on matters of the revision of actions underway relative to such taxes, whose ownership and exercise will correspond exclusively to the State”.

VII.2 FINANCIAL SUFFICIENCY OF AUTONOMOUS COMMUNITIES

Principle of financial sufficiency of Autonomous Communities in the Spanish Constitution

Section 2 of the Constitution guarantees the right of autonomy to the Autonomous Communities.

“The Constitution is based on the indissoluble unity of the Spanish Nation, common and indivisible homeland of all Spaniards, and recognises and guarantees the right to the

autonomy of the nationalities and regions that comprise it and the solidarity among them all”.

Section 156 of the Constitution establishes that:

1. *Autonomous Communities will have financial autonomy for the development and execution of their authorities in accordance with the principles of coordination with the State Treasury and of solidarity among all Spaniards.*
2. *Autonomous Communities may act as delegates or collaborators of the State for the collection, management and settlement of the latter’s tax resources, in accordance with the Law and Ordinances.*

As established in section 157 of the Constitution, the resources of Autonomous Communities will be comprised of:

- a) *“Taxes granted totally or partially by the State, surcharges on State taxes and other stakes in State revenues.*
 - b) *Its own taxes, charges and special contributions.*
 - c) *Transfers from funds for equalisation grants and other assignments against General State budgets.*
 - d) *Revenues from its net worth and private corporation income.*
 - e) *The product of credit transactions.*
2. *In no case may Autonomous Communities adopt tax measures on goods located outside their territory or which pose an obstacle to the free circulation of merchandise or services.*
 3. *The exercise of the financial powers listed in section 1 above, the rules for the resolution of any conflicts that may arise and the possible forms of financial collaboration between Autonomous Communities and the State may be regulated by Organic Act”.*

VII.3 MOST RECENT AND SIGNIFICANT TENDENCIES OF THE MARKET IN GENERAL

Since 1996, loans to the public sector have increased by 17%. This growth has considerably affected the territorial governments, due to the transfer of authority from the central government to the regional governments. The amount extended to the State has decreased significantly, while loans extended to regional and local governments have increased.

The trend in interest rates continues downward, despite the continuing turnaround of Euribor, which last June reached 2.404%, its third consecutive increase during the year.

Therefore, private consumerism continues to rise and is being taken advantage of by the banking sector, which continues to be very interested in recovering the market share in Spain by way of a particularly aggressive business strategy. According to the Spanish Banking Association, in September the increase in extension of mortgage loans was at a 25.3% annual rate compared to 11.20% at the close of 2003. That reflects the higher rate reached since 1996 when the real estate boom began in Spain, and the parallel growth in the mortgage business of financial entities, as well as an increase in the debt of Spanish families by more than 111 billion euros above the debt they had one year ago.

In light of the aforementioned growth of loans granted by bank entities and of family debt, the Bank of Spain maintains the risk control model that allows it to anticipate any problems posed by excessive arrears and appeals for caution, asking lending entities not to relax their lending criteria and not to extend mortgages for more than 80% of the actual value of the dwelling. Also, the Bank of Spain in the new accounting circular (which will come into effect next 1 January 2005), which amends Circular 4/91 and adapts Spanish rules to international accounting standards (IAS), allows the entities to reduce the level of generic annual reserves, but states that the requirement of provisions by banks will continue to be rigorous.

Forecasts in Spain point to a slight deceleration of the real estate market, for various reasons: on one hand, the change in government, the creation of the Housing Ministry, which has resulted in a partial relaxation in the sector by decreasing the number of sales of dwellings by 5%, and the announced reform reducing expenses of

refinancing mortgages, with the purpose of fostering mixed or fixed loans and, on the other hand, the forecast decrease in rates during the first half of 2005.

VII.4. IMPLICATIONS THAT COULD RESULT FROM THE TENDENCIES COMMENTED IN SECTION VII.3 ABOVE (EARLY REPAYMENT INDEX, DEFAULT INDEX, ETC.):

Approximately 92.5% of the Credit Rights acquired by the Fund will be at a variable interest rate, adjusting periodically to variations in market interest rates, with the exception of specific conditions that limit the upward or downward variability of the applicable interest rate. This means that a subsequent lowering of interest rates will not affect loans subject to a variable rate since the rates will adjust periodically to variations in market interest rates. To the contrary, in the event of an increase in rates, and if it is significant, loans could be affected by an elevated rate of early repayment.

On the other hand 7.5% of the Securitised Loans acquired by the Fund will be at a fixed interest rate, with an average interest rate of 4.08%.

In terms of the credit solvency of assigned Debtors, none of the loans comprising the provisional portfolio and which will serve as the basis for the assignment to the Fund of Initial Credit Rights were, as of 16 November 2004, in arrears in the payment of debts due by more than sixty days, and this situation has been verified as per section 11 of the auditing report attached as Exhibit 4 of this Prospectus. The loans that will ultimately be assigned as Initial Loans for the formation of the Fund will not have debits pending collection with delinquency greater than thirty days.

Signed: IGNACIO Ortega Gavara
- General Manager -
Santander de Titulización,
S.G.F.T., S.A.