Credit Products/Spain
Presale Report

Fondo de Titulización de Activos Santander Público 1

Expected Ratings*

Series	Amount (EURm)	Legal Final Maturity	Rating	CE (%)
A	1,813.0	January 2037	AAA	3.50
B	37.0	January 2037	A	1.50
RF	27.75		NR	

All tranches benefit from additional credit enhancement in the form of excess spread.

Analysts

Juan García
+44 20 7417 3498
juan.garcia@fitchratings.com

Euan Gatfield
+44 20 7417 6306
euan.gatfield@fitchratings.com

Fernando Mayorga
+34 93 323 8400
fernando.mayorga@fitchratings.com

Performance Analytics

Henry Gallego
+44 20 7862 6298
henry.gallego@fitchratings.com

* Expected ratings do not reflect final ratings and are based on information provided by the issuer as of 14 December 2004

Summary

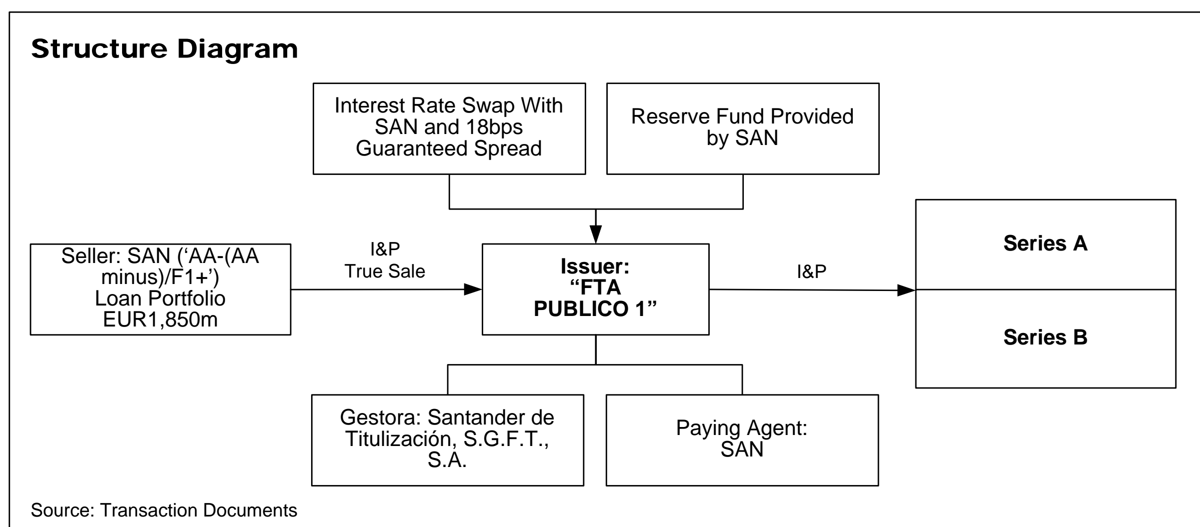
This transaction is a cash flow securitisation of loans granted to public service providers in Spain (local governments "*ayuntamientos*", municipalities "*Diputaciones y Cabildos*", autonomous communities "*Comunidades Autónomas*", and others such as public universities, together "the collateral") granted by Banco Santander Central Hispano ("SAN" or "the originator", 'AA-(AA minus)/F1+'). Fitch Ratings has assigned expected ratings to the notes ("the notes") to be issued by Fondo de Titulización de Activos Santander Público 1 ("PÚBLICO 1" or "the issuer") as indicated at left.

This is the first transaction of its kind in Spain but relatively similar to the Italian C.P.G. Società di Cartolarizzazione a r.l. Series 2003-1 transaction, also rated by Fitch in April 2003 (please see the separate report at www.fitchratings.com). The collateral, which will be purchased from the originator at closing by Santander de Titulización SGFT, SA ("the *Sociedad Gestora*"), a special-purpose management company with limited liability incorporated under the laws of Spain, is a EUR1.85 billion portfolio of static credit rights comprising loans to public service providers in Spain.

The expected ratings are based on the quality of the collateral, available credit enhancement ("CE"), the financial structure of the deal, the underwriting and servicing of the collateral, and the *Sociedad Gestora*'s administrative capabilities. CE for the Series A notes, totalling 3.50%, will be provided by the subordination of the Series B notes (2.00%) and a reserve fund (1.50%). Series B will benefit from CE provided by the reserve fund. In addition, the first layer of loss protection will be provided under an interest rate swap that guarantees excess spread of 18bps.

Credit Committee Highlights

- Fitch mapped SAN's internal credit scoring scale to the agency's own ratings.
- Fitch used its VECTOR Model version 2.0 to forecast the default probability for the portfolio under the agency's 'AAA' and 'A' rating scenarios. The model used the mapped ratings as an input to determine default probability for each loan according to Fitch's CDO Default Matrix (see *Credit Analysis* below).
- The mapping process included a credit assessment of a sample of obligors selected from the collateral, conducted by the Fitch International Public Finance group.
- Recovery rates and recovery lag assumptions for the loans were based on performance data from SAN's public sector loan portfolio since 1998.



Source: Transaction Documents

- An interest deferral mechanism for the Series B notes is in place, indicating that when the volume of defaults within the collateral exceeds a certain limit, the available funds of the structure will be directed to amortise the notes ahead of interest payments on the Series B. This is in effect a redistribution of funds away from the junior notes to the senior notes, completing the subordination of the former ones and preserving the seniority of the latter ones. However, under Fitch's cash flow modelling and rating methodology assumptions, this mechanism does not provide credit enhancement for the Series A notes as it will only commence to operate when the cumulative level of defaults exceeds 8% of the notes original balance, which is a level greater than the agency's calculation for a 'AAA' stress environment. Therefore, under Fitch's 'AAA' scenario the series B interests remains ranking senior to the principal repayment to the series A notes.

■ Structure

PÚBLICO 1 is a limited liability special-purpose vehicle incorporated under the laws of Spain, whose sole purpose is to acquire credit rights from the originator, which will form the collateral to back the issuance of amortising, and quarterly paying securities.

In the structure SAN takes several roles including the administrator of the collateral, the swap counterparty, the paying agent and the provider of the reserve fund among others. As indicated, SAN will also continue to service the collateral; however, for the protection of investors, if it is unable to continue to do so, the *Sociedad Gestora* must appoint a replacement administration company, in accordance with the Spanish securitisation law.

Interest and principal collections are handled jointly through the combined priority of payments which is described below. No later than 48 hours after receipt, collections on the collateral will be transferred into the treasury account, which will be held at SAN in the name of the Fund and will comprise the reserve fund, collections of any kind received by the Fund and swap payments (if applicable) among others. This account will yield a guaranteed return equal to three-month EURIBOR.

If the Paying Agent is downgraded below 'F1', the *Sociedad Gestora* will transfer all amounts standing to the credit of the treasury accounts to a bank rated 'F1' or higher within 30 days of the downgrade's announcement.

Priority of Payments

On each payment date, the combined ordinary priority of payments will be as follows:

- expenses, taxes, and servicing fees;
- net swap payment (if applicable);
- Series A interest;
- Series B interest if not deferred;
- Principal amortisation of the A and B notes (see *Amortisation of the Notes* below);
- Series B interest if deferred. This will occur when the cumulative balance of non-performing loans (i.e. those over 18 months in arrears including those previously or currently in default) represents more than 8.0% of the initial collateral balance;
- reserve fund top-up if required;
- subordinated amounts, including remuneration and reimbursement of the subordinated loans to cover the start-up expenses and to constitute the reserve fund.

Key Information

Portfolio Characteristics as of 16 November 2004

Number and Type of Loans: 1,515 loans granted to public service providers in Spain

Total Amount: EUR1,903m

Structure

Issuer: Fondo de Titulización de Activos Santander Público 1

Total Amount: EUR1,850m

Management Company: Santander de Titulización SGFT, SA

Originator: SAN ('AA-(AA minus)/F1+')

Paying Agent: SAN

Swap Counterparty: SAN

Treasury Account (GIC account): SAN

Scheduled Final Maturity: December 2031

Final Legal Maturity: January 2037

Principal amortisation of the notes, on any payment date, will be capped at the difference between the note balance and the balance of performing loans (those less than 18 months in arrears). It will be paid, subject to the availability of funds, according to the priority of payments.

Amortisation of the Notes

All the other notes will amortise sequentially on a pass-through basis starting in April 2005. Therefore, the B notes will begun to amortise only when the A notes have been paid in full. However, provided that at least 50% of the original note balance has amortised and:

- the balance of loans over 90 days in arrears, as a proportion of the outstanding loans is less than 1.0%; and
- the reserve fund is at the required level.

the outstanding balance of the B notes will amortise *pro rata* with the A notes until they reach 4.0% of the outstanding balance of all the notes, and only while their balance is greater than 0.5% of the original balance of all the notes.

Call Option

A clean-up call option in favour of the *Sociedad Gestora* will be available on the following payment date after the collateral balance falls below 10% of its original size. The fund will be redeemed after the amortisation of the collateral and/or the notes. Other unwinding provisions relate to exceptional circumstances that would affect the fund's financial equilibrium. These provisions are subject to the availability of resources to pay the outstanding notes.

Reserve Fund

At closing the issuer will set up the reserve fund through a subordinated loan granted by the originator for a total amount of EUR27.75m (1.50% of the original note balance). Subject to the following conditions, the size of the reserve fund will be permitted to amortise to an amount equivalent to 3.00% of the outstanding notes balance:

- the balance of loans more than 90 days in arrears remains below 1.0% of the outstanding balance of loans;
- on the preceding payment date, the reserve fund was set to its required amount.

The reserve fund will be subject to a floor of 0.75% of the original notes balance at all times.

The conditions defined above will protect the structure in the event of a back-loaded timing of defaults (i.e. when these peak later in the life of the transaction), as the 90 days delinquency trigger will anticipate any potential deterioration on the credit quality of the collateral.

Swap Agreement

The notes will benefit from a swap agreement between PÚBLICO 1 and SAN, under which the issuer will pay SAN an amount equivalent to the interest received on the portfolio calculated on a notional defined as the balance of loans up to 90 days in arrears.

In return, the issuer will receive three-month EURIBOR plus the weighted average ("WA") spread on the notes plus 18bps on a notional amount defined as the greater of:

- the balance of loans up to 90 days in arrears; and
- the lesser of: i) the outstanding balance of the collateral; or ii) interest collections from the collateral during the last liquidation period divided by the interest rate payable by SAN under the swap agreement, and adjusted for the number of days of the liquidation period.

This has the following main effects.

1. it hedges against an interest rate mismatch between the assets and the liabilities arising from differences in the reference indices (for example, 12-month EURIBOR for the collateral versus three-month EURIBOR for the liabilities).

2. it produces a stable spread of 18bps over the life of the deal, thereby mitigating any compression in the WA margin on the loans and offsetting the increase in note funding costs over time.
3. *Ceteris paribus,* the swap is more favourable to the issuer if the credit quality of the collateral deteriorates as it narrows the conditions under which a net payment would be payable to SAN, just as it broadens those under which the net swap payment is zero.

If SAN is downgraded below 'F1', it will, within 30 days, take one of the following steps:

- find an entity rated at least 'F1' to guarantee its obligations under the swap agreement;
- find a replacement counterparty with a Long-term rating of at least 'F1'; or
- adequately cash- or security-collateralise its obligations.

Collateral

At closing, the final portfolio will have an outstanding balance of EUR1,850m, corresponding to loans selected from a provisional portfolio of 1,515 loans. As of 16 November 2004, the provisional portfolio's main characteristics, in volume terms, were:

1. the top obligor represented 3.1% of the overall portfolio. The top 3 obligors concentrated 8.1% and the top 10 debtors 22.8%;
2. approximately 77.5% was due from Autonomous Communities and municipalities, 15.2% from public universities, and 7.3% from other public services providers;
3. 22.5% of the obligors were located in the region of Andalucía, 16.4% in Cataluña, 15.6% in Madrid, and 11.4% in Valencia;
4. 98.3% was unsecured;
5. WA seasoning of 28 months;
6. WA rating of A-/BBB+;
7. WA time to maturity of 124 months;
8. 69.5% were linked to EURIBOR rates (i.e. 3 months, 6 months, 12 months);
9. the earliest maturity was December 2004, and the latest December 2031.

Credit Analysis

When determining the CE levels for each rating category Fitch combined its new default VECTOR model with its criteria for assessing cash flow CDOs (see "*Global Rating Criteria for Collateralised Debt Obligations*", dated 13 September 2004, available at www.fitchratings.com).

Fitch's key sections of the analysis were the default probability calculation using the VECTOR model, and the definition of recovery rates and recovery lag periods for each rating category. These results were combined with the structural features of the transaction and analysed in a cash flow model. CE levels were determined to ensure that each series of bonds should receive timely payment of interest and ultimate repayment of principal without incurring any shortfall under its respective rating scenario.

The default probability calculation performed by the VECTOR model accounted for the pool's relatively high level of obligor concentration.

Levels of CE took into account the minimum guaranteed excess spread that will be paid under the swap (see *Swap Agreement*).

Default Probability

Mapping

SAN's internal scoring system was defined using the bank's internal default and delinquency data for corporates between 1995 and 2003, and it has been calibrated according to the Bank of Spain guidelines and Basel II requirements. Fitch carried out two analytical steps to map SAN's internal rating scale to the agency's ratings, which in turn are used in the Fitch CDO Default Matrix.

i. SAN's one-year default data, for each one of its rating scales, was compared against the one-year default probabilities defined in Fitch's CDO Default Matrix. The mappings were as follows:

PÚBLICO 1, Mapping Summary

SAN Internal Scoring	Fitch CDO Default Matrix
9.3	AA+
9.2	AA
9.0	AA-
8.6	A+
8.1	A
7.7	A-
7.3	BBB+
6.8	BBB+
6.3	BBB
5.7	BBB-
5.2	BB+
4.6	BB
4.0	BB-
3.4	B+
2.8	B
2.2	B-
1.5	CCC

Source: Fitch Ratings

ii. The Fitch International Public Finance group reviewed SAN's internal credit documentation and rating result for a sample of obligors. Despite some differences between SAN's and Fitch's scoring methodology for public sector

exposures, the result of Fitch's credit assessment on the defined sample was consistent with SAN internal result, and the mapping indicated above was validated.

Of the existing pool of 773 obligors, only 16 did not have an assigned SAN rating for the date of the analysis. Because most of these obligors are small municipalities, Fitch assigned a conservative 'BB- (BB minus)' rating to them, which was the rating of similar small municipalities in the portfolio. These 16 obligors represent 0.06% of the pool in volume terms. Small municipalities are considered riskier than large ones mainly because of their reduced population and tax base, and consequently their relatively limited ability to generate net savings (i.e. gross income minus gross expenses including the servicing of the debt).

Correlation

In conducting the default probability analysis Fitch employed a pair-wise blanket asset correlation of 27.5%, which is within the boundaries defined by the VECTOR model for Spanish inter and intra industries maximum levels of 21.1% and 35.3%, respectively. Fitch recognises the high level of financial independence that is granted by law to the different regions of the country, and consequently did not stress the correlation assumption in the analytical process.

In Spain the regional Autonomous Communities directly finance public universities. Therefore, Fitch has grouped these universities within their specific regions and assigned identical ID numbers in the VECTOR model. By doing so, Fitch has adjusted the correlation for public universities linked to the same Autonomous Community to 100%.

Although the finances of the other public service providers such as sports, cultural or housing institutes mostly depend on budgetary transfers from regional/local governments, their level of financial dependency is reduced as their standalone income generation capacity and a stable customer base.

Recovery Rates

Recovery rate assumptions on public sector defaults are higher than those in the corporate sector, mainly because of their more stable income generation capacity, which is consistent with their tax-raising powers and also, in some cases, with the budgetary transfers expected from regional/local authorities.

To determine the WA recovery rate for each rating category, Fitch established a blended assumption after considering the characteristics of the collateral in terms of debtor type. Consequently:

- obligors classified as Autonomous Communities, municipalities and public universities, representing approximately 92.7% of the collateral, were assigned recovery rates for principal and interest of 90% for the 'A' and 80% for the 'AAA' rating scenarios;

- other obligors, such as sports centres, housing institutes and cultural houses, representing approximately 7.3% of the collateral, were assigned recovery rates for both principal and interest of 36% for 'A' and 32% for the 'AAA' rating scenarios. These are consistent with the recovery assumptions used by the VECTOR model for senior secured corporate exposures.

Credit Analysis

(%)	Cumulative WA Default Probability	WA Recovery Rates
AAA	7.4	75.0
A	4.6	80.8

Source: Fitch Ratings

Recovery Lag

Fitch considers that recovery timing for defaulted public sector loans, which are not secured, would be longer than the agency's general assumptions for defaults of corporate loans secured by real estate. On the other hand, the agency would expect that most of the defaulted loans would enter into a negotiation phase with the originator where grace periods, extended maturities, and/or adjusted margins are possible solutions to be agreed. Partial repayments would also be expected because of their more certain cash flow generation capacity as indicated in *Recovery Rates* above.

SAN provided historical evidence of the recovery lag for public sector exposures that were once classified as defaulted. According to this information, which covers the 1998-2004 period, the average recovery lag period to collect all the outstanding amounts was 17 months, although the longest was approximately 36 months. In the cash flow model, Fitch has factored a recovery lag of 36 months.

Cash Flow Analysis

To evaluate the contribution of structural elements such as excess spread, reserve fund, the timing of defaults and recovery lags, Fitch modelled the cash flow mechanics of this transaction with the default probabilities and recovery rates detailed above.

The cash flow model assumes that defaults can occur in front-loaded and back-loaded sequences. The analysis simulates the cost of carrying defaulted loans as the difference between the performing

balance of the collateral and the notional note balance, until all the recovery proceeds are collected. Excess spread, the reserve fund and principal collections must be sufficient to cover the carrying cost until recoveries are received. Interest rates are stressed upwards over time, although the effect of this is limited by the swap agreement that is in place.

Losses are calculated by the model, which determines, on a quarterly basis, whether they can be absorbed by available funds. Whenever the loss levels hit deferral triggers, Series B note interest will be deferred, as determined by the priority of payment waterfall.

Fitch assumed foreclosure costs of 10% of the outstanding loan amount and senior transaction costs in the range of 5bps to 17bps for the different rating categories. Prepayment stresses were also run for the ‘AAA’ and ‘A’ stress scenarios.

Origination and Servicing

SAN is Spain’s largest banking group, with both a strong retail banking franchise in Spain and a variety of other banking divisions in Europe and Latin America. SAN has a market share of deposits of approximately 10% in Latin America. As in Spain and Portugal, activities in the region are focused on retail banking, mainly in Brazil, Mexico, Chile and Puerto Rico. It also has significant market shares in investment and pension fund management.

Fitch reviewed the origination and servicing procedures of SAN during an on-site visit during which the agency met with managers responsible for the public finance and credit risk departments.

Underwriting

SAN’s underwriting practices for public sector exposures include four different approval levels, from credit analysts at branch level up to the delegated committee (*Comisión Delegada*), which evaluates exposures greater than EUR10.0m or with maturities longer than five years.

The internal rating of an obligor is always assigned/updated when a new transaction is evaluated, recording its financial history for at least the previous three years. If the obligor is a municipality or an Autonomous Community, a specific rating approach is used, based on the following financial ratios:

For municipalities:

- net savings, calculated as operating income minus the sum of operating expenses and annual debt service amount, divided by the operating income;
- budget deficit, which is calculated as gross income (excluding new debt) minus total expenses (excluding debt repayment), divided by the yearly budget amount;
- existing debt, defined as drawn long-term debt divided by operating income;
- fund balance, estimated as the balance of debtors minus the sum of creditors plus treasury balance, divided by gross income;
- income elasticity, calculated as operating income growth divided by operating expenses growth;
- fiscal burden, calculated as the existing rate applied to local taxes divided by their maximum legal rate.

For Autonomous Communities:

- operating savings, calculated as operating income minus operating expenditures, divided by operating income;
- balance before debt variation, which is gross income minus total expenditure (excluding new borrowing and debt repayment) divided by GDP;
- indebtedness, which compares the level of debt with GDP;
- debt servicing, which compares the sum of interest payment and principal amortisation with GDP of the region;
- economic development, based on GDP per capita, real GDP growth and unemployment.

Each of these ratios is linked to a particular score within SAN’s rating scale, and each receives its own weighting factor. The final score is the WA of all the ratios.

For other obligors which are not a municipality or an Autonomous Community, the standard corporate rating approach is used. This evaluates the following six main sections: Industry and marketplace, management and shareholding structure, access to credit, profitability, solvency and cash flow generation capacity.

Servicing

SAN’s servicing strategy for public sector exposures is similar to that applicable to corporate debtors. Delinquent borrowers are identified through a system of automatic alerts, which are delivered to branch managers and credit analysts on a regular basis, and are included in a system called “FEVE”, where obligors with special surveillance requirements are monitored. Each of the obligors

included in this system is assigned a strategy to follow, which can be summarised as follows:

- continue as normal;
- review/reduce;
- improve the terms and conditions;
- eliminate.

Loans in arrears are managed directly by branch personnel or relationship managers for the first days; if the position remains delinquent after 90 days, it will be transferred to the special recoveries team. Only when the bank can take no further action internally or when the credit quality of the borrowers appears very low will SAN initiate any legal action. In a first instance, the legal actions will be dictated by Spanish administrative law, as obligors are public service providers. This law stipulates that the creditor must notify the delinquent debtor to repay any outstanding balance in the next 30 days, after which the standard civil code for corporate and other debtors is applied.

Performance Analytics

Fitch will monitor the transaction on a regular basis and as warranted by events. Its structured finance surveillance team ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk.

Details of the transaction's performance are available to subscribers at www.fitchresearch.com. Further information on this service is accessible at www.fitchratings.com.

PÚBLICO 1, F.T.A. — Spain/CDO

Capital Structure

Serie	Rating	Size (%)	Size (EURm)	CE (%)	PMT Freq	Final Legal Maturity	Coupon
A	AAA	98.00	1,813.0	3.50	Quarterly	January 2037	Floating
B	A	2.00	37.0	1.50	Quarterly	January 2037	Floating
Reserve Fund	N.R.	1.50	27.75	n.a.			

Key Information

		Role	Party (trigger)
Closing Date	22 December 2004	Structurer	Santander de Titulización SGFT SA
Country of Assets	Spain		
Structure	Pass through, sequential or pro-rata under certain circumstances	Originator/Servicer of the Collateral	SAN
Type of Assets	Loans to public service providers	Issuer	PÚBLICO 1 F.T.A.
Currency of Assets	EUR	Servicer of the Notes	Titulización de Activos SGFT SA
Currency of Notes	EUR	Financial Agent	SAN ('F1')
Primary Analyst	juan.garcia@fitchratings.com	Swap Counterparty	SAN ('A/F1')
Secondary Analyst	euan.gatfield@fitchratings.com		
Performance Analyst	henry.gallego@fitchratings.com		

Collateral: Pool Characteristics*

Current Principal Balance (EUR)	1,902,599,258	Obligors in Andalucía (%)	22.5
Loans (#)	1,515	Obligors in Cataluña (%)	16.4
Current WAL (Zero Prepayments)	4.7 Years	Obligors in Madrid (%)	15.6
WA Coupon	249bps	Obligors in Valencia (%)	11.4
Average Spread of Floating Loans	16bps	Backed by Real Estate (%)	1.7
Top 1 Obligor (%)	3.1	WA Current LTV (for Mortgages) (%)	31.0
Top 5 Obligors (%)	12.9	Linked to EURIBOR (3m, 6m, 12m) (%)	69.5
Top 10 Obligors (%)	22.8	Linked to Fixed Interest Rates (%)	7.5
WA Seasoning	28 Months	Longest Maturity	December 2031
WA Time to Maturity	124 months	Shortest Maturity	December 2004
Obligors (#)	773		

* All percentages as a proportion of outstanding balance.
Source: Transaction documents

Copyright © 2004 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries. One State Street Plaza, NY, NY 10004.
Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. All of the information contained herein is based on information obtained from issuers, other obligors, underwriters, and other sources which Fitch believes to be reliable. Fitch does not audit or verify the truth or accuracy of any such information. As a result, the information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed, suspended, or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of Great Britain, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.