

## Offering Circular



## Bancaja Emisiones, S.A. Unipersonal

*(incorporated with limited liability under the laws of Spain)*

### **Euro 500,000,000 Guaranteed Perpetual Step-Up Subordinated Notes**

irrevocably and unconditionally guaranteed to the extent set forth herein by

## **Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja**

*(incorporated under the laws of Spain)*

The issue price of the Euro 500,000,000 Guaranteed Perpetual Step-Up Subordinated Notes (the "Notes") of Bancaja Emisiones, S.A. Unipersonal (the "Issuer") is 99.882 per cent. of their principal amount.

The Notes have no fixed maturity date and the Issuer shall only have the right to repay them in accordance with the Terms and Conditions and subject to the prior consent of the Bank of Spain. The Notes may be redeemed at the option of the Issuer (subject, among other conditions, to the prior consent of the Bank of Spain and, in certain circumstances, to the prior consent of the Guarantor, as defined below), in whole but not in part, at their principal amount together with accrued interest (if any) thereon (including any Deferred Interest and any Additional Interest Amounts (each as defined in the Terms and Conditions)) (i) on 17th November 2014 and on any Interest Payment Date (Floating) (as defined in the Terms and Conditions) thereafter, and (ii) at any time on or after 17th November 2014 or as otherwise permitted by the Bank of Spain, in the event of certain changes affecting taxation in the Kingdom of Spain. See "Terms and Conditions of the Notes – Redemption and Purchase".

The Notes will bear interest from, and including, 16th November 2004 to but excluding 17th November 2014 at the rate of 4.625 per cent. per annum payable in arrear on 17th November in each year. The first interest payment will be payable on 17th November 2005. The Notes will bear interest from, and including 17th November 2014 at the rate of 2.17 per cent. per annum above the three month EURIBOR payable quarterly in arrear commencing on the Interest Payment Date falling on 17th February 2015. Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja (the "Guarantor", "Savings Bank" or "Bancaja") will unconditionally and irrevocably guarantee, on a subordinated basis, the due and punctual payment of all amounts at any time becoming due and payable in respect of the Notes.

The Issuer shall not be obliged to make any payment of the interest accrued on the Notes on any Interest Payment Date, if either the non-consolidated or consolidated audited profit and loss account (*cuenta de resultados*) of the Guarantor or, as the case may be of the Guarantor and its consolidated subsidiaries (the "Group"), for the financial year immediately preceeding any Interest Payment Date does not show a Profit (as defined in the Terms and Conditions); and any failure to pay the interest accrued on the Notes under such circumstances shall not constitute an Event of Default. See "Terms and Conditions – Interest".

The Notes are expected, upon issue, to be assigned an A2 rating by Moody's Investors Services, Inc. ("Moody's") and an A rating by Fitch IBCA Limited ("Fitch IBCA"). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

**Potential holders are alerted to the statements on pages 2 and 3 regarding the tax treatment in Spain of income in respect of the Notes and to the disclosure requirements imposed on the Issuer and the Guarantor relating to the identity of certain holders of the Notes. In particular, income in respect of the Notes will be subject to withholding tax if certain information regarding holders is not received by the Guarantor on time as described herein.**

The Notes will be issued in bearer form and will be represented by a global Note deposited on or about the Closing Date with a common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg", together with Euroclear the "Clearing Systems").

Application has been made to list the Notes on the Official Segment of the stock market of Euronext Amsterdam N.V. ("Euronext Amsterdam"). This Offering Circular constitutes a Prospectus for the purposes of the application for listing on Euronext Amsterdam.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the "Securities Act") and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Managers (as defined in "Subscription and Sale") in accordance with Regulation S under the Securities Act ("Regulation S"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

**JPMorgan**

**Lehman Brothers**

**Merrill Lynch International**

12th November 2004

*The Issuer and the Guarantor accept responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer and the Guarantor (each having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.*

*This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "Documents Incorporated by Reference" below). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.*

*The Managers (as defined in "Subscription and Sale") have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers or any of them as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Issuer or the Guarantor in connection with the Notes or their distribution.*

*Neither the Issuer nor the Guarantor has authorised the making or provision of any representation or information regarding the Issuer, the Guarantor or the Notes other than as contained in this Offering Circular or as approved for such purpose by the Issuer and the Guarantor. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Guarantor or the Managers.*

*Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Guarantor since the date of this Offering Circular.*

*This Offering Circular does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.*

*The distribution of this Offering Circular and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor and the Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Offering Circular and other offering material relating to the Notes, see "Subscription and Sale".*

*In particular, the Notes have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered in the United States or to U.S. persons.*

*In this Offering Circular, unless otherwise specified, references to "€", "EUR" or "Euro" are to the single currency introduced at the start of the Third Stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended.*

*Under Spanish law, income in respect of the Notes will be subject to withholding tax in Spain, currently at the rate of 15%, in the case of: (a) individual holders who are resident in Spain; and (b) holders who receive payments through a Tax Haven (as defined in Royal Decree 1080/1991, of 5th July). The Guarantor is required, pursuant to Spanish law, to submit to the Spanish tax authorities certain details relating to holders of the Notes. Holders in respect of whom such information is not provided in accordance with procedures described herein to the Guarantor will receive payments subject to Spanish withholding, currently at the rate of 15%. Neither the Issuer nor the Guarantor will gross up payments in respect of any such withholding tax in any of the above cases. (See "Terms and Conditions – Taxation" on page 14 and "Taxation and Disclosure of Noteholder Information in connection with Interest Payments" on page 60.)*

*The Clearing Systems are expected to follow certain procedures to facilitate the Issuer, the Guarantor and the principal paying agent in the collection of the details referred to above from holders of the Notes. If any Clearing System is, in the future, unable to facilitate the collection*

*of such information, it may decline to allow the Notes to be cleared through such Clearing System and this may affect the liquidity of the Notes. Provisions have been made for the Notes, in such a case, to be represented by definitive Notes. The procedures agreed and fully described in the Paying Agency Agreement may be amended to comply with Spanish laws and regulations and operational procedures of the Clearing Systems.*

*The Clearing Systems are currently in discussions to harmonise the procedure for the provision of information as required by Spanish laws and regulations. The procedure contained in this Offering Circular is a summary only and is subject to such discussions as well as to further clarification from the Spanish tax authorities regarding such laws and regulations. Holders of Notes must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Notes. None of the Issuer, the Guarantor, the Managers, the Paying Agents or the Clearing Systems assume any responsibility therefor.*

*The Issuer and the Guarantor, as applicable, may, in the future, make a withholding on payments to holders of Notes who are subject to corporation tax in Spain if currently held opinions of the Spanish tax authorities change (see “Taxation and Disclosure of Noteholder Information in connection with Interest Payments – 2. Legal Entities with Tax Residency in Spain” on page 61).*

**In connection with the issue of the Notes, J.P. Morgan Securities Ltd. (the “Stabilising Manager”) (or any person acting for the Stabilising Manager) may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Manager (or any agent of the Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules. When conducted by Dutch persons or entities anywhere in the world or by non-Dutch persons or entities in The Netherlands, such stabilising will be conducted in accordance with the rules of the Further Conduct of Business Regulation to the Dutch Securities Market Supervision Act (*Nadere Regeling gedragstoezicht effectenverkeer 2002*) and will in any event be discontinued within 30 days after the Closing Date. Stabilisation transactions conducted on the stock market of Euronext Amsterdam must be conducted by a member of Euronext Amsterdam.**

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## **Documents Incorporated by Reference**

The following documents are incorporated herein by reference:

- (a) The audited consolidated financial statements of the Guarantor for the years ended 31st December 2001, 2002 and 2003; and
- (b) the published unaudited interim financial statements of the Guarantor (on a consolidated basis) for the nine month period ending 30th September 2004.

## Terms and Conditions of The Notes

*The following is the text of the Terms and Conditions of the Notes which (subject to completion and amendment) will be endorsed on each Note in definitive form:*

The Euro 500,000,000 Guaranteed Perpetual Step-Up Subordinated Notes (the “**Notes**”, which expression includes any further notes issued pursuant to Condition 14 (*Further issues*) and forming a single series therewith) of Bancaja Emisiones, S.A. Unipersonal (the “**Issuer**”) are the subject of (a) an *escritura pública* to be registered with the Mercantile Registry of Castellón de la Plana on or prior to 16th November 2004 (the “**Public Deed**”); (b) a guarantee dated 12th November 2004 (the “**Guarantee**”) executed by Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja (the “**Guarantor**”) and (c) a paying agency agreement dated 12th November 2004 (as amended or supplemented from time to time, the “**Paying Agency Agreement**”) entered into between the Issuer, the Guarantor and JPMorgan Chase Bank as principal paying agent (the “**Paying Agent**”, which expression includes any successor paying agent appointed from time to time in connection with the Notes). Certain provisions of these Conditions are summaries of the Guarantee and the Paying Agency Agreement and subject to their detailed provisions. The holders of the Notes (the “**Noteholders**”) and the holders of the related interest coupons (the “**Couponholders**” and the “**Coupons**”, respectively) are bound by, and are deemed to have notice of, all the provisions of the Guarantee and the Paying Agency Agreement applicable to them. Copies of the Guarantee and the Paying Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices (as defined in the Paying Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

### 1. FORM, DENOMINATION AND TITLE

The Notes are serially numbered and in bearer form in the denomination of €1,000 with Coupons and talons (each, a “**Talon**”) for further Coupons attached at the time of issue. Title to the Notes, the Coupons and the Talons will pass by delivery. The holder of any Note, Coupon or Talon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. The Notes will be issued in bearer form and will be represented by a global Note deposited on or about the Closing Date with a common depository for Euroclear Bank S.A./N.V. as operator for the Euroclear System (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”) as the “**Clearing Systems**”.

### 2. STATUS OF THE NOTES

(a) The Notes and Coupons relating thereto constitute direct, unconditional, subordinated and unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and with all other present and future undated subordinated indebtedness of the Issuer. In the event of insolvency (*concurso*) of the Issuer, the rights and claims of Noteholders under the Notes and Coupons relating thereto will rank in right of payment after all ordinary debt and, to the extent permitted by applicable Spanish law, after dated subordinated indebtedness of the Issuer, *pari passu* with the rights and claims of the holders of all other undated subordinated indebtedness of the Issuer and in priority to the rights and claims of shareholders of the Issuer.

(b) The Issuer and the Guarantor agree that, for so long as the Notes and Coupons relating thereto are outstanding, they will not issue or guarantee any preferred securities or undated subordinated debt instruments ranking senior to their obligations under the Notes and the Guarantee, respectively.

### 3. STATUS OF THE GUARANTEE

The Guarantor has unconditionally and irrevocably guaranteed, on a subordinated basis, the due and punctual payment of all the sums expressed to be payable by the Issuer under the

Notes and Coupons relating thereto. The obligations of the Guarantor under the Guarantee, including those in respect of Deferred Interest (as defined in Condition 4(f)(i) below), constitute direct, unconditional, subordinated and unsecured obligations of the Guarantor. In the event of insolvency (*concurso*) of the Guarantor, the rights and claims of the Noteholders under the Guarantee shall rank in right of payment after all ordinary debt and, to the extent permitted by applicable Spanish law, after dated subordinated indebtedness of the Guarantor, *pari passu* with the rights and claims of the holders of all other undated subordinated indebtedness of the Guarantor and shall rank in priority to the rights and claims of holders of Tier 1 Securities.

**"Tier 1 Securities"** means Participations (*cuotas participativas*) of the Guarantor, creditors of the Guarantor which are characterised as holders of equity (*Otros Acreedores a Título Asimilable al de Aportación de Capital*), including directly issued preferred securities, if any, of the Guarantor, and guarantees in respect of preference shares and preferred securities issued by any subsidiary of the Guarantor.

*The Guarantor shall apply to Banco de España for the subscription amount of the Notes to qualify as capital for capital adequacy purposes in compliance with the provisions of Royal Decree 1343/1992, of 6th November implementing Law 13/1992, of 1st June on own funds and supervision of financial entities on a consolidated basis, Bank of Spain Circular 5/1993, of 26th March, and subsidiary regulations.*

#### 4. INTEREST

##### (a) Fixed Rate Period

The Notes bear interest from, and including, 16th November 2004 (the **"Issue Date"**) to, and excluding 17 November 2014 (such period the **"Fixed Rate Period"**) at the rate per annum of 4.625 per cent. (the **"Rate of Interest (Fixed)"**) payable in arrear on 17 November in each year subject as provided in Condition 8 (Payments) (each an **"Interest Payment Date (Fixed)"** and together with the Interest Payment Date (Floating), as defined below, an **"Interest Payment Date"**). Each period beginning on, and including, the Issue Date and ending on, but excluding, the first Interest Payment Date (Fixed) and each successive period beginning on, and including, an Interest Payment Date (Fixed) and ending on, but excluding, the next succeeding Interest Payment Date (Fixed) is called an **"Interest Period (Fixed)"** and, together with the Interest Periods (Floating) (as defined below), an **"Interest Period"**.

The amount of interest payable for any Fixed Rate Period will be computed by applying the Rate of Interest (Fixed) to the principal amount of each Note, multiplying the product by the Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards), where:

**"Day Count Fraction"** means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the product of (A) the number of days in the Regular Period in which the relevant period falls and (B) the number of Regular Periods in any year; and

**"Regular Period"** means each period from (and including) the Closing Date or any Interest Payment Date (Fixed) to (but excluding) the next Interest Payment Date (Fixed).

##### (b) Floating Rate Period

The Notes bear interest at the Rate of Interest (Floating) (as defined below) from, and including, 17 November 2014 payable in arrear on 17 February, 17 May, 17 August and 17 November in each year (each an **"Interest Payment Date (Floating)"**); provided however, that, if any Interest Payment Date (Floating) would otherwise fall on a date which is not a Business Day (as defined below), it will be postponed to the next Business Day unless it would thereby fall into the next calendar month, in which case it will be brought forward to the preceding Business Day. Each period beginning on, and including, 17 November 2014 and ending on, but excluding, the next Interest Payment Date (Floating) and each successive period beginning on, and including, an Interest Payment Date (Floating) and ending on, but excluding, the next succeeding Interest Payment Date (Floating) is herein called an **"Interest Period (Floating)"**.



The rate of interest applicable to the Notes (the **"Rate of Interest (Floating)"**) for each Interest Period (Floating) will be determined by the Paying Agent on the following basis:

(i) the Paying Agent will determine the rate for deposits in Euro for a period equal to the relevant Interest Period (Floating) which appears on the display page designated 248 on the Telerate Service (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying comparable rates) as of 11.00 a.m. (Brussels time), on the second TARGET Settlement Day before the first day of the relevant Interest Period (the **"Interest Determination Date"**);

(ii) if such rate does not appear on the relevant page, the Paying Agent will:

(A) request the principal Euro-zone office of each of four major banks in the Euro-zone interbank market to provide a quotation of the rate at which deposits in Euro are offered by it at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date to prime banks in the Euro-zone interbank market for a period equal to the relevant Interest Period (Floating) and in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean (rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, 0.000005 being rounded upwards) of such quotations;

(iii) if, on any Interest Determination Date, only two or three rates are so quoted, the Paying Agent will determine the arithmetic mean (rounded as aforesaid) of the rate so quoted; or

(iv) if fewer than two such quotations are provided as requested, the Paying Agent will determine the arithmetic mean (rounded, if necessary, as aforesaid) of the rates quoted by major banks in the Euro-zone, selected by the Paying Agent at approximately 11.00 a.m. (Brussels time) on the first day of the relevant Interest Period (Floating) for loans in Euro to leading European banks for a period equal to the relevant Interest Period (Floating) and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest (Floating) for such Interest Period (Floating) shall be the sum of the Margin, and the rate (or, as the case may be, the arithmetic mean (rounded as aforesaid) of rates) so determined: provided, however, that if the Paying Agent is unable to determine a rate (or, as the case may be, the arithmetic mean (rounded as aforesaid) of rates) in accordance with the above provisions in relation to any Interest Period (Floating), the Rate of Interest (Floating) applicable to the Notes during such Interest Period (Floating) will be the sum of the Margin, and the rate (or, as the case may be, the arithmetic mean (rounded as aforesaid) of rates) last determined in relation to the Notes in respect of a preceding Interest Period (Floating).

In these Conditions:

**"Euro-zone"** means the region comprised of member states of the European Union which adopt or have adopted the Euro in accordance with the Treaty establishing the European Community, as amended;

**"Margin"** means 2.17 per cent.;

**"TARGET Settlement Day"** means a day on which the TARGET System is open; and

**"TARGET System"** means the Trans-European Automated Real-time Gross settlement Express Transfer (TARGET) system.

(c) The Paying Agent will, as soon as practicable after (i) determining the Rate of Interest (Floating) in relation to each Interest Period (Floating), calculate the amount of interest (the **"Interest Amount (Floating)"**) payable in respect of the principal amount of the denomination of each Note for the relevant Interest Period (Floating) and (ii) 11:00 a.m. (Brussels time) on the first day of the relevant Interest Period determine the Additional Interest Amount (as defined in Condition 4(f)(i) below), in respect of each amount of Deferred Interest (as defined in Condition 4(f)(i) below) for the forthcoming Interest Period, if any. The Interest Amount (Floating) will be calculated by applying the Rate of Interest (Floating) for such Interest Period (Floating) to such principal amount, multiplying the product by the actual number of



days in such Interest Period (Floating) divided by 360 and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

The Additional Interest Amount (as defined below) in respect of each amount of Deferred Interest (as defined below) shall be calculated:

(i) during the Interest Period (Fixed) by applying the Rate of Interest (Fixed) to each such amount of Deferred Interest and multiplying the product by the Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards), where:

**"Day Count Fraction"** means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the number of days in the Regular Period in which the relevant period falls; and

**"Regular Period"** means each period from (and including) the Issue Date or any Interest Payment Date (Fixed) (but excluding) the next Interest Payment Date (Fixed); and

(ii) during the Interest Period (Floating) by applying the Rate of Interest (Floating) to each such amount of Deferred Interest, multiplying the product by the actual number of days in the Interest Period concerned divided by 360 and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

(d) The Paying Agent will cause each Rate of Interest (Floating), Interest Payment Date (Fixed), Interest Payment Date (Floating), amount of interest, Additional Interest Amounts (if any) or other item determined or calculated by it to be notified to the Issuer, the Guarantor, the other Paying Agent, Euronext Amsterdam and to Noteholders in accordance with Condition 15 (*Notices*) as soon as practicable after such determination or calculation but in any event not later than the fourth Business Day thereafter or, if earlier, in the case of notification to Euronext Amsterdam, the time required by the rules of Euronext Amsterdam. The Paying Agent will be entitled to amend any amount of interest, Additional Interest Amount (if any) or Interest Payment Date (or to make appropriate alternative arrangements by way of adjustment) without prior notice in the event of the extension or abbreviation of any relevant Interest Period or of notice being given by the Issuer pursuant to Condition 4(f)(iv)(2) or 4(f)(v) and such amendment will be notified in accordance with the first sentence of this Condition 4(d).

(e) The determination by the Paying Agent of all items falling to be determined by it pursuant to these Terms and Conditions shall, in the absence of manifest error, be final and binding on all parties.

(f) *Interest Deferral*

(i) Without prejudice to the provisions of Conditions 2(a) and 3 above, the Issuer shall not be obliged to make any payment of the interest accrued on the Notes on any Interest Payment Date, if either the non-consolidated or consolidated audited profit and loss account (*cuenta de resultados*) of the Guarantor or, as the case may be, of the Guarantor and its consolidated subsidiaries (the **"Group"**) for the financial year immediately preceding the Interest Payment Date does not show a Profit (as defined below), and any failure to pay the interest accrued on the Notes under such circumstances shall not constitute an Event of Default.

All interest not so paid shall, so long as the same remains unpaid, constitute **"Deferred Interest"**. Deferred Interest shall itself bear interest as if it were principal of the Notes, at the rate concurrently applicable to the principal amount of the Notes, or which would have been applicable, if no principal amount is then outstanding, as if a principal amount were then outstanding. The interest accrued on Deferred Interest in respect of any Interest Period calculated as provided in Condition 4(c) (the **"Additional Interest Amount"**) shall, for the purpose of the accrual of interest, on the last day of such Interest Period be added to such Deferred Interest and itself become Deferred Interest.

For the avoidance of doubt, during any period where there is Deferred Interest due to the Noteholders, the Notes shall continue to accrue interest at the relevant rate on their original principal amount.

(ii) Deferred Interest and any Additional Interest Amounts, provided the event set out in Condition 4(g) below does not occur, shall become due and payable on whichever is the earliest of:

(A) seven (7) Business Days following the date upon which there is next made available to the Paying Agent and to the Bank of Spain or otherwise published an audited non-consolidated or consolidated profit and loss account of the Guarantor or the Group, as applicable, for the most recent financial year showing a Profit (as defined below);

(B) in respect of any Notes being redeemed pursuant to Condition 5 (*Redemption and Purchase*) below, the date of redemption of such Notes;

(C) the occurrence of any of the events set out under Condition 6(d); and

(D) the payment of any distribution by the Guarantor on any Participations and preferred securities issued by it other than distributions made with preferred securities or any other security ranking junior to the Notes;

provided that, in the case of sub-paragraph (A) only:

(a) the total amount of Deferred Interest and Additional Interest Amount payable in respect of all the Notes shall be limited in such a way that the sum of all amounts payable by the Guarantor and its consolidated subsidiaries on the basis of the Profit of the Guarantor or, as the case may be, the Group in respect of interest accrued in prior periods (including further interest thereon, where applicable) on all Subordinated Interest Deferred Indebtedness (as defined below) converted into Euros (as provided in sub-paragraph b) below), does not exceed an amount (the "**Pay-Out-Amount**") equal to the Profit of the Guarantor for such latest financial year;

(b) If the Pay-Out-Amount is not sufficient to allow for payment of all Deferred Interest and Additional Interest Amount for the Notes and all the corresponding amounts for other Subordinated Interest Deferred Indebtedness, the total amount payable in respect of the Notes on the basis of such Profit shall be such proportion of the Pay-Out-Amount as corresponds to the proportion which the total principal amount of the Notes outstanding bears to the total principal amount outstanding of all Subordinated Interest Deferred Indebtedness (each principal amount to be determined as at the first day of the seven Business Day period referred to in sub-paragraph (A) above, and where any such principal amount is not denominated in Euros such amount shall be converted into Euros at the relevant spot rate of exchange quoted by the Paying Agent (or such other bank as the Paying Agent may determine) for the purchase of Euros with the relevant currency as at 11.00 a.m (Brussels time) on the first day of the seven Business Day period referred to in sub-paragraph (A) above, or if no such spot rate is quoted on that date, the spot rate which was quoted by the Paying Agent (or such other bank as the Paying Agent may determine) most recently prior to such date); provided that, in respect of any such Subordinated Interest Deferred Indebtedness (including the Notes), if the principal amount thereof then outstanding shall be less than the principal amount upon which, in the case of the Notes, Deferred Interest and Additional Interest Amount, or in the case of other Subordinated Interest Deferred Indebtedness, amounts corresponding to Deferred Interest and Additional Interest Amount, shall have accrued, by reason of such principal amount having become due and payable (but upon terms that such Deferred Interest and Additional Interest Amount or amounts corresponding thereto shall be deferred or continue to be deferred), the principal amount outstanding for the purposes of the calculation of the relevant proportions pursuant to this paragraph (b) shall be the principal amount actually outstanding on the first day of the seven Business Day period as aforesaid or if none, the principal amount upon which such Deferred Interest and Additional Interest Amount or amounts corresponding thereto shall have accrued;

(c) If, pursuant to sub-paragraphs (a) and (b) above, the total amount of Deferred Interest and Additional Interest Amount is not paid in full out of the Pay-Out-Amount attributable to a certain period, the amount of Deferred Interest and Additional Interest Amount pending payment shall be paid out of the Pay-Out-Amount attributable to any subsequent period,

whether falling before, on or after the due date of redemption of Notes, until such total amount of Deferred Interest and Additional Interest Amount has been paid in full;

(d) For the purposes of any calculation pursuant to sub-paragraph (b) above, any Subordinated Interest Deferred Indebtedness incurred by a consolidated subsidiary of the Guarantor shall be taken into account once only irrespective of the form of such Subordinated Interest Deferred Indebtedness, including cases where the Guarantor has guaranteed the consolidated subsidiary's obligations or has taken a deposit or loan from the consolidated subsidiary which matches the Subordinated Interest Deferred Indebtedness of the consolidated subsidiary.

(iii) If amounts in respect of Deferred Interest and Additional Interest Amount become partially payable:

(A) all unpaid amounts of Deferred Interest (for this purpose only, not including any Additional Interest Amount whether or not, for the purposes of accrual of interest on amounts of Deferred Interest, the same shall have become Deferred Interest) shall be payable before any Additional Interest Amount;

(B) Deferred Interest accrued for any period shall not be payable until full payment has been made of all Deferred Interest that has accrued during any earlier period;

(C) the order of payment of Additional Interest Amount shall follow that applicable to the Deferred Interest on which the same has accrued; and

(D) as between Noteholders the amounts so payable shall be paid pro rata to the amounts of Deferred Interest or Additional Interest Amount accrued in respect of any period owed to them.

(iv) The Issuer shall give not more than 21 nor less than 14 days' prior written notice to the Paying Agents and to the Noteholders in accordance with Condition 15 (Notices):

1. of any Interest Payment Date on which, pursuant to this Condition 4(f), interest will be deferred; and

2. of any date upon which amounts in respect of Deferred Interest and/or Additional Interest Amounts shall become payable pursuant to sub-paragraph (ii)(A) of this Condition, giving, in the case of any Deferred Interest and/or Additional Interest Amount which have become partially payable, such details as may be required by the Paying Agents

(v) The Issuer shall as soon as practicable give written notice to the Paying Agents and to the Noteholders in accordance with Condition 15 (Notices) of any date upon which amounts in respect of Deferred Interest and/or Additional Interest Amounts have become payable pursuant to sub-paragraphs (ii)(C) and (ii)(D) of this Condition 4(f).

For the purposes of this Condition:

The term "**interest**" includes, unless the context requires otherwise, Deferred Interest and Additional Interest Amount;

"**Profit**" in respect of any period means net profits before income taxes but after extraordinary items, as derived from the audited non-consolidated or consolidated profit and loss account of the Guarantor or its Group, for such period; and

"**Subordinated Interest Deferred Indebtedness**" means any and all financing arrangements of the Issuer, the Guarantor or any of its consolidated subsidiaries which contains provisions similar to those included in this Condition 4(f), including the Notes.

(g) *Loss Absorption*

In the event the Guarantor incurs Losses (as defined below), and, in particular, in the event of a reduction in reserves, including the Founders' Fund, of the Savings Bank and its Participations, if any, to zero, without liquidation of the Savings Bank and with a simultaneous increase of the Founders' Fund or a simultaneous issue of Participations, the Issuer or, as the case may be, the

Guarantor, shall allocate the principal of the Notes together with the Deferred Interest and Additional Interest Amount thereon to offsetting such Losses provided that own funds in the form of its Founders' Fund, Participations, general reserves and preference shares and preferred securities of any member of the Group have been previously allocated to meet such Losses.

The amounts of the principal of the Notes and, where appropriate, the Deferred Interest and Additional Interest Amount thereon allocated to offsetting the said Losses, may not be claimed by the Noteholders affected and therefore shall not give rise to any payment obligation from the Issuer or, as the case may be, the Guarantor to such Noteholders in respect of such amounts.

Such allocation shall be made in accordance with the following rules:

1. Deferred Interest and Additional Interest Amounts accrued but unpaid relating to the Notes shall be allocated in chronological order as they fell due. As between Deferred Interest and Additional Interest Amounts which fell due at the same time, it shall be allocated to offsetting Losses pro rata, if sufficient to offset losses.
2. If no Deferred Interest and Additional Interest Amounts remain to be so allocated, principal of the Notes to be so allocated shall be allocated as between Noteholders pro rata to the aggregate of the principal amounts then outstanding.

For the purpose of this Condition:

**"Losses"** in respect of any period means net losses before income taxes but after extraordinary items as derived from the audited non-consolidated profit and loss account of the Guarantor for such period.

(h) *Accrual of Interest*

Where any principal in respect of any Note is to be repaid in accordance with these Conditions interest (save for interest on any outstanding Deferred Interest thereon) on such Note will cease to accrue from the due date for repayment thereof unless, upon due presentation or surrender of such Note, payment in full of the principal amount is improperly withheld or refused or default is otherwise made in the payment thereof. In such event interest shall continue to accrue thereon (as well after as before any demand or judgment) at the rate then applicable to the principal amount of the Notes until the earlier of (i) the date on which, upon due presentation of the Note, the payment is made or (ii) the seventh day after the date on which notice is given to Noteholders in accordance with Condition 15 (Notices) that the Paying Agent has received the funds required to make such payment (except to the extent there is failure in the subsequent payment thereof to the Noteholder).

## **5. REDEMPTION AND PURCHASE**

The Notes have no fixed maturity date and the Issuer shall only have the right to repay them in accordance with this Condition and subject to the prior consent of the Bank of Spain.

(a) *Early Redemption for Taxation Reasons*

Subject as set out below, if, (i) as a result of any change in the laws or regulations of the Kingdom of Spain or of any political subdivision thereof or any authority or agency therein or thereof having power to tax or in the interpretation or administration of any such laws or regulations which become effective on or after the Issue Date, (a) the Issuer (or, if the obligations of the Guarantor under the Guarantee have been called, the Guarantor) would be required to pay additional amounts as provided in Condition 7 (*Taxation*) or (b) the Guarantor would not obtain relief for the purposes of Spanish Corporation Tax for any payment of interest on any inter-company lending of the proceeds of the Notes, and (ii) such circumstances are evidenced by the delivery by the Issuer or (as the case may be) the Guarantor to the Paying Agent of a certificate signed by two directors of the Issuer or (as the case may be) the Guarantor, stating that the said circumstances prevail and describing the facts leading thereto, an opinion of independent legal advisers of recognised standing to the effect that such

circumstances prevail and a copy of the Bank of Spain consent to the redemption, the Issuer may, at its option and having given no less than thirty nor more than sixty days' notice (ending, in the case of an Interest Period (Floating), on a day upon which interest is payable) to the Noteholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable), redeem all (but not some only) of the outstanding Notes (in accordance with the requirements of the Bank of Spain) at their principal amount, together with accrued interest (if any) thereon (including any accrued Deferred Interest and Additional Interest Amount pursuant to Condition 4(f) above) provided, however, that (i) in the case of (i)(a) above, no such notice of redemption may be given earlier than ninety days (or a number of days which is equal to the aggregate of the number of days falling within the then current Interest Period (Floating) applicable to the Notes plus sixty days) prior to the earliest date on which the Issuer or (as the case may be) the Guarantor would be obliged to pay such additional amounts were a payment in respect of the Notes then due, (ii) the Bank of Spain consents to the redemption of the Notes, and (iii) the provisions of Condition 4 (f) above shall apply to any payment of interest to be so made.

Redemption for taxation reasons may not take place prior to 17th November 2014 unless otherwise permitted by the Bank of Spain.

(b) *Optional Early Redemption (Call)*

The Issuer may on 17th November 2014 (and on any Interest Payment Date (Floating) thereafter) (subject to the prior consent in writing of the Bank of Spain and of the Savings Bank and having given not less than thirty nor more than forty-five days' notice (in accordance with Condition 15 (*Notices*) below)), redeem all of the Notes at their principal amount together with accrued interest (if any) thereon (including any accrued Deferred Interest and Additional Interest Amount pursuant to Condition 4(f) above) on the date specified in such notice.

(c) *Purchase*

None of the Issuer, the Guarantor and any of their consolidated subsidiaries may purchase or otherwise acquire any of the Notes.

(d) *Cancellation*

All Notes which are redeemed and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

## 6. EVENTS OF DEFAULT

If any of the following events (each an "**Event of Default**") shall have occurred and is continuing:

(a) *Payment Obligations*

Save as provided in Condition 4(f) above, a default is made for more than seven (7) days in the payment of any principal due in respect of any of the Notes or fourteen (14) days or more in the payment of any interest due in respect of any of the Notes; or

(b) *Breach of other obligations*

The Issuer or the Guarantor fails to perform or observe any of its other obligations in respect of the Notes, the Guarantee or the Paying Agency Agreement and (except in any case where such failure is incapable of remedy when no such continuation as is hereinafter mentioned will be required) the failure continues for a period of thirty days; or

(c) *Insolvency of the Issuer*

If proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or similar laws or an order is made or a resolution is passed for the dissolution or winding up of the Issuer (except in any such case for the purpose of a



reconstruction or a merger or amalgamation which has been previously approved by a resolution of the Syndicate of the Noteholders or which has been done in a manner which ensures that all of the assets and liabilities of the Issuer will be transferred to another solvent legal entity by effect of law so that such other legal entity will become the obligor in respect of the Notes); or

(d) *Insolvency of the Guarantor*

If proceedings are initiated against the Guarantor under any applicable liquidation, insolvency, composition, reorganisation or similar laws or an order is made or a resolution is passed for the dissolution or winding up of the Guarantor (except in any such case for the purpose of a reconstruction or a merger or amalgamation which has been previously approved by a resolution of the Syndicate of the Noteholders or a merger with another financial institution in this case even without being approved by a resolution of the Syndicate of the Noteholders provided that any entity that survives or is created as a result of such merger is given a rating by an internationally recognised rating agency at least equal to the then current rating of the Guarantor at the time of such merger); or

(e) *Guarantee*

The Guarantee ceases to be a valid and binding obligation of the Guarantor or it becomes unlawful for the Guarantor to perform its obligations under the Guarantee or the Guarantee is claimed by the Issuer or the Guarantor not to be in full force and effect;

(f) *Cessation of business*

If the Issuer or the Guarantor ceases or threatens to cease to carry on the whole or a substantial part of its business, otherwise than for the purposes of a reorganisation, restructuring, merger or amalgamation previously approved by a resolution of the Syndicate of Noteholders or a merger with another financial institution (in which case no such approval is required), or the Issuer or the Guarantor stops or threatens to stop payment of, or is unable to, or admits inability to, pay, any of its debts (or any class thereof) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law; or

(g) *Arrangements with creditors*

If the Issuer or the Guarantor initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors),

then following a resolution of the Syndicate of the Noteholders, the Commissioner in respect of all Notes (or any Noteholder in respect of its Notes only provided that such Noteholder does not act in contravention of the resolution of the Syndicate (if any)) may, by written notice addressed to the Issuer or, as the case may be, the Guarantor, and delivered to the Issuer or, as the case may be, the Guarantor or to the Specified Office of the Paying Agent, declare such Notes (when permitted by the applicable Spanish law) to be immediately due and payable, whereupon they shall become immediately due and payable, subject to the loss absorption provisions set out under Condition 4(g), at their principal amount together with accrued interest (including any Deferred Interest and Additional Interest Amount) provided that, if the Notes have been declared due and payable pursuant to sub-paragraphs (a) and (b) above, such accrued interest shall be payable only if either the most recent audited non-consolidated profit and loss account of the Guarantor for a full year or the audited or unaudited non-consolidated profit and loss account of the Guarantor for the first half or, as the case may be, the second half of its financial year prior to the date upon which the Notes become due and payable, show a Profit. If such profit and loss account does not show a Profit, the due date for payment of such accrued interest shall be deferred and the relevant amounts shall be deemed as Deferred Interest and, accordingly, Condition 4(f) shall apply to such Deferred Interest.

Notice of any such declaration shall promptly be given to the Noteholders.



## 7. TAXATION

(a) All amounts payable (whether in respect of principal, interest or otherwise) in respect of the Notes, the Coupons and the Guarantee by the Issuer or the Guarantor (as the case may be) will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer or (as the case may be) the Guarantor shall (subject to paragraph (b)) pay such additional amounts as will result in receipt by the Noteholders or Couponholders of such amounts as would have been received by them had no such withholding or deduction been required.

(b) Neither the Issuer nor the Guarantor shall be required to pay any additional amounts as referred to in Condition 7(a) in relation to any payment in respect of any Note or Coupon:

(i) to, or to a third party on behalf of, a Noteholder or Couponholder who is liable for such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the Kingdom of Spain, other than the mere holding of such Note or Coupon; or

(ii) to, or to a third party on behalf of, a holder in respect of whom the Issuer or the Guarantor, or the Paying Agent on its behalf, does not receive such details concerning such holder's identity and country of residence as it requires in order to comply with Law 19/2003 of 4th July, Royal Decree 1778/2004 of 30th July, Royal Legislative Decree 4/2004 of 5th March and Order of 22nd December 1999; or

(iii) presented for payment more than thirty days after the Relevant Date, except to the extent that the relevant Noteholder or Couponholder would have been entitled to such additional amounts on presenting the same for payment on the expiry of such period of thirty days; or

(iv) where the withholding or deduction referred to in Condition 7(a), above, is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27th November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(v) presented for payment by or on behalf of a Noteholder or Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or

(vi) to, or to a third party on behalf of, individuals resident for tax purposes in The Kingdom of Spain or a resident of a tax haven (as defined in Royal Decree 1080/1991 of 5th July); or

(vii) to, or to a third party on behalf of, a Spanish resident corporate entity subject to Spanish Corporation Tax if the Spanish tax authorities determine that the Notes do not comply with exemption requirements specified in the Reply to a Consultation of the Directorate General for Taxation (*Dirección General de Tributos*) dated 27th July 2004 and require a withholding to be made.

For the purposes of these Terms and Conditions, the “**Relevant Date**” means, in respect of any payment, the date on which such payment first becomes due and payable, but if the full amount of the moneys payable has not been received by the Paying Agent on or prior to such due date, it means the first date on which the full amount of such moneys having been so received and being available for payment to Noteholders and Couponholders, notice to that effect shall have been duly given to the Noteholders in accordance with Condition 15 (*Notices*).

## 8. PAYMENTS

### (a) *Principal*

Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Notes at the Specified Office of any Paying Agent.

### (b) *Interest*

Payments of interest shall, subject to paragraph (f) below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent.

### (c) *Payments subject to fiscal laws*

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 7 (Taxation). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

### (d) *Unmatured Coupons void*

Upon the date on which any Note becomes due and payable, all unmatured Coupons and Talons relating thereto (whether or not still attached) shall become void and no payment will be made in respect of such Coupons or Talons.

### (e) *Payments on business days*

If the due date for payment of any amount in respect of any Note or Coupon is not a business day in the place of presentation, the Noteholder or the Couponholder shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "**business day**" means, in respect of any place of presentation, any day on which banks are open for business in such place of presentation.

### (f) *Payments other than in respect of matured Coupons*

Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent.

### (g) *Partial payments*

If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

### (h) *Exchange of Talons*

On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a coupon sheet relating to the Notes (each, a "**Coupon Sheet**"), the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Paying Agent for a further Coupon Sheet (including a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 9 (Prescription)). Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

## 9. PRESCRIPTION

Claims against the Issuer for payment of principal and interest in respect of Notes will be prescribed and become void unless made three years after the Relevant Date (as defined in Condition 7(c)) for payment thereof.

## 10. REPLACEMENT OF NOTES, COUPONS AND TALONS

If any Note, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Paying Agent, subject to all applicable laws and to Euronext Amsterdam requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

## 11. PAYING AGENTS

In acting under the Paying Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer and the Guarantor and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor paying agent and additional or successor paying agents; provided, however, that the Issuer and the Guarantor shall at all times maintain a paying agent in Amsterdam and a paying agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to Directive 2003/48/EC or any other Directive implementing the conditions of the ECOFIN Council meeting of 26-27th November 2000 or any other law implementing or complying with, or introduce to conform to, such directive. Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

## 12. SYNDICATE OF NOTEHOLDERS

The Noteholders shall meet in accordance with the regulations for the Syndicate of Noteholders (the "**Regulations**"). The Regulations shall contain the rules governing the functioning of the Syndicate and the rules governing its relationship with the Issuer and shall be attached to the Public Deed.

The temporary Commissioner is D. Pedro Miguel Baix aubi Ridaura. Upon the subscription of the Notes, the Commissioner will call a general meeting of the Syndicate, the duty of which shall be to ratify or oppose the acts of the temporary Commissioner, confirm his appointment or appoint a person to substitute him and to ratify the Regulations. References in these Conditions to the "**Commissioner**" shall mean the trustee (*comisario*) as this term is defined under the Spanish Corporations Law (*Ley de Sociedades Anónimas*), of the Syndicate of Noteholders.

Provisions for meetings of the Syndicate of Noteholders will be contained in the Regulations.

## 13. USE OF PROCEEDS

The proceeds of the issue of the Notes, after paying any issue expenses, will be deposited on a permanent basis with the Savings Bank or with another credit entity (*entidad de crédito*) of the Group and will be used for the Group's general corporate purposes. The funds raised from the issue of the Notes and so deposited will be available to absorb losses of the Group once the founders' fund (*Fondo Fundacional*), which is the minimum allowance fund linked to the incorporation capital (the "**Founders' Fund**") and any participations (*Cuotas Participativas*) ("**Participations**") and any preference shares or preferred securities (*participaciones preferentes*) issued by any member of the Group have been reduced to zero and reserves have been exhausted.

## 14. FURTHER ISSUES

The Issuer may from time to time, without the consent of the Noteholders or Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

## 15. NOTICES

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*), and, so long as any Note is listed on the stock market of Euronext Amsterdam and Euronext Amsterdam so requires, notices will also be published in the Daily Official List (*Officiële Prijscourant*) of Euronext Amsterdam and in a Dutch daily newspaper with a national or wide circulation) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

## 16. CURRENCY INDEMNITY

Euro (the “**Contractual Currency**”) is the sole currency of account and payment for all sums payable by the Issuer in respect of the Notes, including damages. Any amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction or otherwise) by any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the amount in the Contractual Currency which such Noteholder or Couponholder is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that amount is less than the amount in the Contractual Currency expressed to be due to any Noteholder or Couponholder in respect of such Note or Coupon the Issuer shall indemnify such Noteholder or Couponholder against any loss sustained by such Noteholder or Couponholder as a result. In any event, the Issuer shall indemnify each such Noteholder or Couponholder against any cost of making such purchase which is reasonably incurred. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder and shall continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due in respect of the Notes or any judgment or order. Any such loss as aforesaid shall be deemed to constitute a loss suffered by the relevant Noteholder or Couponholder and no proof or evidence of any actual loss will be required by the Issuer.

## 17. WAIVER AND REMEDIES

No failure to exercise, and no delay in exercising, on the part of the Noteholder or Couponholder, any right hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or future exercise thereof or the exercise of any other right. Rights hereunder shall be in addition to all other rights provided by law. No notice or demand given in any case shall constitute a waiver of rights to take other action in the same, similar or other instances without such notice or demand.

## 18. GOVERNING LAW AND JURISDICTION

(a) The Notes, the Guarantee and the Paying Agency Agreement are governed by, and shall be construed in accordance with Spanish law.

(b) The Issuer and the Guarantor irrevocably agree for the benefit of the Noteholders that the courts of Madrid shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Notes

(respectively, "**Proceedings**" and "**Disputes**") and, for such purposes, irrevocably submit to the jurisdiction of such courts.

(c) The Issuer and the Guarantor irrevocably waive any objection which they might now or hereafter have to the courts of Madrid being nominated as the forum to hear and determine any Proceedings and to settle any Disputes and agree not to claim that any such court is not a convenient or appropriate forum.

(d) The submission to the jurisdiction of the courts of Madrid shall not (and shall not be construed so as to) limit the right of the Noteholder or any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether currently or not) if and to the extent permitted by applicable law.

# The Regulations

## **REGULATIONS governing the Meetings of Holders of Subordinated Notes of Bancaja Emisiones, S.A. Unipersonal ("Bancaja Emisiones")**

*This is a translation into English of the Regulations as attached to the Public Deed of Issuance. The Spanish version of these Regulations shall prevail.*

**Article 1.** This association is constituted as the "SYNDICATE OF HOLDERS OF SUBORDINATED NOTES OF BANCAJA Emisiones", pursuant to the Spanish Companies Act and related regulations in which all the holders of the notes designated SUBORDINATED NOTES OF BANCAJA Emisiones (the "Notes") are members.

**Article 2.** The objects of the Syndicate are to unify and safeguard rights and actions of noteholders for better protection of their interests in relation to the issuing entity ("Issuing Entity").

**Article 3.** The address of the Syndicate is C/ Caballeros 2, 12001 Castellón de la Plana.

**Article 4.** The duration of the Syndicate is fixed at the whole lifetime of the issue until full redemption of the Notes.

**Article 5.** Possession of a single Note issued shall imply submission in full to the Regulations and resolutions of the Noteholders Meeting validly passed on the terms laid down by the Spanish Companies Act and other applicable provisions.

**Article 6.** Governance and administration of the Syndicate shall lie with the Noteholders General Meeting and the Noteholders' Commissioner.

**Article 7.** The Noteholders General Meeting may be convened by the Board of Directors of the Issuer or by the Noteholders' Commissioner. The latter must convene the same when so requested by Noteholders representing at least one twentieth part of the securities issued and not redeemed.

**Article 8.** Notice of meeting must be given in a manner, which ensures that noteholders are informed thereof. Notice to the noteholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*).

Notice of meetings must in any event be given (i) as long as any Note is listed on the stock market of Euronext Amsterdam and Euronext Amsterdam so requires, notices will also be published in the Daily Official List (*Officiële Prijscourant*) of Euronext Amsterdam and in a Dutch daily newspaper with a national or wide circulation) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe, (ii) by post to Euroclear Bank S.A./N.V. and to Clearstream Banking, société anonyme. Any such notice shall be deemed to have been given on the date of first publication, and in all cases such communication shall be given at least fifteen days in advance.

If the Meeting is to deal with matters relating to modification of the issue terms and conditions or other matters of similar importance in the view of the Noteholders' Commissioner, then notice of meeting must furthermore be given by announcement in the Mercantile Registry Official Gazette (*Boletín Oficial del Registro Mercantil*) and in one newspaper of major circulation in the province of incorporation of Bancaja Emisiones.

In both cases the notice of meeting must be given at least fifteen days prior to the date fixed for holding the Meeting, clearly setting out therein the venue, date and time thereof as well as the matters to be dealt with.

The notice of meeting may further indicate the date on which the Meeting will be held in the second instance if the necessary quorum is not obtained in the first instance.

Notwithstanding the provisions of the foregoing paragraphs, if Noteholders present holding all of the unredeemed notes decide to hold the Meeting, the same shall be valid for all purposes despite the lack of prior notice of the meeting.



**Article 9.** All Noteholders shall be entitled to attend, whatever the number of notes they hold, provided that they evidence their status as such at least five days prior to that on which the Meeting is to be held in the manner determined in the notice of meeting. Noteholders may attend the Meeting in person or by proxy granted to another noteholder.

**Article 10.** Noteholders General Meetings shall be held at the address of the Syndicate, and the Chairman of the founding Meeting shall be the Noteholders' Commissioner appointed to execute the Issue Public Deed until the General Meeting elects a Chairman and Secretary on the terms laid down by Spanish Companies Act.

Before dealing with the agenda, a list shall be drawn up of those present setting out the capacity in which they appear and number of Notes, whether own or third party, which they represent.

The Meeting shall pass resolutions in the manner laid down by Spanish Companies Act, and it shall be deemed for these purposes that each note present or represented shall grant entitlement to one vote. The minutes of the meeting shall be approved at the Meeting itself, and shall be included in the corresponding book and signed by the Chairman and Secretary.

**Article 11.** Resolutions passed in the manner laid down in the previous article shall be binding on all Noteholders, including absent and dissenting Noteholders, and may be challenged in the circumstances laid down by Sections 115 and following the Spanish Companies Act.

**Article 12.** In matters not provided for in these Regulations the provisions of Chapter X of the Spanish Companies Act and other applicable provisions shall govern the Noteholders Syndicate.

## Summary of Provisions relating to the Notes in Global Form

The Notes will initially be in the form of the Permanent Global Note which will be deposited on or around the Closing Date with a common depository for Euroclear and Clearstream, Luxembourg.

The Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form ("**Definitive Notes**") in the denomination of Euro 1,000 each at the request of the bearer of the Permanent Global Note if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any Note becomes immediately redeemable following the occurrence of an Event of Default (all as expressly provided in Condition 6 (Events of Default)) in relation thereto and is not duly redeemed (and the funds required for such redemption are not available for the Principal Paying Agent for the purposes of effecting such redemption and remain available for such purpose) by 6.00 p.m. (London time) on the thirtieth day after the time at which such Notes become immediately redeemable.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Principal Paying Agent or at the Specified Office in Amsterdam of any Paying Agent within 30 days of the bearer requesting such exchange.

In addition, the Permanent Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Permanent Global Note. The following is a summary of certain of those provisions:

*Payments:* All payments in respect of the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Permanent Global Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes.

*Notices:* Notwithstanding Condition 15 (*Notices*), while all the Notes are represented by the Permanent Global Note and the Permanent Global Note is deposited with a common depository for Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 15 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg; provided, however, that, so long as the Notes are listed on Euronext Amsterdam and Euronext Amsterdam so requires, by publication in the Daily Official list (*Officiële Prijscourant*) of Euronext Amsterdam and in a Dutch daily newspaper with a national or wide circulation.

## **Use of Proceeds**

The net proceeds of the issue of the Notes, expected to amount to Euro 496,910,000 after deduction of the combined management and underwriting commission will be deposited by the Issuer with the Guarantor or with another credit entity (*entidad de crédito*) of the Group and will be used for general corporate purposes of the Group.

## Bancaja Emisiones, S.A. Unipersonal

The Issuer was incorporated on 25th October, 2004 for an indefinite period of time as a limited liability company (*sociedad anónima*) under the laws of the Kingdom of Spain, with its registered office at Calle Caballeros 2, 12001 Castellón de la Plana, Spain. The Issuer is registered in Volume 1238, Book 801, Folio 38, Sheet CS-22796, Registration 1 of the Spanish Mercantile Registry (*Registro Mercantil*). The Issuer has no subsidiaries.

The Issuer has not conducted any operations or issued any debt obligations in any form to date. The authorised share capital of the Issuer is Euro 60,500 divided into 605 ordinary shares, each with a par value of Euro 1,000. The subscribed and fully paid up share capital is Euro 60,500.

The objects of the Issuer are to issue all kinds of debt securities guaranteed by the Guarantor on a subordinated basis or not, pursuant to Law 13/1985 which are to be traded on Spanish and international markets.

The directors of the Issuer are Bancaja, represented by Miguel Angel Soria Navarro, Bageva Inversiones, S.A. represented by Benito Castillo Navarro and Grupo Bancaja Centro de Estudios, S.A. represented by José Contreras Aparicio. Outside the Issuer, Miguel Angel Soria Navarro, Benito Castillo Navarro and José Contreras Aparicio work principally as executives of Bancaja.

The business address of Miguel Angel Soria Navarro, Benito Castillo Navarro and José Contreras Aparicio is C/Pintor Sorolla 8, 46002 Valencia, Spain.

The auditors of Bancaja Emisiones, Unipersonal S.A. are Ernst & Young S.L..

### Capitalisation of the Issuer

The following table sets out the audited short-term liabilities, long-term liabilities and stockholders' equity of the Issuer as at 25th October 2004, adjusted to give effect to the issue of the Notes and the application of the proceeds as described under "Conditions of the Notes – Use of Proceeds".

	<b>(in Euro)</b>
<b>Short-term liabilities</b> .....	—
<b>Long-term liabilities</b>	
Notes .....	500,000,000
<b>Stockholders' equity</b>	
Share capital <sup>(1)</sup> .....	60,500
Reserves .....	—
Retained earnings .....	—
Total stockholders' equity .....	60,500
<b>Total capitalisation</b> .....	<u>500,060,500</u>

Notes:

- (1) The share capital is subscribed as follows:  
Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja 100% of the ordinary shares

## Capitalisation and Indebtedness of Bancaja

The following table sets out the capitalisation and indebtedness of Bancaja, based on unaudited consolidated accounts for the nine month period ending 30th September 2004 and audited consolidated accounts for the years ending 31st December 2003, 31st December 2002 and 31st December 2001 prepared in accordance with generally accepted accounting principles in Spain.

	Nine months ended 30th September 2004	Year ended 31st December		
		2003	2002	2001
	(in thousands of Euro)			
<b>Long Term Debt</b> .....	3,332,309	3,715,259	3,428,414	2,544,585
Euro medium term notes <sup>1</sup> .....	2,640,973	3,033,923	2,747,078	2,236,312
Subordinated debt .....	681,336	681,336	681,336	308,273
<b>Minority Interest</b> <sup>2</sup> .....	934,016	899,710	828,197	801,161
<b>Preferred stock</b> .....	600,000	600,000	600,000	600,000
<b>Shareholders' equity</b> .....	1,539,262	1,417,472	1,249,514	1,102,217
Authorised and issued share capital .....	0	0	0	0
Reserves .....	1,367,068	1,196,241	1,055,782	929,211
Consolidated profit attributable to the group .....	172,194	221,231	193,732	173,006
Dividends for the year .....	0	0	0	0
<b>Total capitalisation and indebtedness</b> <sup>3,4</sup> .....	6,395,587	6,632,441	6,106,125	5,047,963

(1) Long Term Debt issued in US dollars was converted to Euro from US dollars using the following exchange rates:

- At 30th September 2004: 1€ = 1.2409 US\$
- At 31st December 2003: 1€ = 1.2630 US\$
- At 31st December 2002: 1€ = 1.0487 US\$
- At 31st December 2001: 1€ = 0.8813 US\$

(2) The Series A and B preferred shares amounting to EUR 600 million of Bancaja Eurocapital Finance, a wholly-owned subsidiary of Bancaja are guaranteed by Bancaja on a subordinated basis and are unsecured. These are perpetual issues but the Issuers may redeem the shares early, subject to Bank of Spain consent.

(3) As of 30th September 2004, the Group had contingent liabilities of € 3,544,112,000.

(4) Save as disclosed above, there has been no material change in the consolidated capitalisation, indebtedness, contingent liabilities or guarantees of Bancaja since 30th September 2004.

# **Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja**

## **Introduction**

Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja ("Bancaja") is incorporated under the laws of the Kingdom of Spain and regulated and supervised by the Bank of Spain. Bancaja was founded in 1878 for an unlimited duration as Caja de Ahorros de Valencia. Bancaja is the result of the mergers in 1989 of Caja de Ahorros de Valencia with Caja de Ahorros y Monte de Piedad de Segorbe (founded in 1884), in 1991 with Caja de Ahorros y Monte de Piedad de Castellón (founded in 1899), in 1993 with Caja de Ahorros y Socorros de Sagunto (founded in 1841) and in 2001 with Caja de Ahorros y Préstamos de Carlet (founded in 1909). After the merger with Caja de Ahorros y Monte de Piedad de Castellón in 1991, the resulting entity adopted the brand name of "Bancaja".

Bancaja is registered in the Special Register of Popular Savings Banks of the Bank of Spain, as number 49 on page 30, on the Register of Savings Banks of the Region of Valencia as number 4 and in the Provincial Mercantile Register of Castellón (Tome 532, Book 99, General Section, page number CS-2749). Bancaja's registered office is at C/Caballeros 2, 12001 Castellón de la Plana, Spain and Bancaja's head office is at C/Pintor Sorolla 8, 46002 Valencia, Spain.

Unlike commercial banks, savings banks have no share capital, nor shareholders. Savings banks allocate part of their surplus to reserves in order to comply with Bank of Spain regulations on financial institutions' capitalisation. Any surplus not allocated to reserves is invested in community, social and cultural projects.

As at 31st December 2003, Bancaja was Spain's third largest savings bank and the parent entity of the sixth largest banking group by total assets. As at 30th September 2004 total consolidated assets were €38.6 billion compared to €32.9 billion in September 2003 and net consolidated profit amounted to €220.4 million for the nine months ended 30th September 2004, an increase of €26.3 million compared to the nine months period ending 30th September 2003.

As at 30th September 2004, Bancaja and its consolidated subsidiaries (the "Group") had 1,264 branches mainly located on the east Mediterranean coast of Spain, 7,521 employees and over two million customers.

Bancaja's consolidated equity as at 30th September 2004 amounted to €3,218.8 million, in compliance with Bank of Spain regulations. The Group's total capital to weighted-risk ratio, calculated in accordance with Bank of Spain capital adequacy criteria, as at 30th September 2004 was 9.90% (Tier 1: 7.70%).

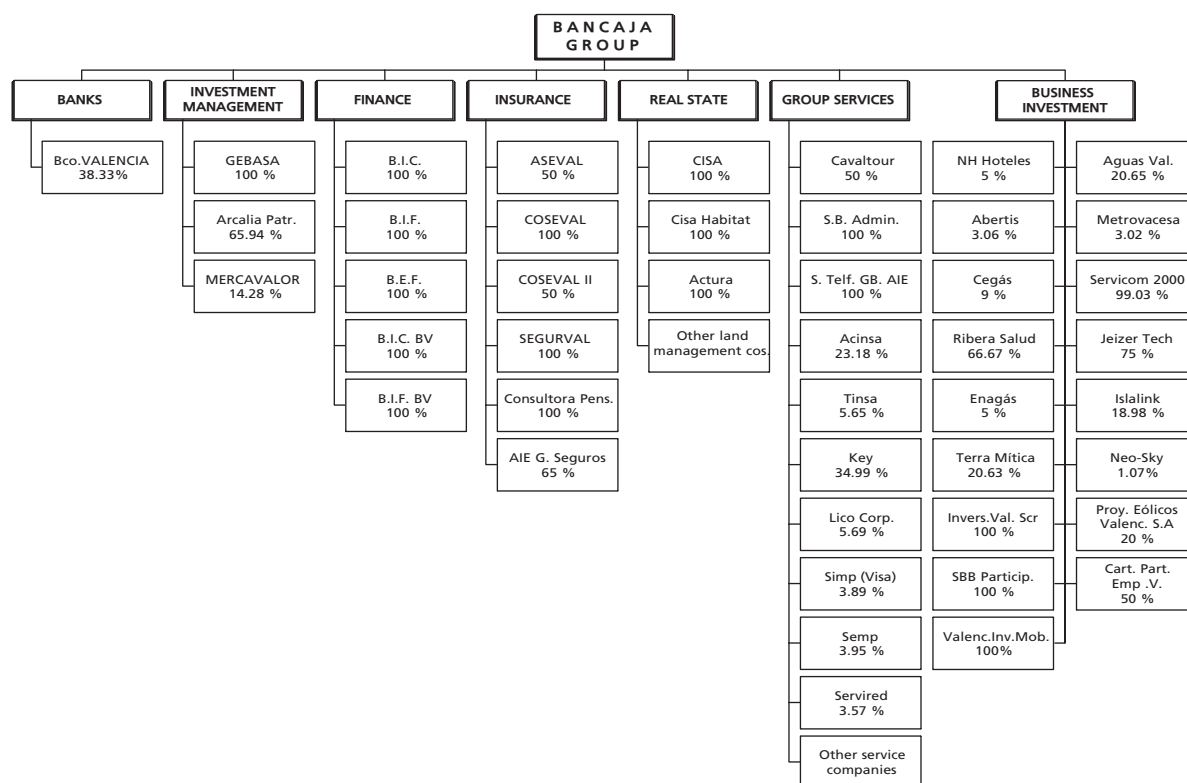
The above financial information has been extracted from Bancaja's unaudited interim financial statements as at and for the nine months ended 30th September 2004.

The Group is comprised of a series of companies incorporated by Bancaja or in which Bancaja owns a holding, including long-standing financial institutions and service companies. The Group aims to diversify and specialise in the range of products offered to its customers and to distribute the products through various channels over a large geographical area to achieve economies of scale and of scope.

Bancaja, the parent entity of the Group, coordinates the activities of the companies it manages, providing support in several areas, including financial innovation, technological development and training.



The following is an organisational chart of the Group as of 31st December 2003 including the name of the member of the Group and the percentage shareholding of Bancaja in the company:



Note: The percentage shareholdings shown above correspond to Bancaja's controlling interest (being the sum of Bancaja's direct holdings and indirect holdings through other companies).

## Business

Bancaja's main business is retail deposit taking and mortgage lending, as well as lending to the public sector and medium sized companies. Bancaja's strategy is to achieve sufficient presence in the Spanish market, covering all towns with more than 50,000 inhabitants, and in particular, areas of growth in tourism and property development.

In 1993 the Group acquired 100% of the capital of Banco de Murcia and in 1994, 24.24% of the capital of Banco de Valencia and in 1998 100% of the capital of Sindibank, a bank operating mainly in Catalonia. In 1999 Sindibank's business was integrated in the Group. In 1997, Bancaja contributed its 100% shareholding in Banco de Murcia to a wholly owned holding company called Vainmo Cartera, S.L. Thereafter, Banco de Valencia merged with Vainmo Cartera, S.L. and Banco de Valencia approved a share capital increase that was assumed in its entirety by Bancaja. In 2002 Banco de Murcia's banking business was integrated into Banco de Valencia. As at 30th September 2004 Bancaja's shareholding in Banco de Valencia was 38.39%.

The Group has experienced a compounded annual growth rate in total assets of 16% since 1999. Growth in terms of net income has risen by 26% to €220.4 million based on Bancaja's unaudited interim financial statements as at and for the nine months ended 30th September 2004.

The Group's non-banking subsidiaries provide specialised services in life insurance (ASEVAL), other insurances (COSEVAL and SEGURVAL), investment fund management (GEBASA, ARCALIA), travel (CAVALTOUR) and real estate services (CISA). The Group's services are provided through a domestic network of 1,264 branches, 51 offices and 7,521 employees as of

30th September 2004. Gebasa, the investment fund management subsidiary is Spain's twentieth largest.

### **Performance of the Group in 2003**

The most significant events during 2003 were:

- the opening of forty-one new offices in accordance with Bancaja's the expansion plan;
- the completion during the first half of 2003 of a project to reduce customer waiting time at offices as part of a project to improve customer services;
- implementation of a commercial banking project to improve commercial efficacy at offices, sales and customer services;
- campaigns to win new customers;
- agreements with foreign finance entities, continuing the strategy of prior years to increase the services offered to Group clients outside Spain. See "Bancaja's international activity" below;
- the acquisition of a 1% share in Iberdrola, one of the two largest electricity companies in Spain;
- on going in-house treasury and capital market projects and adaptation to the Basel II requirements to improve Bancaja's processes and systems;
- capital markets issues of €940 million, and securitisations of €3,580 million; and
- Bancaja's proportionate subscription of the capital increase of Banco de Valencia of €25 million.

The Group's financial highlights for 2003 are:

- a 12.72% increase in net loans and credits and 16.24% increase in funds managed. If securitisations carried out during the year are taken into account, the net increase in loans and credits would be 23.91%;
- a reduction of the delinquency ratio, which stood at 0.60% and increase in bad debt coverage to 362.39%. At the beginning of 2003 these percentages were 0.75% and 259.64%, respectively;
- a 18.05% increase in operating margin, based on a 13.37% increase in ordinary margin. Net profit before taxes amounted to €386.3 million, a 9.83% increase over the previous year. Profit after taxes totalled €287.5 million, a 10.09% increase over that of 2002. Profit attributed to the Group amounted to €221.2 million, an annual increase of 14.19%; and
- at 31st December 2003, the Group's equity amounted to €3,053.4 million, a 7.16% increase over its equity at 31st December 2002. As of 31st December 2003, equity exceeded the minimum legal amount by €863.1 million.

## Key financial figures for the Group

The following key financial figures for the Group have been extracted from the Group's audited consolidated figures for the financial year ended 31st December 2003.

	31/12/2003	Variation	
		2003/2002	%
	(thousands of euros)		
<b>Business</b>			
Total Balance-Sheet Assets .....	35,395,070	5,600,834	18.80
Turnover .....	55,182,568	7,017,137	14.57
Net loans and credits .....	25,733,659	2,903,228	12.72
Customer funds under management .....	29,448,909	4,113,909	16.24
Balance-sheet funds .....	24,268,603	3,419,816	16.40
Off-balance-sheet transactions <sup>(1)</sup> .....	5,180,306	694,092	15.47
<b>Results</b>			
Net interest income .....	846,697	54,824	6.92
Ordinary margin .....	1,100,529	129,771	13.37
Operating margin .....	539,530	82,488	18.05
Book results before taxes .....	386,280	34,564	9.83
Profit after taxes .....	287,491	26,356	10.09
<b>Equity</b>			
Equity suitable for meeting equity requirements .....	3,053,372	204,140	7.16
Surplus equity after minimum equity requirements .....	863,062	(48,223)	(5.29)

	31/12/2003	Variation	
		2003/2002	%
	(thousands of euros)		
<b>Sources</b>			
Employees dedicated to ordinary activities .....	6,540	267	4.26
Branches.....	1,174	42	3.71
ATMs .....	1,530	39	2.62

(1) Mutual funds (Group and non-Group) and pension plans.

## Geographical distribution of branches as of 31st December 2003

	Bancaja	Banco de Valencia	Total
<b>Autonomous Community of Valencia</b> .....	608	244	852
Alicante .....	87	58	145
Castellón .....	117	32	149
Valencia .....	404	154	558
<b>Murcia</b> .....	2	65	67
<b>Catalonia</b> .....	55	3	58
Barcelona .....	47	3	50
Lleida .....	1	–	1
Girona .....	1	–	1
Tarragona .....	6	–	6
<b>Madrid</b> .....	60	11	71
<b>Castilla la Mancha</b> .....	22	–	22
Albacete .....	17	–	17
Ciudad Real .....	1	–	1
Cuenca .....	1	–	1
Guadalajara .....	1	–	1
Toledo .....	2	–	2
<b>Castilla León</b> .....	1	–	1
Valladolid .....	1	–	1
<b>Andalusia</b> .....	12	17	29
Almería .....		17	19
Cádiz .....	1	–	1
Granada .....	1	–	1
Huelva .....	1	–	1
Málaga .....	3	–	3
Sevilla .....	4	–	4
<b>Baleares</b> .....	32	–	32
<b>Aragón</b> .....	6	5	11
Huesca .....	–	1	1
Zaragoza .....	6	4	10
<b>La Rioja</b> .....	1	1	2
<b>Las Islas Canarias</b> .....	21	–	21
Las Palmas de Gran Canaria .....	13	–	13
Santa Cruz de Tenerife .....	8	–	8
<b>País Vasco</b> .....	3	–	3
Álava .....	1	–	1
Vizcaya .....	2	–	2
<b>Navarre</b> .....	1	2	3
<b>Galicia</b> .....	1	–	1
A Coruña .....	1	–	1
<b>USA</b> .....	1	–	1
Miami .....	1	–	1
<b>Total</b> .....	826	348	1,174

## Group Service Points by type as of 31st December 2003

The table below sets out the service points through which customers may access Bancaja's various products and services

	Bancaja	Banco de Valencia	Total
Commercial Banking .....	754	347	1,101
Corporate Banking .....	39	1	40
Real Estate Developers .....	5	–	5
Individual Banking .....	25	–	25
Specialised customer service modules and branches .....	3	3	6
Pawnbrokers .....	1	–	1
Exhibition and Auction Rooms (Bancarte) .....	1	–	1
Telephone Banking:			
Telephone Authorisation Centres .....	1	–	1
Telephone Services .....	1	1	2
Ticket Sales Service .....	1	–	1
ATMs .....	1,192	338	1,530
Tele-Purchase Customer Service Points .....	17,874	7,070	24,944
Automatic Passbook Update Points .....	190	–	190

## Commercial banking network

Line, quality and commercial banking projects initiated in 2002 were implemented in 2003 to reduce waiting times at offices, create a culture of quality and improve the commercial capabilities of offices.

To provide services in unattended areas in the market and serve a greater number of people, forty-one branches were opened in 2003, five of which specialise in the non-resident sector.

### *Branches opened in 2003*

A Coruña .....	1
Álava .....	1
Albacete .....	1
Alicante .....	9
Almería.....	2
Baleares .....	4
Cádiz .....	1
Granada .....	1
Huelva .....	1
La Rioja .....	1
Las Palmas de Gran Canaria .....	2
Madrid .....	4
Málaga.....	2
Murcia .....	1
Navarra.....	1
Sevilla .....	3
Tarragona.....	2
Valencia .....	1
Valladolid .....	1
Zaragoza .....	2
<b>Total</b> .....	<b>41</b>

### *ATMs*

Bancaja ended 2003 with a total of 1,192 ATMs and over 50 million transactions, an 18% increase over 2002, with increases of 38% in withdrawals and 61% in updates of savings passbooks.

### *Credit cards*

Bancaja issued more than 1,244,000 credit cards in 2003, an increase of 10% with respect to 2002.

Total credit card purchases amounted to over €1,290 million in 2003 (an increase of 22% compared with 2002), generating nearly €28.5 million in fees.

### *Bancaja card sales at business*

In 2003 a total of 17,800 point-of-sale terminals were installed, 2% less than in 2002, due to recoveries of inactive terminals. Total related purchases were over €1,310 million.

### *Multi-Access*

In June 2003, Bancaja launched the "Multi-Access" service, which combines and facilitates private customers' use of alternative channels by associating internet and telephone access with Bancaja cards. Customers using this new service may access Línea Directa Bancaja and Bancaja Próxima Particulares (private individuals) with any of their Bancaja cards.

At 31st December 2003 the number of customers using Bancaja Próxima Particulares or Línea Directa Bancaja had increased by 18% from 31st December 2002.

### *Telephone banking*

Together with the launch of "Multi-Access", navigation procedures for on-line automatic customer services were modified to enable customers to directly access the transaction or consultation desired without having to select options on menus. During 2003, Línea Directa received almost one million calls which were answered by an automatic system (IVR) in 51% of cases.

Over 2.5 million calls were made to Línea Directa in 2003 and to the other telephone services (such as collection activities, ticket sales, ATM customer services, credit cards and internet services).

### *Bancaja Próxima Particulares*

In 2003, Bancaja increased the range of internet transactions made, such as paying bills and checking transfers.

In 2003, 654,000 internet transactions were made (€522 million), representing increases of 95% (in terms of number of transactions) and 65% (in terms of financial amounts) compared with 2002.

### *C.A.T. – Mortgage Loan Centre*

In 2003 the Telephone Authorisation Centre (CAT) facilitated loans amounting to over €1,271 million (45% more than in 2002).

Over 31,000 mortgage loans were granted by the Mortgage Loan Centre, a centre for analysing, authorising, documenting and granting mortgage loans.

In 2003 the number of mortgage loan centres increased to eighteen. In addition to mortgage loans these centres sold more than 68,000 other products.



The number of customers using this service increased by 28% in 2003. Over 513,000 business transactions (representing more than €1,716 million) were made.

In addition to simple transactions, over 300,000 AEB (Spanish Banking Association) transactions were processed through this channel, with a turnover of over €5,500 million.

## **Strategic Plan**

In 2003, the Group continued to implement the strategies set forth in its 2000 Strategic Plan. The most significant aspects of these strategies are:

- sustained, balanced growth in order to become one of the major financial institutions in Spain;
- to attain and maintain the leading position in terms of efficient distribution of financial services;
- to create a multichannel distribution system, and gain a competitive advantage through the branch network in terms of sales points, advanced commercial management systems, new management systems and personnel;
- to continue to improve efficiency;
- to prioritise financial distribution for specialised businesses (insurance and pension funds, investment funds, equity management), establish agreements with qualified operators and carry out transactions to win market share in each business area;
- to establish a presence directly or through co-operation agreements in countries where the Group carries out import and export activities with customers;
- to diversify sources of business and results by investing outside financial sectors; and
- to ensure full compliance with community welfare objectives set by Bancaja.

## **Action Plan**

In 2003 Bancaja focused on implementing the Strategic Plan using guidelines designed to:

- assure an adequate capital ratio for Bancaja by optimising consumption and generating equity while meeting coverage requirements in keeping with prevailing legislation;
- establish an adequate investment financing structure to ensure balanced growth, mitigate interest rate, liquidity and exchange rate risks, ensure the stability of business margins and reinforce policies aimed at obtaining adequate investment quality, through reasonably functioning measures applied to control, monitor and write down related risk assets;
- maintain the efficiency ratio within the parameters for the sector by reducing the weight of operating costs, rationalising procedures and establishing economies of scale at Group level;
- continue increasing business capacity by opening new offices and winning new customers while promoting customer loyalty among current customers and to keep investing in alternative distribution channels;
- improve the quality of customer services and commercial management capacity of offices, and implement projects to reduce customer waiting time, improve commercial banking services and enhance quality;
- develop Bancaja's product and service catalogue to meet the needs of an ever-changing market;
- continue to promote the integration of the measurement, control and follow-up of all of the risks that may affect Bancaja, in accordance with the requirements established by the

monetary authority, in order to coordinate efficiently all the actions needed to maintain them at acceptable levels, in accordance with the financial and solvency structure of Bancaja; and

- make an on-going effort to upgrade the professional training of staff to adapt them to new customer and market requirements.

### **Community welfare projects**

Bancaja's priorities in relation to community welfare in 2003 were:

- to meet emerging social needs, especially those generated by globalisation and increased life expectancy;
- training as an effective means of social development; and
- coordinating community welfare projects with financial business strategies in terms of productivity, clients and areas.

Accordingly, the following four lines of action were established:

- to promote training endeavours in five areas of interest, placing special emphasis on young people;
- to start taking innovative action to respond to current social needs, especially those relating to inter-cultural issues and senior citizens;
- to consolidate activities sponsored in new geographic areas; and
- to continue to improve the efficiency of management and increase informative activities to enhance the visibility of community welfare activities.

On 30th June 2003, Bancaja's General Assembly agreed to distribute the 2002 cash surplus of €174 million, of which €34 million was allocated to community welfare projects on 1st July 2003 and approved the 2004 budget for such projects amounting to €34.9 million. These resolutions were approved by the Valencia Finance Institute on 17th July 2003.

At year-end, Bancaja's community welfare budget allocations had practically been applied in full. Some of the activities carried out in 2003 were:

- several events commemorating the 125th anniversary of the former Caja de Ahorros de Valencia culminating with the unveiling of Miquel Navarro's "El Parotet" sculpture donated to the city of Valencia where Bancaja was founded in 1878;
- the acquisition of two Picasso paintings, "Fumadores" (Smokers) and "Retratos de Familia" (Family Portraits), adding to Bancaja's significant collection of Picasso works;
- start-up of a mobile cyber library to facilitate training in new technologies in towns in the Autonomous Community of Valencia and Albacete with fewer possibilities of accessing such libraries; and
- publication of "El Mundo es ancho pero no ajeno", stories on immigration to help familiarise school children with immigration issues.

Bancaja's Intercultural Assistance Plan offers training to social workers who work with immigrants. Intercultural weeks are held in Benifaió, Mutxamel, Elx, Chelva, Benetússer, Puebla de San Miguel, Sagunto and Aldaia to promote awareness and respect for different cultures in Spanish society. The creation of Converses provided a forum for reflecting on immigration in Spanish society where experts and scholars contributed new ideas aimed at fostering harmonious relations among persons with different customs, religions and languages.

This plan includes co-development activity aimed at improving socio-economic standards in the countries of origin. Field work in the state of Michoacán, in Mexico, formed a basis for improving and developing emerging credit and savings institutions, as well as promoting volunteer work and founding a new university to improve social conditions.

Bancaja sponsored a number of events, such as “Tesoros del Antiguo Yemen” in Seville and Madrid, “Caja de Remordimientos” in Madrid, “Suite 347” in Palma de Mallorca and “El Prado visto por doce artistas contemporáneos” in Miami and assisted with the restoration of the organ at the Palau de la Música Catalana.

Other activities include *Observatori d’inserció professional i assessorament laboral* and the End of Studies Prizes in cooperation with the Universities of València Estudi General and Politècnica de Valencia, respectively, which offer students professional opportunities and bring universities and the work environment closer together.

### **Bancaja’s international activity**

Bancaja expanded its international coverage as follows, to develop alliances with international operators in highly specialised business areas:

- Insurance: agreement with Aviva, a U.K. and Spanish insurer, to distribute life insurance and pensions through banking channels. This agreement contemplates a strategic alliance with Aseval, the third largest company by managed funds in the life insurance business in Spain; and
- Mutual fund management: agreements to manage specialised funds of other fund management firms (including JPMorgan, Sogelux, Crédit Agricole Indosuez, Fidelity and Merrill Lynch) in international financial markets;

In addition, Bancaja entered into the following agreements in the commercial banking area to increase its presence in international markets where its customers may require financial assistance, and to provide assistance in Spain to customers of foreign banks:

- Banco Popular Dominicano (Dominican Republic): shared management of certain branches which focus on the tourism and services industries;
- Grupo Financiero Banorte (Mexico): enlargement of co-operation in private banking and shared management of certain offices, by opening in 2001 the first Mexican branch specialising in tourism and managed by Bancaja;
- Banco de la Nación Argentina (Argentina): co-operation agreement enabling both entities to establish a presence in Spain and Argentina;
- Monte dei Paschi de Siena (Italy): agreement enabling both entities to give broad coverage in reciprocal commercial and financial transactions between Spain and Italy, facilitating the Group’s indirect presence throughout Europe;
- Landesbausparkasse Baden-Württemberg (LBS) (Germany): co-operation agreement to offer LBS customers banking services in Spain;
- Union Bank of Norway (UBN), (Norway): alliance whereby Bancaja and Banco de Valencia will be the dedicated banks for UBN Norwegian clients resident in Spain;
- Banque du Sud, (Tunisia): co-operation agreement to provide services to Spanish investors and operators established in the area, especially in the tourist, hotel and catering sectors;
- ABN Amro, (Holland): agreement with this entity’s international business group to establish a co-operation program for trade finance with Asia;
- Bank of China (China): co-operation agreement to facilitate and guarantee the exports of Spanish customers and to finance production centres in China. This agreement, the first of its kind for a Spanish financial institution in China, implies reciprocal support in a wide range of products and services;
- KMB Bank (Russia): exclusive agreement to facilitate and guarantee the exports of Spanish customers to Russia and finance small and medium-sized Russian companies which import Spanish products. The Russian bank’s majority shareholder, the European

Bank for Reconstruction and Development (EBRD) included Bancaja in its *Trade Facilitation Program*, providing a guarantee for transactions with Russia and other Eastern Block countries;

- Banco Solidario (Ecuador): cooperation agreement to facilitate relations between the large Ecuadorian community in Spain and Ecuador. This agreement covers transfers and all other banking assistance services for the Ecuadorian community; and
- Selvaag Group (Norway): agreement with this Norwegian real estate development group to create Nordic Residential, S.A., whose purpose is to develop a large residential complex for senior citizens in L'Alfàs del Pi (Alicante).

## **Principal strategic investments in 2003**

### *Financial sector*

In 2003, Bageva Inversiones S.A., a 100% Bancaja-owned company, incorporated two holding companies in Holland, Bancaja International Finance BV and Bancaja International Capital BV, whose corporate purpose is to be the holding companies for the issuance of bank bonds in the international capital markets, mainly via issues of senior and subordinated debt through EMTN programmes.

In 2003, SB Activos and Arcalia merged, creating Arcalia Patrimonios AV, S.A., a private banking equity management company in Spain.

### *Real estate sector*

The Group increased its shareholding in Metrovacesa, S.A. a major Spanish real estate company from 3.02% to approximately 6.02% due to the exercise of a convertible bond option by the Group. Bancaja thereby became one of the principal shareholders of Metrovacesa, S.A..

In the Autonomous Community of Valencia, Bancaja participates in several real estate projects through various companies in collaboration with developers and private partners. Of note among the projects currently underway are:

- a project to develop the Parque Central in Valencia;
- construction of hotel complexes and golf courses in Peñíscola, Benicàsim and Santa Pola;
- a 50% share in Catalano Levantina de Inmuebles Costeros S.A., a company which intends to develop a project to build and operate a five-star hotel in the city of Valencia; and
- incorporation, together with Generalitat Valenciana (regional government of Valencia), of Sol i Vivendes Valencianes S.A. (51% owned by the Valencian Institute of Housing and 49% owned by Actura S.L, a 100% Bancaja-owned company) whose corporate purpose is to create and promote land to build government-subsidised housing.

### *Hotel & Resort sector*

The acquisition of a 5% share in the NH Group.

### *Telecommunication sector*

The acquisition of a 1.07% share in the wireless telecommunications operator Neo-Sky2000.

### *Transport and Communications sector*

The Group owns 3.06% of Abertis Infraestructuras, S.A. through Banco de Valencia and Sitreba, S.L. (created at the end of 2003), one of whose principal shareholders is Cartera de Participaciones Empresariales CV, (50%-owned by Bancaja). Sitreba, S.L. has a 5.5% share in Abertis.

### *Water and Energy sector*

In 2003 Bancaja increased its share in Enagás from 3.23% to 5%. Other significant holdings in this sector are Iberdrola, S.A. (1%), Aguas de Valencia (20.65%) and Gas Natural Cegás (9%).

### *Recreation and Leisure sector*

20.63% share in Terra Mítica, Parque Temático de Benidorm, S.A., and 12.48% in Parques Reunidos Valencia, S.A., the company which manages the oceanographic park in Valencia.

### *Senior citizen sector*

50% share in the capital of Sanyrés Mediterránea, S.L., senior citizen residence management and development firm in the Autonomous Community of Valencia, Murcia and Balearic Islands.

## **Principal institutional, corporate banking and capital markets transactions**

The following agreements with government agencies relate to the financing of investments that qualify for official aid:

- agreement with Sociedad de Garantía Recíproca (Reciprocal Guarantee Company) of the Autonomous Community of Valencia to finance investment projects for small and medium-sized companies. The investment amounted to €24.4 million in 2003;
- agreement with the Ministry for Development on subsidised activities relating to housing and land. Total lending by Bancaja under this agreement amounted to €143.5 million in 2003;
- agreement with "Instituto de Crédito Oficial" (Official Credit Institute – ICO) to help small and medium-sized companies acquire new fixed assets. Lending by Bancaja amounted to €48.5 million in 2003; and
- joint agreement with "Instituto de Crédito Oficial" (Official Credit Institute – ICO) and "Centro para el Desarrollo Tecnológico e Industrial" (Centre for Technical and Industrial Development – CDTI) to provide financing to companies investing in technology and industrial design. Financing provided by Bancaja amounted to €3.6 million in 2003.

Bancaja also underwrote and distributed €58 million of a €150 million convertible bond issue of Bami, S.A. (currently incorporated in Metrovacesa, S.A.).

In 2003 Bancaja traded a total of €4,818 million in securities, representing a 39% increase over 2002.

In 2003 Bancaja participated as underwriter in the following primary market transactions:

Issuer	Rating	Instrument	Status	Amount (in thousands of euros)
FTPYME Bancaja2	Several tranches	ABS	Colead manager	500,000
FTA 5	Several tranches	MBS	Colead manager	1,000,000
FTA 6	Several tranches	MBS	Colead manager	2,080,000
B. Valencia	A2	Debentures	Directors	120,000
BAMI	N/A	Convertible bonds	Directors	149,745

The Bancaja FTA6 issue was the largest asset securitisation in Spain and the second largest in Europe in 2003.

In 2003, the volume of trading in Spanish government debt securities was in line with that of 2002, with €17,089 million traded; representing a 3.36% share in total government debt traded (2002: 2%). In 2003 Bancaja ranked 12th according to SENAF ratings (electronic trading system for financial assets) compared with 19th in 2002. Bancaja ranks 9th among domestic companies.

The equity securities market was marked by the absence of significant transactions in 2003. The Group contributed approximately 3.1% of total trading on the Valencia Stock Exchange. The number of transactions carried out by the Group represented 8.1% of all equity investment transactions traded on the Valencia Stock Exchange.

## Banco de Valencia

Banco de Valencia merged with Banco de Murcia (its then principal subsidiary) in the last quarter of 2002.

In 2003 Banco de Valencia more than doubled its share of loans and credits in the Autonomous Community of Valencia since 1994, with a 28% increase since 1999. The average growth in Spain was 1.81%, which means that Banco de Valencia increased its market share 135% over the past eight and a half years and 35% over the last seven semesters since 31st December 1999. Banco de Valencia has 21.32% and 1.79% of deposits in the Autonomous Community of Valencia and Spain, respectively, up 67% and 64% since 1994, and 30% and 26% since 1999, respectively.

Over 2003 Banco de Valencia increased its market share in assets and liabilities and improved its margins in its statements of income, especially in respect of the interannual increase in its operating margin (21.48%). These increases were attained in a context of low interest rates with downward trends, starting 2003 at 2.75% as per the official European Central Bank rate and ending at 2% and remaining practically unchanged over three quarters, which tends to reduce banking spreads. In addition Banco de Valencia improved its efficiency ratio as described below.

Banco de Valencia share value registered sustained growth throughout 2003, above the average for the sector.

### *Financial highlights of Banco de Valencia*

	Balance 31/12/2003	Variation	
		2003/2002	%
	(thousands of euros)		
<b>Business</b>			
Total Balance-Sheet Assets .....	7,605,375	976,660	14.73
Turnover .....	12,609,961	1,883,610	17.56
Net loans and credits .....	6,719,004	1,032,460	18.16
Customer funds under management .....	5,890,957	851,150	16.89
Balance-sheet funds .....	5,346,938	758,212	16.52
Off-balance-sheet transactions <sup>(1)</sup> .....	544,019	92,938	20.60
Book Results before taxes .....	111,772	17,204	18.19
Profit after taxes .....	72,885	6,843	10.36

(1) Mutual funds (Group and non-Group) and pension plans.

The following are certain aspects of Banco de Valencia's recent performance :

- a marked increase in funds (16.89%) above the average for the sector and interannual growth of pension plans (22.71%);
- a renewal of the "F1" short-term rating and the "A" long-term rating from FITCH rating agency for the fourth consecutive year;
- a growth of 33.4% in mortgage loans to families, representing more than 51% of total loans;
- a decrease in the delinquency ratio, at a historic low and below the sector average, from 0.60% at 31st December 2002 to 0.56% at the end of 2003;



- the opening of sixty-five branches during the last five years, mainly in Catalonia, Madrid, Navarra and Rioja, which represents a 15% increase in the network, assisting with the diversification of the Bank's geographical sources of income. In 1994, 97% of Banco de Valencia's income originated from commercial banking in the Autonomous Community of Valencia, compared with 64% in 2003;
- an increase in the efficiency ratio of over 3% to 40.58%, which implies almost €8 less costs per €100 obtained than the average for the sector;
- fostering channels to supplement branches (ATMs, point-of-sale terminals, etc.), the most noteworthy of which is internet banking, with 65,000 users, the network of financial services agents and telephone services for non residents in French, English and German.;
- a growth of 26.52% in the import/export business in 2003;
- a ROE of 19.33% and a ROA of 1.54%, based on recurring income from ordinary operations, particularly noteworthy is the 21.48% increase in the net operating margin, which is above the average for the sector;
- a €82.3 million capital gain on Bancaja's equity portfolio, with an annual increase of €7.5 million, attributable mainly to Abertis (formerly, Aurea and Aumar); and
- profit per share of €0.74. However the effect of the two capital increases (June and September) reduces this increase when calculated with data on net profit and the number of shares at year end, a factor which has also reduced ROE.

## Insurance Group

The Group conducts its insurance business through its subsidiaries Aseval, Coseval and Segurval.

### Highlights

	31/12/2003	31/12/2002	Variation
	(thousands of euros)		%
<b>Results before taxes</b> .....	53,635,96	37,218,38	44.11
Insurance Life, casualty and illness			
Premiums .....	1,076,333.08	1,209,429.06	(11.00)
Technical reserves.....	3,258,975.73	2,873,925.72	13.40
Pension Plans			
Assets managed .....	1,257,822.18	1,103,141.54	14.02
Contributions .....	212,496.01	183,471.59	15.82
Brokerage			
Premiums from open policies .....	51,578.67	47,095.93	9.52
Fees .....	19,586.01	20,856.26	(6.09)
<hr/>			
	31/12/2003	31/12/2002	Variation
	(thousands of euros)		%
<b>Bancaja's Insurance Group Customers figures</b>			
Insurance Life, casualty and illness .....	1,267,922	1,204,824	5.24
Participants.....	194,721	168,182	15.78
Open policies intermediated .....	231,167	221,203	4.50

At the end of 2003 the recovery of financial markets appeared evident, although 2003 was marked by the trends of previous years: declining interest rates, volatile financial markets and shrinking family savings.



Accordingly, Aseval concentrated on risk and life insurance and pension plans and oriented sales management towards guaranteed savings products or those with small variable income components such as Ahorro Fiscal Seguro (investment in deposits), Renta Vitalicia (guaranteed interest) or fixed-income pension plans.

At 31st December 2003, Aseval had increased technical provisions by 13.40% and equity managed by 14.02%, and ranked third among domestic bank insurances by funds managed.

During 2003, Aseval completed the range of products and necessary support to conduct business at the savings institutions which are members of the strategic alliance with Unicaja, Caixa Galicia, Caja España, Caja Granada, Bancaja and Aviva.

In 2003 Coseval II, Sociedad de Agencia de Seguros consolidated Caja Hogar Plus (home-owners insurance).

Through Segurval, the Group's specialised brokerage services, Bancaja became the first financial entity in Spain to sign an exclusive agreement with CESCE (a government agency which provides Spanish concerns with export credit insurance) to insure the sales of its export customers.

## **Investment management**

### *Gebasa*

The most significant events of 2003 were:

- upon maturity of the guarantee of Bancaja Garantibex 35.3, F.I., it was renewed under a new name (Bancaja Garantizado Renta Variable 3 F.I.) which reached its €60 million equity target by the end of the guarantee subscription period (13th March 2003);
- three investment management funds were set up to cover minimum risk funds (similar to monetary funds) with low commissions:
  - Bancaja Renta Fija Corto Plazo, F.I. (principal fund);
  - Bancaja Renta Fija a Corto 1, F.I. (subordinated fund); and
  - Bancaja Renta Fija a Corto 2, F.I. (subordinated fund);
- three new guaranteed funds were set up:
  - Bancaja Garantizado Renta Variable 4, F.I., which ended the guarantee subscription period in 20th May 2003 having met its €60 million equity target;
  - Fondo Valencia Garantizado Renta Variable 3, F.I., which ended its guarantee subscription period in 16th June 2003 having met its €18 million equity target; and
  - Fondo Valencia Garantizado Mixto 1, F.I., which was set up on 29th December with an equity target of €20 million. The guarantee subscription period began in January 2004; and
- in May six master feeder funds (F.I.) were set up primarily for Fidenzis customers:
  - Fidenzis Fondo de Fondos C10, F.I.;
  - Fidenzis Fondo de Fondos C15, F.I.;
  - Fidenzis Fondo de Fondos C30, F.I.;
  - Fidenzis Fondo de Fondos L20, F.I.;
  - Fidenzis Fondo de Fondos L35 Global, F.I.; and
  - Fidenzis Fondo de Fondos L100 Global, F.I.

At 31st December 2003, Gestora Bancaja S.G.I.I.C., S.A. managed fifty-four investment management firms broken down as follows:

**Investment management firms**

Short-term fixed income .....	4
Long-term fixed income .....	2
Guaranteed fixed income .....	2
International fixed income .....	1
Mixed fixed income .....	10
– Funds .....	4
– Master feeder fund .....	6
Mixed equity investment .....	3
– Funds .....	1
– Master feeder fund .....	2
Domestic equity investment .....	2
Euro equity investment .....	6
Guaranteed equity investment .....	10
International equity investment .....	4
– Funds .....	3
– Master feeder fund .....	1
Global .....	6
– Master feeder fund .....	6

At 31st December 2003, the volume of investments managed exceeded €1,683 million.

For the year ended 31st December 2003, Gebasa's profit before taxes amounted to €5.8 million.

**Real Estate Group**

In 2003, the Real Estate Group (comprised of Cartera de Inmuebles, S.L. –CISA-, its subsidiaries Actura, S.L. and CISA Habitat, S.L., and other companies in which it owns holdings), increased its volume of business and lines of activities.

The highlights of 2003 were:

- holdings acquired in real estate development companies: Torre Lúgano, S.L. (Benidorm), Pueblo los Monteros, S.L., (Marbella) and Promociones Espacio Cisa Habitat, S.L. (Burjassot);
- holding acquired in Restaura Inversions, S.L., to develop a project to renovate a landmark building on Paseo de Recoletos de Madrid;
- study of new projects to develop senior citizen residences through Sanyrés Mediterráneo, S.L. Complex development started in L' Alfàs del Pi;
- completion and sale of residential development in Pinar de Varadero (La Nucía);
- consolidation of Aldea del Mar Fase I (Torrevieja) and Polo y Peyrolón (Valencia) developments, with over 80% completed. Sale started for Aldea del Mar Fase II (Torrevieja), Terrazas de Altea, Mirador del Paraíso (Altea), Almenara I, Panorámica Golf (San Jorge), Torre Lúgano (Benidorm) and Sierra Cortina (Finestrat) developments. In the next two years, the Real Estate Group residential portfolio corresponding to developments directly or through holdings will include 2,932 units;
- contract awarded to Actura, S.L., and holdings in companies in new land sectors in Valencia (Malilla Sur in the city, sectors 6 and 14 of Bétera, Parque Empresarial Circuito in Cheste and Playa Norte in El Puig), Alicante (sector APA 9 in the city and sectors UA.N1 and PC1-PC2 in Teulada), and Castellón (Urbanización Panorámica in San Jorge and El Campàs sector in Torreblanca);
- bids submitted for new urban developments in San Juan de Alicante, new sectors in Bétera, Fuente San Luis sector in Valencia and Aguas Vivas sector in Alzira;

- approval of re-zoning in Sensal sector (Castellón) and a portion of the re-zoning proposal submitted for El Madrigal (Villarreal); urban development started in Aguas Vivas sector in Carcaixent and sector 2 in Santa Pola; and
- Actura participated, directly or indirectly through holdings in companies with other leading partners in Valencia and Spain, in approximately fifty-one urban development projects in several towns in the Community of Valencia, over a surface area of approximately 36.1 million square meters.

In 2003 the Real Estate Group's consolidated profit after taxes amounted to €19.3 million, an 81% increase over 2002. Consolidated net profit amounted to €64.8 million, a 32% increase over 2002. The financial highlights of the Real Estate Group in 2003 were:

	<b>2003</b>
	<i>(thousands of euros)</i>
Net profit on land sales .....	11,000
Net profit on real estate developments.....	10,000
Sales margin.....	10,000
Other revenue .....	6,000
Ordinary margin .....	37,000
Profit before taxes .....	27,000
Profit after taxes .....	19,000
Capital and Reserves.....	90,000
Total Investment <sup>(1)</sup> .....	<u>234,000</u>

(1) Includes intangible assets, property and equipment, financial assets and stocks.

## Travel

### *Cavaltour*

Cavaltour, the Group's travel agency, which operates through telephone sales, recorded a €19 million turnover (up 8% from 2002), answered over 113,000 calls and sold more than 86,400 packages.

In 2003 Cavaltour obtained UNE-EN ISO9001-2000 certifications.

## Recent Developments

On 30th June 2004 the General Meeting of Bancaja ratified an amendment to the by-laws and regulations of Bancaja adapting them to Law 26/2003 reinforcing the transparency of listed companies and Decree 86/2004 of the *Consell de la Generalitat*, in relation to governing bodies and the *defensor del cliente* to adapt regulations in Valencia to national provisions.

The amendments to the by-laws and regulations have resulted in:

- the creation of two Committees: the Remuneration and Investment Committee and the Audit Committee, which in October 2003 assumed the functions of the Control Commission of Bancaja; and
- an amendment to rules on the election and appointment of Directors General, Representatives of Depositors and Municipal Corporations, which will be governed by regional criteria and within such criteria, by deposits made.

## Risk Management

### *Introduction*

The primary goal of the Group's *comprehensive risk management model* is to provide for the proper identification, measurement, assessment, control and monitoring of risks, integrating all risk functions into a single process in order to actively manage portfolios, minimise possible negative impacts and ensure that risk variables are given the correct weighting in the decision-making process so as to guarantee that all decisions correspond with the Group's desired risk profile at all times.

During 2003 several structural and organisational measures were taken with a view to reinforcing this integrated focus. One such measure was the creation of the Global Risk Management Department, responsible for defining and establishing risk targets and strategies and coordinating the management of different risks (credit, market and operational). The department receives functional support from the likewise newly created Risk Control Units, established in each risk management area. Another important measure aimed at facilitating risk integration in the Group was the review and updating of the policies, limits and powers regarding each risk and the incorporation thereof, for formal and documentary purposes, into a Global Risk Control tool.

This all-encompassing focus, based on new regulatory trends (Bank of Spain Circular 9/99 and the New Basel Capital Accord, also known as Basel II) aims, starting with a risk function that takes both human resources and technological possibilities into account, to preserve and improve, both quantitatively and qualitatively, Bancaja's credit rating and risk exposure limits, while at the same time contributing to value creation in accordance with the concept of risk-adjusted profitability.

### *New Capital Accord: Basel II*

In keeping with the new regulatory trends set out within the framework of Basel II, the Group has continued to make progress, both internally and in collaboration with other banks by means of the Sectorial Project for Global Risk Control coordinated by the Spanish Confederation of Savings Banks (CECA), on the analysis and development of procedures, systems and methods needed to increase and improve efficient risk management.

In 2003 debate over the possible impact of Basel II continued between the regulators and the sector. At the request of the Bank of Spain, Bancaja, along with other institutions, is following the process closely.

In its current state, the new accord preserves the original principles:

- to establish a greater relationship between required capital and risks incurred;
- to incorporate a new capital requirement for operational risk;
- to allow the use of certain capital calculation variables estimated internally by institutions (internal models); and
- to supplement capital requirements with two new pillars: supervisory reviews (supervision) and market discipline (transparency).

The new capital accord, which is expected to take effect by the end of 2006, is, despite certain shortcomings and pending issues, a major step forward: the more risk-sensitive capital requirements it proposes reduce the possibility of regulatory arbitration in comparison with the accord currently in force.

### *Credit Risk Management*

Credit risk management is crucial to the Group's strategy. Because the Group's strategic goal is ongoing, balanced growth, the quality and security of its investments must be guaranteed.

Control and management of credit risk is a key function for credit institutions. Moreover, as perhaps the most significant and traditional risk affecting ordinary banking activities, it is both an intrinsic and inseparable part of banking business.

Over the course of 2003, in compliance with Bank of Spain regulations and in keeping with the new recommendations of the Basel Committee on Banking Supervision, Bancaja continued to assign substantial human, technical and economic resources to the development and implementation of quantitative tools for gauging credit risk in the private, SME and developer segments, enhancing its automatic analysis, monitoring and recovery processes and optimising its control systems. The full implementation and utilisation thereof by the branch network, especially with regard to the electronic files and monitoring systems, bear testimony to their thorough integration into the corporate culture.

Commercial planning for the proper selection of borrowers, the establishment of action policies with clients and sectors, credit portfolio diversification, the suitable use of expert parameter identification and rating systems, expertise and training in individualised credit risk analysis complemented by continuous and standardised monitoring of borrowers and their transactions, and the combination of automatic processes with specialised personal management of non-performing assets are the foundations for credit risk management at the Group.

In 2003, improvements were made to the regulatory, procedural and documentary structure by adjusting Bancaja's credit policy database and the full regulatory framework, which can now be accessed by the entire organisation through the Intranet.

Progress continued on the design, organisation and storage of information in management databases. These databases, scheduled to be completed by the end of 2004, store information concerning all of Bancaja's asset transactions, organised in accordance with the historical criteria required both by the Bank of Spain and under the new Basel capital accord. They moreover constitute the IT medium for the development of qualitative and quantitative risk management assessment tools.

Bancaja uses a decentralised system for approving transactions based on a clear definition of policies and procedures for each stage in the risk process (analysis, approval, monitoring and, where applicable, recovery) as well as a suitable system for the delegation of powers. High-quality IT tools— rating and scoring systems— are used throughout the entire process, offering help and support for decision-making.

The scoring model for automatic evaluation allows for both high operativeness when approving transactions and a low delinquency rate. At year-end, the delinquency rate for all approved transactions was 0.20%.

In 2003, 46% and 36% of all mortgage and personal loans respectively were granted using the scoring model.

Bancaja uses dynamic monitoring based on specific client behavior as part of its credit risk management. Bancaja employs two types of monitoring:

- reactive, which tracks the client's evolution, based on the type of risk assigned, the exposure amount and maturity and guarantees; and
- proactive, involving the analysis and identification of each client based on its behaviour toward Bancaja and within the financial system as a whole; together with a fully automated early warning system.

In October 2003, a *proactive scoring system* was implemented throughout the branch network to calculate the amount of risk Bancaja is willing to assume vis-à-vis each client based on the information available on it. This positioning is then translated into monthly fees for some asset products (personal loans, mortgage loans, real estate leases, equipment leases) and limits for others (cards and credits).

In addition, work began in the last quarter of 2003 to review the current reactive scoring model, and implementation of the revised model was carried out in June 2004.

Such implementation and revision processes reflect Bancaja's intention to further develop risk analysis and segmentation models for the private sector and to adapt to Basel II in order to attain an enhanced selection of risks through the use of the latest rating models, which will change acceptance processes and create greater standardisation of the risk function.

In 2003, Bancaja completed new rating models for SMEs, large corporations and financial institutions. These models are currently in the verification and fine-tuning stage and are expected to be incorporated soon as parameterisation and credit portfolio quality assessment tools to complement Bancaja's traditional rating system, which has been in place for over ten years.

A set of IT tools are used to ensure certain recovery procedures are carried out. Management systems are employed, affording advance warnings in cases of asset quality deterioration. Where applicable, the continuity of the processes is also centralised according to efficiency and profitability criteria, combining a demand for procedural compliance with the establishment of viable payment plans with debtors.

The following actions were taken in 2003:

- structuring of credit policy databases, which can now be viewed by the entire organisation;
- review of the risk function with significant changes to circuits and procedures, especially with regard to private transactions, after implementation of client credit ratings;
- incorporation of new functions in the electronic files for private clients, corporations and developers in order to enhance transaction management and individual monitoring of each borrower or group, and to expedite sales at branches.;
- incorporation of new functions in the risk monitoring and recovery applications, automating the full process for dealing with collection companies; and
- securing of risk premiums and use of suitable pricing models as a necessary step toward portfolio management, with both lines to be further developed in coming years.

Over the course of 2003, Bancaja continued to participate in the Sectorial Project for Global Risk Control run by the Spanish Confederation of Savings Banks (CECA). Bancaja made significant progress in developing its own method for calculating risk exposure (EAD) and severity (LGD), which, along with the delinquency probability obtained with the rating and scoring tools, allows for the calculation of expected and unexpected losses due to credit risk and, once approved by a supervisor, to reach a statistical provision based on Bancaja's experience.

#### *Balance Sheet Position*

The Group's balance sheet positions are subject to the risks associated with uncertainty regarding future changes in the market. These risks, increasingly important due to heightened market volatility, can be broken down as follows:

- *Balance sheet interest rate risk:* the risk of suffering negative changes in the economic value of the balance sheet or of the intermediation margin as a result of the effect of movements in interest rate curves on the rates at which the different balance sheet aggregates are renewed;
- *Market risk:* the risk associated with market activities in relation to possible losses in the economic value of transactions as a result of negative changes in financial market quotations;
- *Exchange rate risk:* the risk of unfavorable movements in the quotations of those currencies in which Bancaja's assets and liabilities, or its off-balance sheet undertakings, are expressed. This risk is essentially negligible for the Group, due to the policies employed in this area. Namely, the currency position generated by any transactions carried out in the Institution that might entail exchange rate risk is hedged on a daily basis; and



- *Liquidity risk:* Bancaja's exposure should it lack sufficient funds to meet its repayment obligations upon maturity of client transactions.

### *Balance Sheet Interest Rate Risk*

The Group uses an internal transfer rate system as its interest rate risk management model, allowing it to isolate the interest risk generated by the different business units and transfer it to the overall structural position managed and controlled by Bancaja's Assets and Liabilities Committee (ALC).

By delegation of the ALC, the G.A.P. Technical Unit analyses the structural positions in terms of interest rate risk due to time lags between maturity dates and rate reviews for the different asset and liability amounts of the balance sheet, as well as those for any off-balance sheet undertakings and products.

The controls are performed by calculating and analysing asset-liability gaps, both with regard to their current and projected positions. The monitoring of these gaps enables identification of balance sheet aggregates subject to changes in interest rates and, thus, the planning of possible hedging strategies to minimise the negative impact such changes might have on future renewals or maturities.

### *Bancaja Group Maturity and Interest Rate Renewal Gap as of 31/12/2003*

#### *Breakdown of Balances by Maturity or Price Reviews*

	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 Months to 1 Year	1 to 2 Years	More than 2 Years	Not Sensitive	Total Balance
(in thousands of euros)								
Money Market.....	3,816,921	171,141	349,790	49,634	0	6,010	220,622	4,614,118
Capital Market .....	60,754	83,655	34,172	117,260	773,464	2,128,307	628,344	3,825,958
Credit Market .....	4,751,703	7,805,227	5,047,567	5,220,417	944,188	1,470,835	493,721	1,221,335
Other Assets .....	862	1,937	2,460	184	62	0	1,25,840	1,221,335
<b>Assets</b> .....	8,630,240	8,061,961	5,433,990	5,387,495	1,717,703	3,605,152	2,558,528	35,395,070
Money Market.....	5,909,773	43,168	556,432	72,414	82,724	608,409	0	7,272,921
Capital Market .....	2,430,290	1,271,429	414,248	1,139,944	2,212	0	0	5,258,124
Client Deposits .....	7,523	310,836	305,051	2,903	4,428	8,836	3,213,971	3,853,547
<b>Liabilities</b> .....	14,900,922	3,265,100	2,299,896	2,483,221	1,009,177	8,183,376	3,253,379	35,395,070
Balance Sheet GAP .....	-6,270,681	4,796,881	3,134,094	2,904,274	708,526	-4,578,223	-694,850	-
Off-Balance Sheet GAP ....	1,475,973	-385,862	-830,364	-2,355,905	-358,500	2,454,658	0	-
<b>Total GAP</b> .....	-4,794,708	4,410,999	2,303,731	548,368	350,026	-2,123,585	-694,850	-
% Subtotal Assets .....	-13.55	12.46	6.51	1.55	0.99	-6.00	-1.96	-
<b>Total Accumulated GAP</b>	-4,794,708	-383,709	1,920,021	2,468,389	2,818,415	894,850	0	-
% Subtotal Assets .....	-13.55	-1.08	5.42	6.97	7.96	1.96	0.00	-

Given the diverse nature of the balance sheet entries, it can be concluded that the sensitivity of the Bancaja intermediation margin is primarily due to the effects of the following gaps on the balance sheet amounts:

- *Maturity gap:* the gap between fixed-rate assets and liabilities with tenors equal to or greater than one year. At Bancaja, this gap is negative; and
- *Repricing gap:* the gap between assets and liabilities referenced to variable interest rates repriced on a yearly or more frequent basis. At Bancaja, this gap is positive.

The joint effect of these gaps is a significant time lag in the adjustment of revenue and expenses to changes in market rates, such that the intermediation margin is affected beyond the year's horizon.

In light of the above, the Bancaja ALC redefined the target quantification process in May 2003. To limit losses without affecting potential profits, it established a maximum percentage limit on



the negative sensitivity of the intermediation margin to a variation of 150 basis points in market interest rates for both the twelve-month and twenty-four-month horizons. From the point of view of economic value, it established a maximum limit on the negative sensitivity of the equity value to both positive and negative changes of 100 basis points in interest rates. To achieve this, the ALC further established the need to secure macro hedging, pursuant to the terms of Regulation 5, section 12, of Bank of Spain Circular 4/1991. The objective of macro hedging is to ensure the stability of the intermediation margin, while maintaining Bancaja's equity value within accepted maximum sensitivity limits.

As of 31st December 2003, the sensitivity of the intermediation margin and Bancaja's equity value to changes in interest rates was less than 4% for both 2004 and 2005, within the sensitivity limits set by the ALC.

### *Market and Counterparty Risk*

#### *Market Risk*

Market risk refers to the possibility of suffering losses in positions due to negative changes in market prices. Managing this risk requires limiting the possibility of losses and optimising the ratio between the assumed exposure level and the expected profits according to goals set by the Group. The Market Risk Control Unit, acting independently from the market areas responsible for contracting work and portfolio management, which is where the risk originates, has developed a series of policies aimed at gauging risk levels, overseeing their adaptation to the established limits and keeping senior management informed through the Assets and Liabilities Committee (ALC).

#### *Types of Portfolios*

The business of Bancaja can be broken down into the following categories:

- *Asset and liability management*: the treasury area is responsible for executing the strategies drawn up by the ALC in order to modify the risk profile of the commercial balance sheet by monitoring established policies;
- *Investment*: investment in strategic assets in order to create medium- and long-term economic value;
- *Dealing*: taking directional positions so as to capitalise on changes in market variables with a view to obtaining short-term profits; and
- *Distribution*: obtaining margins from intermediation activities between issuers and investors, in which no market risk is assumed.

#### *Method*

The main tool used by the Group to assess market risk is the Value at Risk (VaR) model. This method, used in its parametric version, attempts to estimate the maximum loss that could be suffered by market positions with a 98% confidence level and a time horizon of 1 day. The model is based on an analysis of the historical behavior of the main factors responsible for market risk. Using the daily changes undergone by the main variables in the recent past, a monthly volatility and correlation matrix is created, enabling the estimate of potential future losses due to each risk factor and the overall set of risks.

Over the course of 2003, Bancaja enhanced these systems, and a new application was implemented to facilitate the uploading of transactions and balances, as well as the prices of all Group activities subject to market risks. The application also allows for the calculation of VaR figures using the three generally-accepted methods: historical simulation, variance/covariance matrix and Monte Carlo simulation.

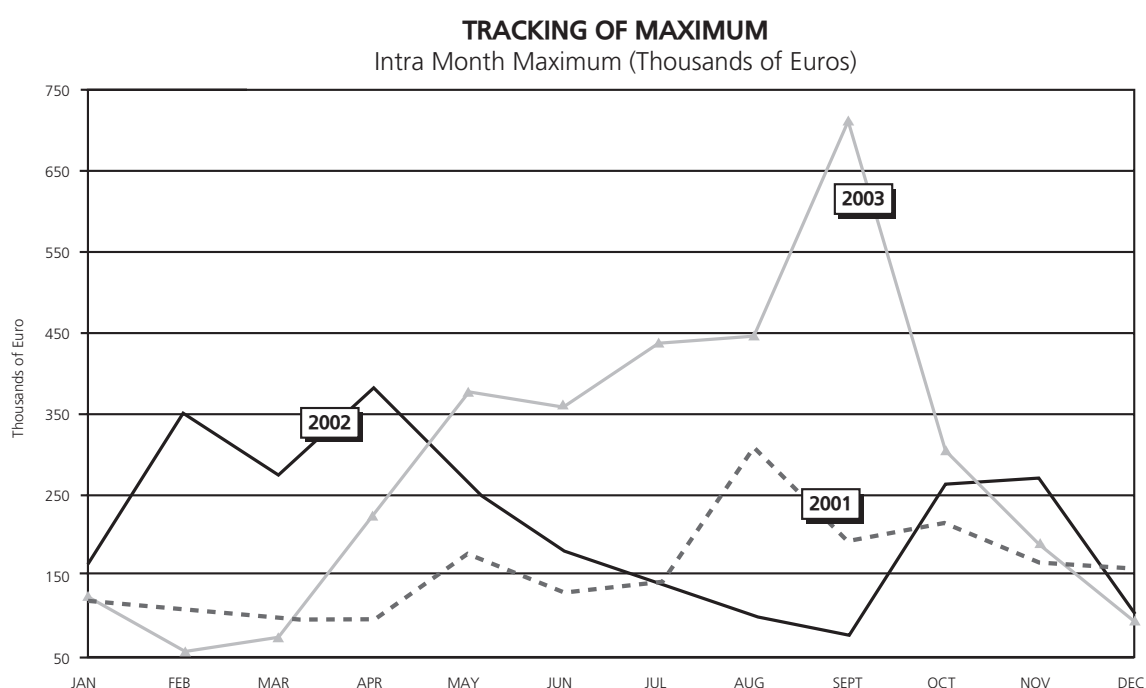
## Market Risk of the Negotiation Portfolio

The following is a summary of the overall risk amounts assumed over the financial year 2003:

	As of 31/12/03	Minimum	Average	Maximum
(thousands of euros)				
VaR Negotiation Portfolio 2003 .....	27,360	2,500	77,150	708,580

Bancaja's average daily VaR in 2003, calculated with a 98% confidence level and a time horizon of 1 day, was 77,150 euros, fluctuating between a maximum risk of 708,580 euros and a minimum risk of 2,500 euros.

The following graph shows the evolution over 2003 of the Bancaja's market risk, in terms of the negotiation portfolio business, quantified using the VaR method. The risk profile is medium-low, reaching a peak in September due to the taking of certain market positions subject to this type of risk.



At no time during 2003 were the market risk limits for portfolio dealing exceeded.

Based on measurements, the Market Risk Control Unit ensures compliance with Bancaja's limits. Limits are approved by the ALC and are valid for a period of one year in normal conditions. They are managed by market areas and are therefore allocated internally among business lines, products, markets, tranches or currencies, according to criteria previously agreed by the Market Risk Control Unit. Whenever market situations so require, the limits are revised downwards, thereby minimising risks.

In order to ensure the quality of risk estimates, back-testing is performed. In these tests, the theoretical profits and losses, assuming an unchanged portfolio composition, are compared to estimates generated by the risk model, showing that risk assessments made fall within accepted values. In addition, stress testing is carried out to determine the level of potential losses the portfolio's market value would suffer in especially adverse conditions, such as situations of historical crisis in each of the markets.

Finally, market risk monitoring is supplemented by the careful control of certain warning signs, such as a strong increase in market volatility or the accumulation of losses (stop-loss).

Bancaja's dealing portfolios are subject to monthly stop-losses, so that should the maximum loss figure established for the month be reached, contracting will be closed until the following month.

Bancaja's fixed-income portfolio is appropriately diversified with a view to mitigating credit risk. Bancaja's goal is to obtain an attractive and recurring margin on the Euribor index. The portfolio is subject to limitations relating to credit ratings.

The behaviour of interest rates continues to be the main factor of market risk for the Group, although variable-income positions are also taken.

### *Counterparty Risk*

The Group's counterparty risk is measured at the operational level, and a system is used to calculate the outstanding risk for each counterparty in real time. The method for calculating exposure depends on the type of transaction, although it is generally based on market value or replacement cost and, where applicable, certain potential exposure factors (add-ons).

The different counterparty lines are reviewed annually, using credit ratings assigned by rating agencies or, in their absence, Bancaja's internal rating models. The risk line for a given counterparty may be closed at any time in order to minimise risks, if necessary.

### *Notional Chart of Derivatives by Maturity*

	Up to 1 Year	2-5 Years	> 5 years	Total 2003	Positive Market Value	Negative Market Value
	(thousands of euros)					
IRS.....	1,661,262	2,822,660	3,272,037	7,755,959	264,028	-98,306
Securitisation.....	0	0	5,199,276	5,199,276	88,734	0
Interest Rate Options.....	0	1,225,610	12,552	1,238,162	32,914	-87
<b>OTC Interest</b> .....	1,661,262	4,048,270	8,483,865	14,193,397	385,676	-98,392
CCIRS .....	0	395,883	62,420	458,303	1,282	-138,197
Fx OTC Options .....	36,224	0	0	36,224	1,882	0
<b>OTC Exchange Rate</b> .....	36,224	395,883	62,420	494,626	3,164	-138,197
Equity Swaps.....	60,000	194,514	0	254,514	7,305	-3,876
<b>OTC Variable Income</b> ....	60,000	194,514	0	254,514	7,305	-3,876
<b>Total</b> .....	1,757,485	4,638,667	8,546,285	14,942,437	396,144	-240,465

OTC derivatives are primarily used by Bancaja for hedging its issues as well as in its macro hedging strategy.

Bancaja executes OTC derivative transactions with counterparties with high credit ratings, Group companies or clients.

### *Exchange rate risk*

This risk refers to the possible negative effects for Bancaja of changes in the quotations of currencies in which different assets and liabilities, as well as off-balance sheet undertakings and products, are expressed.

The limits applicable to this risk are strict, since currency diversification is not part of Bancaja policy. Limits apply to both open positions and VaR levels, and the assumed risk is always low or negligible. The greatest risk concentration by currency, albeit within established limits, occurs with the U.S. dollar.

### *Liquidity Risk*

This risk reflects the potential inability of a credit institution to gain access to markets and obtain sufficient liquid funds, in the required amounts and at suitable costs, to meet its payment obligations.

Bancaja manages this risk from an operational liquidity and a structural liquidity perspective. The former is managed in the short term by the Treasury Area, and the latter, resulting from positions generated in the long term or, otherwise, from short-term but ongoing positions, is managed and controlled by Bancaja's management through the Assets and Liabilities Committee (ALC).

In recent years, the growth of Bancaja has highlighted the need for financial instruments that allow for the bridging of structural liquidity gaps arising from differing growth rates between investments and their financing.

The Group manages its structural liquidity by using a variety of financing programs, managing sufficient liquidity levels at all times, while ensuring that its short-term dependence on markets remains at acceptable levels. It thus minimises the risks inherent to operational liquidity management. In addition, it has an active presence in a wide and diversified set of markets for the financing or securitisation of its assets.

### *Financing Programmes*

	<b>Program Amount</b>
Euro Medium Term Note Programme .....	USD 6,000 million
Company Note Issuance Programme .....	EUR 600 million

Over the course of 2003, Bancaja issued 820 million euros of notes under its EMTN Programme.

The issues made in 2003 reflect Bancaja's financing strategy, which is to optimise the diversification of financing sources by instruments, markets and terms, while also taking capitalisation goals into account.

### *Amounts Issued in 2003*

	<b>Amount</b>
	<b>(thousands of euros)</b>
Euro Medium Term Note Program.....	820,000
Domestic medium- and long-term issues.....	210,000
Securitisation <sup>(1)</sup> .....	3,302,080
	<b>4,332,080</b>

(1) Change in outstanding balance 31/12/2002 – 31/12/2003

The outstanding amount of securitisation funds issued since 1998 amounted to 5,584 million euros as of 31st December 2003.

	<b>Amount</b>
	<b>(thousands of euros)</b>
BANCAJA 1 FTH .....	28,615
BANCAJA 2 FTH .....	98,788
FTPYME BANCAJA 1 FTA .....	600,000
BANCAJA 3 FTH .....	520,900
BANCAJA 4 FTH .....	828,101
BANCAJA 5 FTH .....	927,104
FTPYME BANCAJA 2 FTA .....	500,000
BANCAJA 6 FTA .....	2,080,000
	<b>5,583,508</b>

Liquidity needs in crisis situations are assessed periodically. Extreme scenarios arising from possible changes in market and business forecast are analysed, evaluating, through simulation models, their potential impact on liquidity.

In addition, there is a Liquidity Contingency Plan, approved by the ALC, which establishes clear goals and action principles, a set of indicators and alerts and the corresponding action plans and communication channels to enable Bancaja to successfully overcome possible market crises.

### *Operational Risk Management*

Operational risk refers to those direct or indirect losses arising from failures in or improper use of internal processes, human errors, the malfunction of systems and external events. It affects all business activities and, consequently, must be managed and minimised.

To reduce operational risk the Group adopts strict professional standards, staff training programs and clear and suitably-documented procedures. Internal auditing plays an important role in ensuring compliance with procedures through regular monitoring.

The economic impact of operational risk, along with the capital requirements established in the New Basel Accord, call for an operational risk management framework in which an overall management model for risk can be defined and implemented throughout Bancaja. The Group's strategy for developing this management model comprises several stages:

- the creation of an operational risk culture within Bancaja;
- the implementation of a model for the identification, analysis and compilation of risk events by business line; and
- the development of a sound and efficient risk quantification method.

The actions taken by the Group in this area, initiated in 2002 and primarily carried out over the course of 2003, mainly concern the development of:

- *Qualitative Assessment Tools: Risk Map.* By means of a Risk Map, a series of weighted control points per area were established, both for business and supports. Thus, strengths and weaknesses are permanently identified, and can be actioned. The Risk Map is reviewed annually.
- *Quantitative Tools: Loss Databases.* Bancaja has traditionally compiled ample information on its losses but the medium for recording this information, primarily documentary and accounting, was not optimum for automated processing. Bancaja has now opted for a suitable information system. The Loss Databases were rolled out in 2003 containing detailed information about losses. The information is provided by each Centre and/or Service and compiled in a centralised fashion by the corresponding supervisory departments for subsequent review and assessment.

The databases also provide a basis for developing in the medium term Advanced Measurement Approaches (AMA), using methods provided for in the New Basel Capital Accord for quantifying expected losses for regulatory capital purposes.

## **Management**

The governing bodies of savings banks in Spain are regulated by Act 31/1985 "On the regulation of Basic Rules in Governing Bodies of Savings Banks" (the "Act") modified by Law 44/2002, of 22nd November, "Regarding Measures of Reform of the Financial System" and by their own statutes. The Act represents the general framework and is developed further by regulations of the relevant regional authority, in the case of Bancaja, by the regional government of Valencia (Generalitat Valenciana) under Legislative Decree 1/1997 of 23rd July modified by Law 10/2003, of 3rd April, of the Generalitat Valenciana.

The governing bodies of Bancaja comprise the General Assembly, the Board of Directors and the Control Committee. The Board of Directors delegates certain functions to an Executive Committee.

The General Assembly is the main governing body of Bancaja. It comprises 200 members elected by depositors, the government of Valencia, municipalities, employees and the founders of Bancaja.

The Board of Directors is the main body responsible for the management, administration and representation of Bancaja, including its social projects. It is made up of 20 members who are representatives of the different groups which make up the General Assembly. The Executive Committee is made up of the President, the 1st Vice-president of the Board of Directors, and 9 members of the Board of Directors. The Executive Committee is responsible for the day-to-day management of the Group, covering staff, investment and risk management.

The object of the Control Committee is to ensure that the management of the Board of Directors is carried out with maximum efficiency and precision, and within guidelines established by the General Assembly. It is made up of 13 members, which are representatives of each group which make up the General Assembly, but which are not members of the Board of Directors.

The table below sets forth the names and titles of the members of the Board of Directors of Bancaja as of 30th September 2004. The business address of each member of the Board of Directors is Pintor Sorolla 8, 46002 Valencia.

The most significant change to the governing bodies was the replacement of Bancaja chairman, Julio de Miguel Aynat, whose term had expired. On 15th January 2004, the Board of Directors elected José Luis Olivas Martínez as the new chairman of Bancaja.

### ***Board of Directors***

#### *Directors*

Ángel A. Álvarez Martín  
Manuel Escámez Sánchez  
Rafael Ferrando Giner  
Héctor Ferrás Guarch  
F. Vicente Gregori Gea  
María Carmen Hernández Lara  
Vicente March Soler  
R. Francisco Oltra Climent  
Jorge Palafox Gámir  
María del Rocío Peramo Sánchez  
J. Luis Pérez de los Cobos y Esparza  
Juan Antonio Pérez Eslava

Participants at Board Meetings with the right to speak but not to vote:

Rafael Alcón Traver  
Manuel Breva Ferrer  
Rafael Calvo Calpe  
Enrique Martinavarro Dealbert

#### *Chairman*

José Luis Olivas Martínez

#### *1st Vice Chairman*

Antonio J. Tirado Jiménez

#### *2nd Vice Chairman*

Arturo Virosque Ruiz

#### *3rd Vice Chairman*

Josefa Martí Puig

#### *4th Vice Chairman*

José María Cataluña Oliver

#### *5th Vice Chairman*

Eduardo Montesinos Chilet

#### *Secretary*

Ángel D. Villanueva Pareja

#### *Assistant Secretary*

Vicente Montesinos Vernetta

## ***Control Committee***

### *Members*

Fernando Bellido Querol  
Francisco Cabezas Tanco  
Juan Francisco Delgado Torres  
José Falomir Martínez  
Pascual González Cervera  
José Ángel Hidalgo Pitarch  
Evaristo Muñoz Martí  
Manuel Portolés Sanz  
María Vicenta Sanz Segarra  
Francesc Xavier Tarazona Martínez  
Enrique Villarreal Rodríguez

### *Chairman*

Rafael Aznar Garrigues

### *Secretary*

José Ramón Serrano Santamán

## ***Executive Committee***

### *Members*

F. Vicente Gregori Gea  
R. Francisco Oltra Climent  
J. Luis Pérez de los Cobos y Esparza  
Juan Antonio Pérez Eslava

Participants at Board Meetings with the right to speak but not to vote:

Manuel Breva Ferrer  
Rafael Calvo Calpe  
Enrique Martinavarro Dealbert

### *Chairman*

José Luis Olivas Martínez

### *1st Vice Chairman*

Antonio J. Tirado Jiménez

### *2nd Vice Chairman*

Arturo Virosque Ruiz

### *3rd Vice Chairman*

Josefa Martí Puig

### *4th Vice Chairman*

José María Cataluña Oliver

### *Secretary*

Ángel D. Villanueva Pareja

### *Assistant Secretary*

Rafael Ferrando Giner



## Summary Financial Statements of Bancaja

### Cash Flow Statements

The consolidated cash flow statements of Bancaja for the years ended 31st December 2003, 2002 and 2001 are summarised below:

	2003	2002	2001
	(thousands of euros)		
Results for the year after taxes.....	287,491	261,135	240,252
Credit loss allowance .....	174,398	138,494	121,695
Securities portfolio allowance.....	8,578	32,419	29,773
Pension fund allowance .....	3,475	5,566	5,951
Other provisions.....	27,717	(1,505)	(39,623)
Amortization/depreciation of fixed assets.....	67,560	48,593	99,410
Losses on sales of investments and property and equipment .....	246	243	205
Profit on sales of investments and property and equipment.....	(31,024)	(13,757)	(8,212)
<b>Total sources obtained from operations .....</b>	<b>538,441</b>	<b>471,188</b>	<b>449,451</b>

## Consolidated Balance Sheet

The consolidated balance sheets of Bancaja as of 30th September 2004 and 31st December 2003, 2002 and 2001 are summarised below:

	As at 30th September 2004	As at 31st December		
		2003	2002	2001
	(Unaudited)	(Audited)		
		(in thousands of Euro)		
<b>Assets</b>				
<b>Cash on hand and deposits at central banks</b> .....	473,393	551,275	534,782	415,904
Cash on hand .....	199,936	220,622	207,533	164,707
Cash at Bank of Spain .....	269,808	329,032	325,946	240,785
Cash at other central banks.....	3,649	1,621	1,303	10,412
<b>Government Debt Securities</b> .....	3,095,133	2,867,669	2,576,322	2,097,965
<b>Due from Credit Entities</b> .....	2,950,838	4,062,843	1,651,606	894,078
Demand deposits .....	123,853	120,815	163,304	89,678
Other .....	2,826,985	3,942,028	1,488,302	804,400
<b>Loans to Customers</b> .....	29,735,856	25,733,659	22,830,431	20,560,831
<b>Debentures and other fixed-income securities</b> .....	353,516	348,289	613,073	685,553
Government bonds .....	8,816	10,976	30,293	41,043
Other .....	344,700	337,313	582,780	644,510
<b>Common Stocks and Other Equity Securities</b> .....	250,051	223,179	153,146	130,235
<b>Holdings in Non-Group Companies</b> .....	336,443	331,670	359,311	260,516
Credit institutions .....	0	0	0	0
Other holdings .....	336,443	331,670	359,311	260,516
<b>Holdings in Group Companies</b> .....	67,300	55,151	14,109	19,474
Credit institutions .....	0	0	0	0
Other .....	67,300	55,151	14,109	19,474
<b>Intangible Assets</b> .....	1,235	1,333	2,022	430
Formation and start-up expenses.....	212	185	514	2
Other deferred expenses .....	1,023	1,148	1,508	428
<b>Goodwill on Consolidation</b> .....	58,544	71,114	43,767	15,097
Companies consolidated using the full and proportional consolidation methods .....	24,572	27,998	0	0
Companies consolidated using the equity method .....	33,833	43,116	43,767	15,097
<b>Property and Equipment</b> .....	429,102	397,036	366,255	358,729
Land and buildings for own use .....	244,991	212,121	179,446	174,460
Other property .....	38,890	40,796	42,974	46,415
Furniture, installations and other .....	145,221	144,119	143,835	137,854
<b>Other Assets</b> .....	588,064	526,634	444,645	543,025
<b>Accrual Accounts</b> .....	262,845	194,143	187,782	143,871
<b>Losses in Consolidated Companies</b> .....	53,358	31,075	16,985	6,540
Companies consolidated by the full and proportional consolidation methods .....	4,602	2,500	25	1
Companies consolidated using the equity method .....	48,756	28,575	16,960	6,539
Conversion differences .....	0	0	0	0
<b>Consolidated Losses for the year</b> .....	0	0	0	0
<b>Total assets</b> .....	38,655,678	35,395,070	29,794,236	26,132,248

	As at 30th September 2004	As at 31st December		
		2003	2002	2001
	(Unaudited)	(Audited)		
		(in thousands of Euro)		
<b>Liabilities and Equity</b>				
<b>Due to Credit Entities</b> .....	5,323,040	7,272,921	5,568,379	4,217,344
Demand deposits .....	138,179	206,906	150,117	7,462
Time or short order deposits .....	5,184,861	7,066,015	5,418,262	4,209,882
<b>Customer Funds</b> .....	22,859,652	19,010,478	15,733,554	14,481,229
Savings deposits .....	20,223,605	17,698,369	14,274,496	13,173,799
Demand .....	11,218,010	10,020,665	8,325,950	7,694,017
Time .....	9,005,595	7,677,704	5,948,546	5,479,782
Other deposits .....	2,636,047	1,312,109	1,459,058	1,307,430
Demand .....	0	0	10	325
Time .....	2,636,047	1,312,109	1,459,048	1,307,105
<b>Marketable Debt Securities</b> .....	5,595,306	4,576,788	4,433,896	3,808,518
Bonds and debentures outstanding .....	4,836,346	4,147,248	4,005,196	3,489,706
Promissory notes and other securities .....	758,960	429,540	428,700	318,812
<b>Other Liabilities</b> .....	764,095	765,002	594,718	740,134
<b>Accrual Accounts</b> .....	350,312	204,224	177,595	154,221
<b>Provisions for Contingencies and Expenses</b> .....	350,984	313,692	286,542	285,602
Pension fund .....	46,620	53,479	53,453	64,397
Provision for tax .....	0	0	0	0
Other provisions .....	304,364	260,213	233,089	221,205
<b>General Risk Allowance</b> .....	151,596	151,596	151,601	151,614
<b>Negative Difference in Consolidation</b> .....	4,516	4,516	4,516	8,149
Companies consolidated by the full and proportional consolidation methods .....	500	500	500	457
Companies valued using the equity method .....	4,016	4,016	4,016	7,692
<b>Consolidated Profit for the Year</b> .....	220,399	287,491	261,135	240,252
Group .....	172,194	221,231	193,732	173,006
Minority interest .....	48,205	66,260	67,403	67,246
<b>Subordinated Debt</b> .....	681,336	681,336	681,336	308,273
<b>Minority Interest</b> .....	934,016	899,710	828,197	801,161
<b>Subscribed Capital</b> .....	0	0	0	0
<b>Share Premium</b> .....	0	0	0	0
<b>Reserves</b> .....	1,222,749	1,085,952	960,177	846,381
<b>Revaluation Reserves</b> .....	0	0	0	0
<b>Reserved in Consolidation Companies</b> .....	193,677	141,364	112,590	89,370
Companies consolidated using the full and proportional consolidation methods .....	135,060	111,623	87,718	65,112
Companies valued using the equity method .....	58,617	29,741	24,872	24,258
Conversion differences .....	0	0	0	0
<b>Results from prior years</b> .....	0	0	0	0
<b>Total liabilities</b> .....	38,655,678	35,395,070	29,794,236	26,132,248
<b>Memorandum accounts</b> .....				
<b>Contingent Liabilities</b> .....	3,544,112	3,018,585	2,540,913	2,078,915
Guarantees, deposits and sureties .....	3,421,110	2,862,184	2,409,728	1,956,533
Other contingent liabilities .....	123,002	156,401	131,185	122,382
Commitments .....	8,491,286	6,526,890	5,514,497	4,310,211

## Consolidated Income Statements

The consolidated income statements of the Group for the six months ended 30th September 2004 and for the years ended 31st December 2003, 2002 and 2001 are summarised below:

	Six months ended 30th September 2004	Year ended 31st December		
		2003	2002	2001
	(Unaudited)	(Audited)		
		(in thousands of Euro)		
Interest and similar revenues .....	1,063,186	1,378,748	1,377,107	1,352,939
Of which: fixed-income securities portfolio .....	104,680	136,663	151,358	124,060
Interest and similar expenses .....	(420,713)	(554,036)	(608,728)	(631,596)
Income from equity securities: .....	36,029	21,985	23,494	17,152
Common stocks and other equity securities.....	10,411	1,726	2,219	1,966
Holdings in non-Group companies .....	24,151	18,410	19,487	13,426
Holdings in Group companies .....	1,467	1,849	1,788	1,760
<b>Net interest income</b> .....	678,502	846,697	791,873	738,495
Fees collected .....	233,103	266,732	234,673	214,217
Fees paid .....	(22,774)	(42,373)	(40,801)	(36,737)
Gains (losses) on financial transactions .....	17,805	29,473	(14,987)	(15,189)
<b>Ordinary margin</b> .....	906,636	1,100,529	970,758	900,786
Other operating revenues .....	7,488	10,451	10,741	8,279
General administrative expenses: .....	(414,086)	(521,994)	(480,957)	(445,046)
Personnel expenses .....	(282,444)	(351,343)	(330,933)	(310,696)
of which:				
Wages and salaries .....	(214,568)	(262,304)	(251,224)	(236,427)
Social Security .....	(57,654)	(71,503)	(68,658)	(61,781)
of which:				
Pensions .....	(9,117)	(11,661)	(12,171)	(8,744)
Other administrative expenses .....	(131,642)	(170,651)	(150,024)	(134,350)
Depreciation, amortisation and write-down of property and equipment and intangible assets .....	(28,419)	(42,772)	(36,934)	(33,220)
Other operating expenses .....	(13,510)	(6,684)	(6,566)	(8,617)
<b>Operating margin</b> .....	458,109	539,530	457,042	422,182
Net results generated by companies				
consolidated using the equity method: .....	20,544	34,229	20,091	6,382
Equity in income on companies included using the equity method.....	46,162	54,488	41,031	21,282
Adjustments in value for dividends received .....	(25,618)	(20,259)	(20,940)	(14,900)
Amortisation of goodwill on consolidation .....	(14,174)	(24,788)	(11,659)	(66,190)
Gains on Group transactions: .....	–	–	–	46
Gains on disposals of holdings in companies consolidated using the equity method.....	–	–	–	46
Reversal of negative differences on consolidation .....	–	–	–	–
Bad debt write-offs and credit loss allowances (Net) .....	(154,809)	(164,544)	(131,095)	(114,124)
Write-down of financial investments (Net).....	524	(2,073)	(1,597)	(1,595)
General risk allowance .....	–	–	–	–
Extraordinary income.....	52,305	48,087	39,394	149,700
Extraordinary loss .....	(44,760)	(44,161)	(20,460)	(110,172)
<b>Profit before taxes</b> .....	317,739	386,280	351,716	286,229
Corporate income tax .....	(97,336)	(98,784)	(90,581)	(45,977)
Other taxes .....	(4)	(5)	–	–
<b>Consolidated profit for the year</b> .....	220,399	287,491	261,135	240,252
Profit attributed to minority interest .....	48,205	66,260	67,403	67,245
<b>Profit attributed to the Group</b> .....	172,194	221,231	193,732	173,006

## Savings Banks in Spain

Savings banks are characterised as credit institutions by virtue of Law 26/1988 of 29th July on Discipline and Intervention of Credit Institutions (*Ley 26/1988 de 29 de Julio, de Disciplina e Intervención de las Entidades de Crédito*) and may carry out deposit-taking activities.

In view of their particular legal nature, savings banks are regulated not only by laws applicable to credit entities and deposit-taking entities but also by legislation applicable specifically to savings banks.

Unlike commercial banks, saving banks do not have shareholders but may issue participations (*Cuotas Participativas*) (see below).

As at the date of this Offering Circular Bancaja has not, nor has any other Spanish savings bank, issued any participations.

### Participations (*Cuotas Participativas*)

Participations of savings banks are negotiable instruments with a nominal amount and indefinite duration granting holders certain economic rights ("Participations").

Participations are regulated by article 7 of Law 13/1985 of 25th May on investment ratios, capital adequacy and information requirements for financial intermediaries (*Ley 13/1985, de 25 de mayo, de Coeficientes de Inversión, Recursos Propios y Obligaciones de Información de los Intermediarios Financieros*), as amended by Law 44/2002 of 22nd November, on Reform Measures of the Financial System (*Ley 44/2002, de 22 de noviembre, de Medidas de Reforma del Sistema Financiero*) and by provisions contained in Royal Decree 302/2004 of 20th February on participations of savings banks.

Participations do not confer on holders any voting rights. The issue of Participations must be authorised by the General Assembly (*Asamblea General*) of a savings bank, which can delegate such power to the Board of Directors (*Consejo de Administración*).

The issue of Participations requires the establishment of the following funds:

- a participation fund (*Fondo de Participación*) (the "Participation Fund") representing the total nominal amount of the Participations issued by a savings bank;
- a holders of Participations reserve fund (*Fondo de Reserva de los Cuotapartícipes*) (the "Holders of Participations Reserve Fund") representing the percentage of freely available funds in relation to the Participations, which have not been allocated to the Stabilisation Fund (see below) or been paid out to the holders of Participations; and
- a stabilisation fund (*Fondo de Estabilización*) (the "Stabilisation Fund") created to mitigate fluctuations in the annual return on Participations. This fund is not considered as capital of a savings bank for the purposes of calculating solvency ratios.

The percentage of freely available surplus in relation to Participations will be equal to the volume of Participations in issue over the assets of the savings bank plus the volume of Participations in issue. For the purposes of this calculation, the volume of Participations in issue will be equal to the Stabilisation Fund plus the Holders of Participations Reserve Fund and assets of the savings bank will be equal to the Founders Fund together with general reserves and the fund for general banking risks of the relevant savings bank.

Any Participations issued by Bancaja would rank below (i) all general and subordinated creditors of Bancaja, (ii) the guarantee given by Bancaja in respect of the Notes, and (iii) any other notes issued by the Issuer or any other subsidiary of Bancaja as well as those of Bancaja.

### Community Project Fund (*Fondo de Obra Social*)

Savings banks are non-profit making entities of a social nature as reflected by the social projects that savings banks undertake. To that effect savings banks have a community project

fund (*Fondo de Obra Social*) (the “Community Project Fund”) in which each year savings banks deposit part of their profits which are not allocated to the Holders of Participations Reserve Fund. The remaining surplus is allocated to reserves or funds not used to cover specific risks.

The Community Project Fund is used to finance projects in the health, research, education, culture, and social services sectors and any other sectors of a social nature.

Use of the Community Project Fund is supervised by the Community Project Committee (*Comisión de Obras sociales*).

In relation to savings banks whose registered offices are in Valencia, as is the case with Bancaja, and in accordance with with Decree Law 1/1997, of 23rd July, relating to Savings Banks of Valencia, (*Decreto legislativo 1/1997 de 23 de Julio del Gobierno Valenciano por el que se aprueba el texto refundido de la ley sobre Cajas de Ahorros*) as amended (“Law 1/1997”) the Valencia regional government ministry of finance (*Instituto Valenciano de Finanzas*) advises all savings banks within the region on social projects requirements, subject to the discretion of savings banks to decide upon specific investments.

The social projects undertaken by savings banks can be realised independently or in collaboration with public or private entities, moreover savings banks can participate in projects carried out by other entities.

The management of the projects corresponds to the Board of Directors of each savings bank in accordance with the guidelines issued by its General Assembly, and the projects can be put in place and supervised by internal departments of the relevant savings bank or by an institution created by the savings bank. The creation of such an institution and its by-laws requires the authorisation of the Valencia regional government ministry of finance (*Instituto Valenciano de Finanzas*).

The resolutions adopted by the general assembly of a savings bank in relation to the budget for social projects requires the authorisation of the Valencia regional government ministry of finance (*Instituto Valenciano de Finanzas*).

The regional government of Valencia (*Generalitat Valenciana*) enacts regulations in relation to social projects and its ministry of finance (*Instituto Valenciano de Finanzas*) supervises compliance with Law 1/1997.

## **Distribution of profits**

Savings banks are subject to rules on the distribution of their profits or surpluses.

As savings banks do not have shareholders, they do not declare dividends. As a result they allocate profits, which are not owed to holders of Participations to (i) the Community Project Fund or (ii) reserves.

Article 11.4 of Law 13/1985 of 25th May on investment ratios, capital adequacy and information requirements for financial intermediaries (*Ley 13/1985, de 25 de mayo, de Coeficientes de Inversión, Recursos Propios y Obligaciones de Información de los Intermediarios Financieros*) (as modified by Law 13/1992 and Law 44/2002), provides that savings banks must allocate at least 50% of freely available profits or surplus, which are not owed to holders of Participations, to reserves or funds not used to cover any specific risk (the percentage that must be allocated to general reserves can be reduced by the Bank of Spain when the capital of a savings bank exceeds by more than a third the minimum required). This means that in any financial year savings banks can allocate to the Community Project Fund up to 50% of freely available profits that are not owed to holders of Participations.

This percentage threshold can be varied by the Ministry of Finance (*Ministerio de Economía y Hacienda*) at the request of the Bank of Spain subject to prior consultation with the authorities responsible for the supervision of social projects undertaken by savings banks, when the investment in or maintenance of social projects previously authorised cannot be met with the amounts allocated to the Community Project Fund. If the percentage threshold is varied, the relevant savings bank cannot include in its budget investments in new projects.

If a savings bank issues Participations, any freely available surplus allocated to the holders of Participations (in accordance with the formula set out above in the section headed "*Participations*") will be distributed between (i) the holders of Participations, (ii) the Holders of Participations Reserve Fund, and (iii) if created, the Stabilisation Fund. The remaining surplus is allocated to reserves and the Community Project Fund.

The distribution of the surplus funds of savings banks is subject to regulations on capital adequacy of credit institutions.

In addition to the specific rules on distribution of profits or surplus, in relation to savings banks whose registered offices are in Valencia, as is the case with Bancaja, and in accordance with Law 1/1997, savings banks must allocate at least 50% of their freely available profits or surplus to the Community Project Fund. Any resolutions adopted by the General Assemblies (*Asambleas Generales*) in relation to the allocation of such profits or surplus must be governed by the overriding principles of client money protection and enhancing the solvency ratio of the savings bank and require the authorisation of the Valencia regional government ministry of finance (*Instituto Valenciano de Finanzas*).



## **Taxation and Disclosure of Noteholder Information in connection with Interest Payments**

*The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Spain and The Netherlands of acquiring, holding and disposing of Notes and receiving any payments under the Notes. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.*

### **Taxation in Spain**

#### **Introduction**

This information has been prepared in accordance with the following Spanish tax legislation in force at the date of this Offering Circular:

- (a) of general application, Additional Provision two of Law 13/1985, of 25th May on investment ratios, own funds and information obligations of financial intermediaries, as promulgated by Law 19/2003, of 4th July on legal rules governing foreign financial transactions and capital movements and various money laundering prevention measures, as well as Royal Decree 1778/2004, of 30th July establishing information obligations in relation to preferential holdings and other debt instruments and certain income obtained by individuals resident in the European Union and other tax rules;
- (b) for individuals with tax residency in Spain which are Individual Income Tax (IRPF) taxpayers, Royal Legislative Decree 3/2004, of 5th March promulgating the Consolidated Text of the Individual Income Tax Law, and Royal Decree 1775/2004, of 30th July promulgating the Individual Income Tax Regulations, along with Law 19/1991, of 6th June on Wealth Tax and Law 29/1987, of 18th December on Inheritance and Gift Tax;
- (c) for legal entities resident for tax purposes in Spain which are Corporation Tax taxpayers, Royal Legislative Decree 4/2004, of 5th March promulgating the Consolidated Text of the Corporation Tax Law, and Royal Decree 1777/2004, of 30th July promulgating the Corporation Tax Regulations; and
- (d) for individuals and entities who are not resident for tax purposes in Spain which are non-resident income tax taxpayers, Royal Legislative Decree 5/2004, of 5th March promulgating the Consolidated Text of the Non-Resident Income Tax Law, and Royal Decree 1776/2004, of 30th July promulgating the Non-Resident Income Tax Regulations, along with Law 19/1991, of 6th June on Wealth Tax and Law 29/1987, of 18th December on Inheritance and Gift Tax.

Whatever the nature and residence of the holder of Notes, the acquisition and transfer of the Notes will be exempt from indirect taxes in Spain, i.e. exempt from Capital Transfer Tax and Stamp Duty, in accordance with the Consolidated Text of such tax promulgated by Royal Legislative Decree 1/1993, of 24th September and exempt from Value Added Tax, in accordance with Law 37/1992, of 28th December regulating such tax.

### **1. Individuals with Tax Residency in Spain**

#### **1.1 Individual income tax (*impuesto sobre la renta de las personas físicas*)**

Both interest payments periodically received and income deriving from the transfer, redemption or repayment of the Notes constitute a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 23.2 of the Individual Income Tax Law, and must be included in the general portion of the investor's taxable income.

Both types of income are subject to a withholding on account at the rate of 15%.

If the period during which such income is generated exceeds two years a reduction of 40% will be applied, for the effect of both withholdings and inclusion in taxable income.

### **1.2 *Wealth tax (impuesto sobre el patrimonio)***

Individuals with tax residency in Spain under an obligation to pay wealth tax must take into account the amount of the Notes which they hold as at 31st December in each year when calculating their wealth tax liabilities.

### **1.3 *Inheritance and gift tax (impuesto sobre sucesiones y donaciones)***

Individuals with tax residency in Spain who acquire ownership or other rights over any Notes by inheritance, gift or legacy will be subject to inheritance and gift tax in accordance with the applicable Spanish regional or state rules.

## **2. Legal Entities with Tax Residency in Spain**

### **2.1 *Corporation tax (impuesto sobre sociedades)***

Both interest payments periodically received and income deriving from the transfer, redemption or repayment of the Notes constitute a return on investments for tax purposes obtained from the transfer to third parties of own capital and must be included in profit and taxable income of legal entities with tax residency in Spain for corporation tax purposes in accordance with the rules for this tax.

In accordance with Section 59.s) of the Corporation Tax Regulations there is no obligation to make a withholding on income obtained by Spanish Corporation Tax taxpayers (which for the sake of clarity, include Spanish tax resident investment funds and Spanish tax resident pension funds) from financial assets traded on organised markets in OECD countries. Application has been made for the Notes to be traded on Euronext Amsterdam and they will therefore, upon admission to trading on Euronext Amsterdam, fulfil the requirements laid down by the legislation for exemption from withholding. The Directorate General for Taxation (Dirección General de Tributos – “DGT”), on 27th July 2004, issued a reply to a consultation indicating that in the case of issues made by entities resident in Spain, as in the case of the Issuer, application of the exemption requires that the Notes be placed outside Spanish territory in another OECD country. The Issuer considers that the issue of the Notes falls within this exemption as the Notes are to be placed outside Spain and in the international capital markets and none of the entities initially placing the Notes is resident in Spain. Consequently, the Issuer will not make any withholding on interest payments to Spanish corporation tax taxpayers that provide the relevant information to qualify as such. If the Spanish tax authorities maintain a different opinion on this matter however, the Issuer will be bound by that opinion and with immediate effect, make the appropriate withholding and the Issuer will not, as a result, be under any obligation to pay additional amounts.

In order to implement the exemption from withholding, the procedures laid down in the Order of 22nd December 1999 will be followed. No reduction percentage will be applied. (Please see “Disclosure of Noteholder Information in connection with Interest Payments” below).

### **2.2 *Wealth tax (impuesto sobre el patrimonio)***

Legal entities are not subject to Wealth Tax.

### **2.3 *Inheritance and gift tax (impuesto sobre sucesiones y donaciones)***

Legal entities with tax residency in Spain which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to inheritance and gift tax and must include the market value of the Notes in their taxable income for Spanish corporation tax purposes.

### **3. Individuals and Legal Entities with no tax residency in Spain**

#### **3.1 Non-resident income tax (*impuesto sobre la renta de no residentes*)**

##### *(a) With permanent establishment in Spain*

Ownership of the Notes by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

If the Notes form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the legal rules applicable to income deriving from such Notes are the same as those previously set out for Corporation Tax taxpayers.

##### *(b) With no permanent establishment in Spain*

Both interest payments periodically received and income deriving from the transfer, redemption or repayment of the Notes, obtained by individuals or entities who have no tax residency in Spain, being Non-Resident Income Tax taxpayers with no permanent establishment in Spain, are exempt from such Non-Resident Income Tax on the same terms laid down for income from Public Debt. This exemption is not applicable if such income is obtained through countries or territories classified as tax havens (being those included in Royal Decree 1080/1991, of 5th July), in which case such income will be subject to Non-Resident Income Tax in Spain at the rate of 15% which the Issuer will withhold.

For these purposes it is necessary to comply with certain information obligations relating to the identity of the holders of Notes, in the manner detailed under "Disclosure of Noteholder Information in connection with Interest Payments" as laid down in section 12 of Royal Decree 2281/1998, as promulgated by Royal Decree 1778/2004. If these information obligations are not complied with in the manner indicated the Issuer will apply a withholding of 15% and the Issuer will not, as a result, be under any obligation to pay additional amounts.

#### **3.2 Wealth tax (*impuesto sobre el patrimonio*)**

To the extent that income deriving from the Notes is exempt from Non-Resident Income Tax, individuals who do not have tax residency in Spain who hold such Notes will be exempt from wealth tax.

Furthermore, individuals resident in a country with which Spain has entered into a double tax treaty in relation to wealth tax will generally not be subject to wealth tax.

If the provisions of the foregoing two paragraphs do not apply, individuals who are not tax residents in Spain will be subject to wealth tax to the extent that rights deriving from the Notes can be exercised in Spanish territory.

Non-resident legal entities are not subject to wealth tax.

#### **3.3 Inheritance and gift tax (*impuesto sobre sucesiones y donaciones*)**

Individuals who do not have tax residency in Spain who acquire ownership or other rights over the Notes by inheritance, gift or legacy, and who reside in a country with which Spain has entered into a double tax treaty in relation to inheritance tax will be subject to the relevant double tax treaty.

If the provisions of the foregoing paragraph do not apply, such individuals will be subject to inheritance and gift tax in accordance with the applicable regional and state legislation.

Non-resident entities which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to inheritance and gift tax. They will be subject to Non-Resident Income Tax. If the entity is resident in a country with which Spain has entered into a double tax

treaty, the provisions of the treaty will apply. In general, treaties provide for the taxation of this type of income in the country of residence of the beneficiary.

#### 4. Tax Rules for payments made by the Guarantor

Payments which may be made by the Guarantor to holders of Notes, if the Guarantee is enforced, will be subject to the same tax rules previously set out for payments made by the Issuer.

#### 5. Tax havens

Pursuant to Royal Decree 1080/1991, of 5th July the following are each considered to be a tax haven:

Principality of Andorra, Netherlands Antilles, Aruba, Kingdom of Bahrain, Sultanate of Brunei, Republic of Cyprus, United Arab Emirates, Gibraltar, Hong-Kong, The Island of Anguila, Islands of Antigua and Barbuda, The Bahamas, The Island of Barbados, The Bermuda Islands, Cayman Islands, The Cook Islands, The Republic of Dominica, Grenada, Fiji Islands,	Channel Islands (Jersey and Guernsey), Jamaica, Republic of Malta, Falkland Islands, Isle of Man, Marianas Islands, Mauritius, Montserrat, Republic of Nauru, Solomon Islands, Saint Vincent & the Grenadines, Saint Lucia, Republic of Trinidad and Tobago, Turks and Caicos Islands, Republic of Vanuatu, British Virgin Islands, Virgin Islands (of the United States),	Hashemite Kingdom of Jordan, Republic of Lebanon, Republic of Liberia, Principality of Liechtenstein, Grand Duchy of Luxembourg Area (as regards the income received by the Companies referred to in paragraph 1 of Protocol annexed Avoidance of Double Taxation Treaty, dated 3rd June, 1986), Macao, Principality of Monaco, Sultanate of Oman, Republic of Panama, Republic of San Marino, Republic of Seychelles, Republic of Singapore.
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#### 6. Disclosure of Noteholder Information in connection with Interest Payments

***The Clearing Systems are currently in discussions to harmonise the procedure for the provision of information as required by Spanish laws and regulations. The following is a summary only and is subject to the Clearing Systems' discussions as well as to further clarification from the Spanish tax authorities regarding such laws and regulations. Holders of Notes must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Notes. None of the Issuer, the Guarantor, the Managers, the Paying Agents or the Clearing Systems assume any responsibility therefor.***

##### 6.1 Legal Entities with tax residency in Spain subject to Spanish Corporation Tax

In accordance with procedures established in the Paying Agency Agreement, the Principal Paying Agent must receive a list of those holders that are Spanish Corporation Tax taxpayers specifying the name, address, Tax Identification Number, ISIN code of the Notes, number of Notes held at each Interest Payment Date, gross income and amount withheld, substantially in the form set out below (see Annex III below).

## **6.2 Individuals and Legal Entities with no tax residency in Spain**

The information obligations to be complied with in order to apply the exemption are those laid down in Section 12 of Royal Decree 2281/1998 ("Section 12"), as promulgated by Royal Decree 1778/2004, being the following:

In accordance with sub-section 1 of such Section 12, a return must be made to the Spanish tax authorities specifying the following information with respect to the Notes:

- (a) the identity and country of residence of the recipient of the income. When the income is received on behalf of a third party, the identity and country of residence of that third party;
- (b) the amount of income received; and
- (c) details identifying the Notes.

In accordance with sub-section 3 of such Section 12, for the purpose of preparing the return referred to in sub-section 1 of Section 12, the following documentation must be obtained on each payment of income evidencing the identity and country of tax residency of each holder of Notes:

- (a) if the non-resident holder of Notes acts on its own account and is a central bank, other public institution or international organisation, a bank or credit institution or a financial entity, including collective investment institutions, pension funds and insurance entities, resident in an OECD country or in a country with which Spain has entered into a double tax treaty subject to a specific administrative registration or supervision scheme, the entity in question must certify its name and tax residency in the manner laid down in Annex I of the Order of 16th September 1991, promulgated pursuant to Royal Decree 1285/1991 (see Annex I below), of 2nd August establishing the procedure for the payment of interest on Book Entry State Debt (as defined therein) to non-residents who invest in Spain without the intervention of a permanent establishment;
- (b) in the case of transactions in which any of the entities indicated in the foregoing paragraph (a) acts as intermediary, the entity in question must, in accordance with the information contained in its own records, certify the name and country of tax residency of each holder of Notes in the manner laid down in Annex II of the Order of 16th September 1991 (see Annex II below);
- (c) in the case of transactions which are channelled through a securities clearing and deposit entity recognised for these purposes by Spanish law or by that of another OECD member country, the entity in question must, in accordance with the information contained in its own records, certify the name and tax residency of each holder of Notes in the manner laid down in Annex II of the Order of 16th September 1991 (see Annex II below);
- (d) in other cases, residency must be evidenced by submission of the residency certificate issued by the tax authorities of the State of residency of the holder of Notes. These certificates will be valid for one year as from the date of issue.

In accordance with sub-section 4 of Section 12, for the purpose of implementing the exemption provided for, the following procedure must be followed: on the due date of each interest payment the Issuer must transfer the net amount to the entities referred to in paragraphs (a), (b) and (c) resulting from applying the general withholding rate (currently 15%) to the whole of the interest payment. If the certificates referred to are received prior to expiry of the Interest Period, the Issuer will pay the amounts withheld to the extent that they correspond with the information provided.

In the case of both paragraph 6.1 and paragraph 6.2 above, in order for a beneficial owner to benefit from an exemption from withholding, the above documentation should be received by the Principal Paying Agent in accordance with the procedures established in the Paying Agency Agreement, which may be inspected during normal business hours at the specified office of each Paying Agent.

If the Principal Paying Agent does not receive complete documentation in respect of an eligible holder of Notes by the Interest Payment Date, such holder may obtain a quick refund of the full amount of withholding tax withheld by ensuring that the documentation described above is received by the Principal Paying Agent no later than 10:00 am (CET) on the 10th calendar day of the month following the relevant Distribution Date (or if such date is not a Business Day, the Business Day immediately preceding such date) (the “**Quick Refund Deadline**”). For the avoidance of doubt, no interest will be payable on any such amounts.

Holders of Notes entitled to a refund but in respect of whom the Principal Paying Agent does not receive relevant documentation on or before a Quick Refund Deadline may seek a full refund of withholding tax directly with the Spanish tax authorities.

Set out below are Annexes I, II and III. Sections in English have been translated from the original Spanish. In the event of any discrepancy, the Spanish version shall prevail.

## Annex I

### Modelo de certificación en inversiones por cuenta propia

#### Form of Certificate for Own Account Investments

(nombre) (name).....

(domicilio) (address) .....

(NIF) (fiscal ID number) .....

(en calidad de) ....., en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 12.3.a) del Real Decreto 2281/1998, redactado por el Real Decreto 1778/2004,

(function)....., in the name and on behalf of the Entity indicated below, for the purposes of article 12.3.a) of Royal Decree 2281/1998, as amended by Royal Decree 1778/2004,

#### CERTIFICO:

CERTIFY:

- Que el nombre o razón social de la Entidad que represento es:**  
that the name of the Entity I represent is.....:
- Que su residencia fiscal es la siguiente:**  
that its residence for tax purposes is: .....
- Que la Entidad que represento está inscrita en el Registro de**  
that the institution I represent is recorded in the .....Register of .....  
**(país estado, ciudad), con el número**  
(country, state, city), under number .....
- Que la Entidad que represento está sometida a la supervisión de (Organo supervisor)**  
that the institution I represent is supervised by .....(Supervision body)  
**en virtud de (normativa que lo regula)**  
under.....(governing rules).

#### Todo ello en relación con:

All the above in relation to:

#### Identificación de los valores poseídos por cuenta propia

Identification of securities held on own account.....

#### Importe de los rendimientos

Amount of income.....

Lo que certifico en a de de 20  
I certify the above in .....on the.....of .....of 20.....



## Annex II

### Modelo de certificación en inversiones por cuenta ajena *Form of Certificate for Third Party Investments*

(nombre) (name).....

(domicilio) (address) .....

.....

(NIF) (fiscal ID number) .....

(en calidad de) ....., en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 12.3.b) y c) del Real Decreto 2281/1998, redactado por el Real Decreto 1778/2004,

(function)....., in the name and on behalf of the Entity indicated below, for the purposes of article 12.3.b) and c) of Royal Decree 2281/1998, as amended by Royal Decree 1778/ 2004,

#### CERTIFICO:

CERTIFY:

- Que el nombre o razón social de la Entidad que represento es:**  
that the name of the Entity I represent is:.....
- Que su residencia fiscal es la siguiente:**  
that its residence for tax purposes is: .....
- Que la Entidad que represento está inscrita en el Registro de**  
that the institution I represent is recorded in the .....Register of .....  
**(país estado, ciudad), con el número**  
(country, state, city), under number .....
- Que la Entidad que represento está sometida a la supervisión de (Organo supervisor)**  
that the institution I represent is supervised by .....(Supervision body)  
**en virtud de (normativa que lo regula)**  
under.....(governing rules).
- Que, de acuerdo con los Registros de la Entidad que represento, la relación de titulares adjunta a la presente certificación, comprensiva del nombre de cada uno de los titulares no residentes, su país de residencia y el importe de los correspondientes rendimientos, es exacta, y no incluye personas o Entidades residentes en España o en los países o territorios que tienen en España la consideración de paraísos fiscal de acuerdo con las normas reglamentarias en vigor.**  
That, according to the records of the Entity I represent, the list of beneficial owners hereby attached, including the names of all the non-resident holders, their country of residence and the amounts and the relevant amounts is accurate, and does not include person(s) or institution(s) resident either in Spain or, in tax haven countries or territories as defined under Spanish applicable regulations.

**Lo que certifico en a de de 20**  
I certify the above in .....on the.....of .....of 20.....

#### RELACIÓN ADJUNTA A CUMPLIMENTAR:

TO BE ATTACHED:

#### Identificación de los valores:

Identification of the securities

#### Listado de titulares:

List of beneficial owners:

#### Nombre / País de residencia / Importe de los rendimientos

Name / Country of residence / Amount of income

## Annex III

**Modelo de certificación para hacer efectiva la exclusion de retencion a los sujetos pasivos del impuesto sobre sociedades y a los establecimientos permanentes sujetos pasivos del impuesto sobre la renta de no residentes (a emitir por las entidades citadas en el art. 12.3.a) del RD 1778/2004)**

***Certificate for application of the exemption on withholding to spanish corporation tax taxpayers and to permanent establishments of non-resident income tax taxpayers  
(to be issued by entities mentioned under article 12.3.a) of RD 1778/2004)***

**(nombre)** (name).....

**(domicilio)** (address) .....

**(NIF)** (fiscal ID number) .....

**(en calidad de)** ....., **en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 59.s) del Real Decreto 1778/2004,**

(function)....., in the name and on behalf of the Entity indicated below, for the purposes of article 59.s) of Royal Decree 1778/2004,

### **CERTIFICO:**

CERTIFY:

- 1. Que el nombre o razón social de la Entidad que represento es:**  
that the name of the Entity I represent is: .....
- 2. Que su residencia fiscal es la siguiente:**  
that its residence for tax purposes is: .....
- 3. Que la Entidad que represento está inscrita en el Registro de**  
that the institution I represent is recorded in the .....Register of .....  
**(país estado, ciudad), con el número**  
(country, state, city), under number .....
- 4. Que la Entidad que represento está sometida a la supervisión de (Organo supervisor)**  
that the institution I represent is supervised by .....(Supervision body)  
**en virtud de (normativa que lo regula)**  
under.....(governing rules).
- 5. Que, a través de la Entidad que represento, los titulares incluidos en la relación adjunta, sujetos pasivos del Impuesto sobre Sociedades y establecimientos permanentes en España de sujetos pasivos del Impuesto sobre la Renta de no Residentes, son perceptores de los rendimientos indicados.**  
That, through the Entity I represent, the list of holders hereby attached, are Spanish Corporations Tax taxpayers and permanent establishment in Spain of Non-Resident Income Tax taxpayers, and are recipients of the referred income.
- 6. Que la Entidad que represento conserva, a disposición del emisor, fotocopia de la tarjeta acreditativa del número de identificación fiscal de los titulares incluidos en la relación.**  
That the Entity I represent keeps, at the disposal of the Issuer, a photocopy of the card evidencing the Fiscal Identification Number of the holders included in the attached list.

**Lo que certifico en a de de 20**  
I certify the above in .....on the.....of .....of 20.....

### **RELACIÓN ADJUNTA**

TO BE ATTACHED

#### **Identificación de los valores:**

Identification of the securities

**Razón social / Domicilio / Número de identificación fiscal / Número de valores / Rendimientos brutos / Retención al 15%**

Name / Domicile / Fiscal Identification Number / Number of securities / Gross income / Amount withheld at 15%.

## **Taxation in the Netherlands**

### *Dutch Resident Holders*

Holders of the Notes who are individuals and are resident or deemed to be resident in The Netherlands ("Holders"), or who have elected to be treated as a Dutch resident Holder for Dutch tax purposes, are subject to Dutch income tax on a deemed return regardless of the actual income derived from the Notes or gain or loss realised upon disposal or redemption of the Notes, provided that the Notes are held as a portfolio investment and are not held in the context of any business or substantial interest. The deemed return amounts to 4% of the average value of the Holder's net assets in the relevant fiscal year (including the Notes) and is taxed at a flat rate of 30%.

Corporate Holders that are resident or deemed to be resident in The Netherlands, without being exempt from Dutch corporate tax, will be subject to Dutch corporate tax on all income and gains realised in connection with the Notes.

### **EU Savings Tax Directive**

On 3rd June 2003 the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The directive is scheduled to be applied by Member States from 1st July 2005, provided that certain non-EU countries adopt similar measures from the same date. Under the directive each Member State will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, Austria, Belgium and Luxembourg may instead apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to commence on the date from which the directive is to be applied by Member States and to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

## **Subscription and Sale**

J.P. Morgan Securities Ltd., Lehman Brothers International (Europe) and Merrill Lynch International as lead managers (the "Lead Managers") have, in a subscription agreement dated 12th November 2004 (the "Subscription Agreement") and made between the Issuer, the Guarantor and the Lead Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe and pay for the Notes at their issue price of 99.882% less a combined management, underwriting and selling commission of 0.5%. The Issuer (failing which, the Guarantor) has also agreed to reimburse the Lead Managers for certain of their expenses incurred in connection with the management of the issue of the Notes. The Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

### **United States of America**

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Each Lead Manager will represent in the Subscription Agreement that it has offered and sold the Notes, and agrees that it will offer and sell the Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, only in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Lead Manager will agree that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The Securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."

Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, under U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the "C Rules"), Notes must be issued and delivered outside the United States and its possessions in connection with their original issue. Each Lead Manager will represent that it has not offered, sold or delivered, and agrees that it will not offer, sell or deliver, directly or indirectly, Notes within the United States or its possessions in connection with their original issue. Further, in connection with the original issue of Notes, each Lead Manager will represent that it has not communicated, and agree that it will not communicate, directly or indirectly, with a prospective purchaser if either such Lead Manager or such purchaser is within the United States or its possessions or otherwise involve such Lead Manager's U.S. office in the offer or sale of Notes. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder, including the C Rules.

### **United Kingdom**

Each Lead Manager will represent, warrant and undertake in the Subscription Agreement to the Issuer and the Guarantor that:

- (a) No offer to public: it has not offered or sold and, prior to the expiry of a period of six months from the Closing Date, will not offer or sell any Notes to persons in the United

Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

(b) Financial promotion: it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(c) General compliance: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

## **Spain**

The Notes will not be offered or sold in Spain by means of a public offer as defined and construed by Spanish law save in compliance with the requirements of the Spanish Securities Market Law of 28th July 1988, as amended and restated, and Royal Decree 291/1992 of 27th March, on issues and public offers for the sale of securities (“RD 291/92”), as amended and restated, and other applicable regulations. Accordingly, the Notes have not been offered and will not be offered to persons in the Kingdom of Spain in any way that would constitute an offer to the public.

This Offering Circular has not been registered with the CNMV and therefore it is not intended for any public offer of the Notes in Spain.

## **The Netherlands**

Prior to the publication of the advertisement (the “Advertisement”) as mentioned in Article 47.7 of the Listing and Issuing Rules of Euronext Amsterdam N.V. (*Fondsenreglement*), no contractually binding offers (or solicitations of such offers) in respect of the Notes shall be made to any individual or legal entity in The Netherlands, other than in reliance on the “Euro-securities” exemption pursuant to article 6 of the Exemption Regulation of 21st December 1995 (*Vrijstellingsregeling Wet toezicht effectenverkeer 1995*), as amended, of The Netherlands’ Securities Market Supervision Act (*Wet toezicht effectenverkeer 1995*), which requires the following criteria to be met:

(i) the Notes are subscribed for and placed by a syndicate of which at least two members have their statutory seat in different European Economic Area (“EEA”) member states;

(ii) 60% or more of the aggregate amount of the Notes will be initially offered in one or more states other than Spain;

(iii) the Notes may only be subscribed for or initially be purchased through the intermediation of a credit institution (registered with the Dutch Central Bank (*De Nederlandsche Bank N.V.*)) or another financial institution which in the conduct of a business or profession provides one or more of the services described in paragraphs 7 and 8 of Annex I to the Banking Coordination Directive (2000/12/EC); and

(iv) no general advertising or cold-calling campaign is conducted in respect of the Notes in The Netherlands.

## **General**

No action has been or will be taken in any jurisdiction by the Issuer, the Guarantor or any Lead Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction

where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Issuer, the Guarantor and each Lead Manager to comply with all applicable securities laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at its own expense.

## General Information

1. The creation and issue of the Notes has been authorised by the shareholders meetings of the Issuer held on 9th November 2004. The giving of the Guarantee of the Notes has been authorised by the meeting of the Board of Directors (*Consejo de Administración*) of the Guarantor dated 27th October 2004.

2. Save as disclosed in this Offering Circular, there are no legal or arbitration proceedings against or affecting the Issuer, the Guarantor, any of its/their respective subsidiaries or any of their respective assets, nor is the Issuer or the Guarantor aware of any pending or threatened proceedings, which are or might be material in the context of the issue of the Notes.

3. Save as disclosed in this Offering Circular, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) or general affairs of the Issuer or the Guarantor since 31st December 2003 that is material in the context of the issue of the Notes.

4. For so long as any of the Notes are outstanding, copies of the following documents may be inspected during normal business hours at the Specified Office of each Paying Agent:

- (a) the *estatutos* of each of the Issuer and the Guarantor;
- (b) the Public Deed;
- (c) the Guarantee;
- (d) the Paying Agency Agreement; and
- (e) the Subscription Agreement.

5. For so long as any of the Notes are outstanding, copies of the following documents (together with English translations thereof) may be obtained free of charge during normal business hours at the Specified Office of each Paying Agent:

- (a) the audited consolidated and unconsolidated financial statements of the Guarantor for the years ended 31st December 2001, 2002 and 2003; and
- (b) the published unaudited interim financial statements of the Guarantor (on a consolidated basis) for the nine month period ending 30th September 2004.

6. The Guarantor publishes quarterly unaudited consolidated and unconsolidated interim financial statements. As at the date hereof, the Issuer has not published any financial statements. The Issuer intends to publish audited annual financial statements. Such annual financial statements will relate to periods ending on 31st December in each year and will be published before 30th June of the following year. The first such financial statements will be published in relation to the year ending 31st December 2004. The Issuer does not intend to publish interim financial statements.

7. Ernst & Young, S.L. have audited the Guarantor's accounts in accordance with generally accepted auditing standards, in Spain for the financial years ended 31st December 2003, and 2002. These auditors' reports were unqualified. Arthur Andersen y Cía & Com audited the Guarantor's accounts in accordance with generally accepted auditing standards in Spain for the financial year ended 31st December 2001. This auditors' report contained the following qualification:

"In 2000 the Bancaja Group obtained extraordinary income of €316,559 thousand before taxes from the disposal of 50% of an investee. Simultaneously, the Bancaja Group recorded two allowances of €72,121 thousand and €150,253 thousand. These allowances were classified under the "Provisions for Contingencies and Expenses" and "General Risk Allowance" captions on the liability side of the consolidated balance sheet as of 31st December 2000, since they relate to situations that had not actually arisen at that date. Substantially all the allowance of €72,121 thousand was used to anticipate the amortization of the goodwill arising on the acquisition of holdings in Spanish companies over a shorter period than that over which these



holdings maintain their effectiveness and contribute to obtainment of revenue for the Group (see Note 10). The amortization thus taken was not based on the negative performance of their related investments but solely on the application of the principle of prudence. The allowance of €150,253 thousand, which was recorded to cover possible extraordinary risks, was maintained under the "General Risk Allowance" caption and was not assigned to any specific purpose (see Note 4-j).

The two allowances were recorded in application of the policy of prudence followed by the Entity and, since they relate to situations that have not actually arisen at the present date, the recording of them in accordance with generally accepted accounting principles would give rise to an increase of €220,417 thousand in the income for the year 2001 shown in the 2001 consolidated statement of income and expenses referred to above, after considering the amortization of the aforementioned goodwill that should be recorded in 2001."

8. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS0205497778, the common code is 020549777 and the Fondscode is 15049.

9. As long as the Notes are listed on Euronext Amsterdam, the Issuer will comply with the provisions set forth in Article 2.1.20, sections a-g of Schedule B of the Listing and Issuing Rules (*Fondsenreglement*) of Euronext Amsterdam N.V.

#### **THE ISSUER**

**Bancaja Emisiones, S.A. Unipersonal**  
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12001 Castellón de la Plana  
Spain

#### **THE GUARANTOR**

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Castellón y Alicante, Bancaja**  
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Spain

#### **PRINCIPAL PAYING AGENT**

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Trinity Tower  
9 Thomas More Street  
London E1W 1YT

#### **AMSTERDAM PAYING AGENT**

**ABN AMRO Bank N.V.**  
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4817 ST Breda  
The Netherlands

#### **AMSTERDAM LISTING AGENT**

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*To the Issuer and  
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#### **AUDITORS TO THE ISSUER AND THE GUARANTOR**

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