



**Pastor Participaciones Preferentes, S.A. Unipersonal**

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

***Euro 250,000,000 Fixed/Floating Rate Non-Cumulative Perpetual Guaranteed Preferred Securities***

irrevocably and unconditionally guaranteed to the extent set forth herein by

**Banco Pastor, S.A.**

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

**Issue price: 100.00 %**

Euro 250,000,000 Fixed/Floating Rate Non-Cumulative Perpetual Guaranteed Preferred Securities of Euro 1,000 liquidation preference each (the **Preferred Securities**) are being issued by Pastor Participaciones Preferentes, S.A. Unipersonal (the **Issuer**) on 27 July 2005 (the **Closing Date**).

The Preferred Securities will entitle holders to receive (subject to the limitations described under “Conditions of the Preferred Securities”) non-cumulative cash distributions (**Distributions**) accruing at a rate of 4.564% per annum from the Closing Date up to and including 27 July 2015 payable on each 27 July. The first Distribution is payable on 27 July 2006. From (and including) 27 July 2015, Distributions will accrue at a rate of 1.17% plus 1% per annum above three month EURIBOR payable on each 27 October, 27 January, 27 April and 27 July falling after 27 July 2015. In each case Distributions accrue on the liquidation preference of Euro 1,000 per Preferred Security.

The Preferred Securities are redeemable, at the option of the Issuer (subject to the prior consent of Banco Pastor, S.A. (the **Bank** or the **Guarantor**) and of the Bank of Spain), in whole or in part, on any Distribution Payment Date falling on or after 27 July 2015. In the case of redemption on or after 27 July 2015, the Preferred Securities shall be redeemed at the liquidation preference of Euro 1,000 per Preferred Security plus any accrued and unpaid Distributions for the then current Distribution Period to the date fixed for redemption. Before 27 July 2015, the Preferred Securities are redeemable, at the option of the Issuer (subject to the prior consent of the Bank and of the Bank of Spain), in whole but not in part, on any Distribution Payment Date if they cease to qualify as Tier 1 capital of the Group pursuant to Spanish banking regulations. If the Preferred Securities are redeemed as a result of the Preferred Securities ceasing to qualify as Tier 1 capital of the Group pursuant to Spanish banking regulations before 27 July 2015, the redemption price shall be the higher of (a) the liquidation preference of Euro 1,000 per Preferred Security plus any accrued and unpaid Distributions for the then current Distribution Period to the date fixed for redemption, and (b) the Make Whole Amount (as defined in the “Conditions of the Preferred Securities”).

In the event of the liquidation of the Issuer or the Bank, holders of Preferred Securities will be entitled to receive (subject to the limitations described under “Conditions of the Preferred Securities”), in respect of each Preferred Security, its liquidation preference of Euro 1,000, plus any accrued and unpaid Distributions for the then current Distribution Period to the date of payment of the liquidation distribution.

The payment of Distributions and payments upon liquidation or redemption with respect to the Preferred Securities are irrevocably and unconditionally guaranteed by the Bank on a subordinated basis to the extent described under “The Guarantee”. The Bank and its consolidated subsidiaries are referred to herein as the **Group**.

The Preferred Securities are expected, upon issue, to be assigned a Baa1 rating by Moody's Investors Services, Inc. (**Moody's**) and a BBB rating by Standard & Poor's Rating Services, a division of the McGraw Hill Companies Inc. (**S&P**). 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. See “Investment Considerations” for a description of certain risks associated with an investment in the Preferred Securities.

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

The Preferred Securities will be issued in bearer form and will be represented by a global Preferred Security deposited on or about the Closing Date with a common depository 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**).

This Offering Circular constitutes (i) a prospectus for the purposes of the Rulebook of Euronext Amsterdam N.V. (**Euronext Amsterdam**) and (ii) a prospectus for the purpose of Directive 2003/71/EC (**Prospectus Directive**). Application has been made to list the Preferred Securities on Eurolist by Euronext Amsterdam. It is intended that the Preferred Securities be listed on Eurolist by Euronext Amsterdam on the Closing Date. Eurolist by Euronext Amsterdam is a regulated market for the purposes of Directive 93/22/EEC.

The Preferred Securities 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 Preferred Securities 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.

**Managers**

**Barclays Capital**

**Dresdner Kleinwort Wasserstein**

**Morgan Stanley**  
*(Structuring Advisor)*

*The Issuer and the Guarantor (each, a **Responsible Person**) 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”). 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 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 Preferred Securities 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 Preferred Securities 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 Preferred Security 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 Preferred Securities.*

*The distribution of this Offering Circular and the offering, sale and delivery of Preferred Securities 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 Preferred Securities and on distribution of this Offering Circular and other offering material relating to the Preferred Securities, see “Subscription and Sale”.*

*In particular, the Preferred Securities 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, Preferred Securities 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 Preferred Securities will be subject to withholding tax in Spain, currently at the rate of 15 per cent., 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 5 July). The Bank is required, pursuant to Spanish law, to submit to the Spanish tax authorities certain details relating to holders of the Preferred Securities. Holders in respect of whom such information is not provided in accordance with procedures described herein to the Bank will receive payments subject to Spanish withholding, currently at the rate of 15 per cent. Neither the Issuer nor the Guarantor will gross up payments in respect of any such withholding tax in any of the above cases. (See “Conditions of the Preferred Securities – Taxation” and “Taxation and Disclosure of Holder Information in connection with Payments of Distributions”.)*

*The Clearing Systems are expected to follow certain procedures to facilitate the Issuer, the Bank and the Principal Paying Agent (as defined in “Conditions of the Preferred Securities – Definitions”) in the collection of the details referred to above from holders of the Preferred Securities. If any Clearing System is, in the future, unable to facilitate the collection of such information, it may decline to allow the Preferred Securities to be cleared through such Clearing System and this may affect the liquidity of the Preferred Securities. Provisions have been made for the Preferred Securities, in such a case, to be represented by definitive Preferred Securities (see “Conditions of the Preferred Securities – Form and*

*Status”). 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 Preferred Securities must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Preferred Securities. None of the Issuer, the Bank, 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 Preferred Securities who are subject to corporation tax in Spain if currently held opinions of the Spanish tax authorities change (see “Taxation and Disclosure of Holder Information in connection with Payments of Distributions – 2. Legal Entities with Tax Residency in Spain”).*

**In connection with the issue of the Preferred Securities, Morgan Stanley & Co. International Limited (the Stabilising Manager) (or persons acting on behalf of the Stabilising Manager) may over-allot Preferred Securities (provided that the aggregate liquidation preference of allotted Preferred Securities does not exceed 105 per cent. of the aggregate liquidation preference of the Preferred Securities or effect transactions with a view to supporting the market price of the Preferred Securities at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date hereof and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Closing Date and 60 days after the date of the allotment of Preferred Securities. Stabilisation transactions conducted on Euronext Amsterdam must be conducted in accordance with all applicable laws and regulations of Euronext Amsterdam and article 32 (and annex 6) of the Further Regulations on Market Conduct Supervision of the Securities Trade 2002 (*Nadere Regeling Gedragstoezicht Effectenverkeer 2002*), as amended and will end 30 days after the Closing Date.**

## CONTENTS

Summary .....	5
Risk factors .....	11
Documents incorporated by reference .....	15
Conditions of the Preferred Securities .....	16
Further information on the Preferred Securities.....	29
The Guarantee .....	31
Description of the Issuer.....	37
Selected financial information – Issuer.....	38
Description of the Group .....	39
Selected financial information – Group .....	51
Supervision and regulation of the Bank.....	59
Taxation and disclosure of holder information in connection with payments of Distributions.....	61
Subscription and sale .....	72
General information.....	75

## SUMMARY

*This summary must be read as an introduction to this Offering Circular and any decision to invest in any Preferred Securities should be based on a consideration of this Offering Circular as a whole, including the documents incorporated by reference. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area no civil liability will attach to the Responsible Persons in any such Member State in respect of this Summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Offering Circular. Where a claim relating to information contained in this Offering Circular is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Offering Circular before the legal proceedings are initiated. Capitalised terms used herein have the meanings given to them in “Conditions of the Preferred Securities”.*

Issuer:	Pastor Participaciones Preferentes, S.A. Unipersonal. The Issuer was incorporated on 18 March 2004 for an indefinite period of time as a limited liability company ( <i>sociedad anónima</i> ) under the laws of Spain, with its registered office at Cantón Pequeño 1, La Coruña, Spain. The Issuer is registered in Volume 2827, Folio 73, Sheet 33062 of the Mercantile Registry of La Coruña ( <i>Registro Mercantil</i> ). The Issuer has no subsidiaries.
Guarantor:	Banco Pastor, S.A. The Guarantor is a <i>sociedad anónima</i> (limited liability company) organised and existing under the laws of Spain. The Guarantor's registered office is Cantón Pequeño 1, La Coruña, Spain. The Bank is registered with the Mercantile Register of La Coruña in volume 91, book 3, section 3, sheet 107, page 33, and it is incorporated for an indefinite period of time. The Bank is also registered with the special register of banks and bankers at the Bank of Spain under the number 0072.
Risk Factors:	There are certain factors in connection with the Preferred Securities. These are set out under “ <i>Risk Factors</i> ” below and include the risks that the holders may receive less than the Liquidation Preference in the event the Preferred Securities are redeemed, that the Preferred Securities may be redeemed if they cease to qualify as Tier 1 capital of the Group, that payment of Distributions will be affected by the Bank's financial condition, that there are risks inherent in the Group's activities, that Distributions are not cumulative, that the Preferred Securities are perpetual, that the Preferred Securities carry no voting rights other than in respect of a limited number of matters in certain circumstances, that there is no limitation on debt which could rank senior to the rights of the holders of the Preferred Securities, that there has not been and there is currently no public market for the Preferred Securities, that there will be withholding on payments to holders who fail to comply with certain procedural formalities, that the Spanish insolvency regime may affect the ability of holders of the Preferred Securities to claim on the insolvency of the Issuer and/or the Guarantor and that distributable profits may be reduced as a result of the adoption of International Financial Reporting Standards.
Issue size:	Euro 250,000,000.

Issue details:	<p>Euro 250,000,000 Fixed/Floating Non-Cumulative Perpetual Guaranteed Preferred Securities (<i>participaciones preferentes</i>) (the <b>Preferred Securities</b>), each with a liquidation preference of Euro 1,000.</p> <p>The Bank has requested that the Preferred Securities qualify as Tier 1 capital of the Group pursuant to Spanish banking regulations.</p>
Liquidation Preference:	Euro 1,000 per Preferred Security.
Use of Proceeds:	The proceeds of the issue of the Preferred Securities, after paying any issue expenses, will be deposited on a permanent basis with the Bank or with another credit entity of the Group and will be available to absorb losses of the Group once reserves have been exhausted.
Distributions ( <i>retribución</i> ):	<p>The Preferred Securities will entitle holders to receive (subject as described below) non-cumulative cash distributions (<b>Distributions</b>). Distributions on the Preferred Securities will accrue from the Closing Date and will be payable, subject to the Limitations on Distributions described below, out of the Issuer's own legally available resources and distributable items.</p> <p>Distributions will accrue at the Distribution rate of 4.564 per cent. per annum for the period from the Closing Date up to and including 27 July 2015 and thereafter at 1.17 per cent. plus 1.00 per cent. per annum above three month EURIBOR. Distributions are payable on each 27 July up to and including 27 July 2015 (each, a <b>Distribution Payment Date (Fixed)</b>) (the first such Distribution payment being 27 July 2006) and, thereafter, on each 27 October, 27 January, 27 April and 27 July falling after 27 July 2015 (each, a <b>Distribution Payment Date (Floating)</b>).</p> <p>See "Conditions of the Preferred Securities – Distributions".</p>
Limitations on Distributions:	<p>Distributions must not be paid to the extent that any one or more of the following circumstances exists:</p> <ul style="list-style-type: none"> <li>(a) the aggregate of (i) such Distributions; (ii) any Distributions paid on the Preferred Securities during the then-current Fiscal Year; and (iii) any other distributions (as contemplated by paragraph 1(c) of the Second Additional Disposition of Law 13/1985, as amended) on or in respect of Parity Securities issued by the Guarantor, the Issuer or by any other Relevant Subsidiary either paid during the then-current Fiscal Year or proposed to be paid during the then-current Distribution Period, would exceed the Distributable Profits of the immediately preceding Fiscal Year; and/or</li> <li>(b) even if Distributable Profits are sufficient: <ul style="list-style-type: none"> <li>(i) there is a shortfall (<i>déficit</i>) in the Group's Own Resources which is more than 20% of the minimum Own Resources required for the purposes of complying with capital adequacy requirements; or</li> </ul> </li> </ul>



- (ii) there is a shortfall (*déficit*) in the Group's Own Resources which is equal to or less than 20% of the minimum Own Resources required for the purposes of complying with capital adequacy requirements and the Bank of Spain has not authorised the payment of Distributions; and/or
- (c) even if Distributable Profits are sufficient, the Group's Basic Own Resources are less than  $\frac{5}{8}$  of the minimum Own Resources required for the purposes of complying with rule 12.1 of the Circular.

If Distributions are not paid in full or in part on or prior to a Distribution Payment Date in respect of the relevant Distribution Period as a consequence of the above Limitations on Distributions, the right of holders of the Preferred Securities to receive a Distribution from the Issuer or the Guarantor, as the case may be, in respect of the relevant Distribution Period will be extinguished. If Distributions are not paid in full, neither the Issuer nor the Guarantor shall pay dividends or any other distributions on its ordinary shares or on any other class of share capital or securities issued by it and expressed to rank junior to the Preferred Securities or to the Guarantor's obligations under the Guarantee, as the case may be, until such time as the Issuer or the Guarantor, as the case may be, shall have resumed the payment in full of Distributions on any Distribution Payment Date (Fixed) or on any four consecutive Distribution Payment Dates (Floating).

If, as a result of the above Limitations on Distributions, no Distribution is paid on the Preferred Securities, no distributions may be paid on any Parity Securities of the Issuer, the Bank or any Relevant Subsidiary until such time as the relevant circumstances cease to apply.

**Guarantee:**

The payment of Distributions, the Early Redemption Amount, the Liquidation Distributions and the Redemption Price shall be irrevocably and unconditionally guaranteed by the Guarantor subject, in the case of Distributions, to the Limitations on Distributions described above. In addition, the Guarantee is subject to the limitations described under Liquidation Rights, below.

For a full description of the Guarantee, see "The Guarantee".

**Ranking of the Guarantee:**

The Guarantor's obligations under the Guarantee will rank (a) junior to all liabilities of the Guarantor (including subordinated liabilities); (b) *pari passu* with any Parity Securities of the Guarantor and any obligations of the Guarantor under any guarantee in favour of the holders of any Parity Securities of any Relevant Subsidiary and (c) senior to any of the Guarantor's ordinary shares and any other class of share capital of the Guarantor expressed to rank junior to the Bank's obligations under the Guarantee.

**Ranking of the Preferred Securities:**

The Preferred Securities will rank (a) junior to all

liabilities of the Issuer including subordinated liabilities, (b) *pari passu* with each other and with any Parity Securities of the Issuer, and (c) senior to the Issuer's ordinary shares and any other class of share capital expressed to rank junior to the Preferred Securities.

The Issuer may not issue any securities ranking senior to the Preferred Securities.

Optional Redemption:

The Preferred Securities are redeemable, at the option of the Issuer (subject to the prior consent of the Bank and of the Bank of Spain), in whole or in part, on any Distribution Payment Date falling on or after 27 July 2015. In the case of redemption on or after 27 July 2015, the Preferred Securities shall be redeemed at the liquidation preference of Euro 1,000 per Preferred Security plus any accrued and unpaid Distributions for the then current Distribution Period to the date fixed for redemption.

Before 27 July 2015, the Preferred Securities are redeemable, at the option of the Issuer (subject to the prior consent of the Bank and of the Bank of Spain), in whole but not in part, on any Distribution Payment Date if they cease to qualify as Tier 1 capital of the Group pursuant to Spanish banking regulations. If the Preferred Securities are redeemed as a result of the Preferred Securities ceasing to qualify as Tier 1 capital of the Group pursuant to Spanish banking regulations before 27 July 2015, the redemption price shall be the higher of (a) the liquidation preference of Euro 1,000 per Preferred Security plus any accrued and unpaid Distributions for the then current Distribution Period to the date fixed for redemption, and (b) the Make Whole Amount.

Liquidation Distribution:

The Liquidation Distribution payable in relation to each Preferred Security shall be its Liquidation Preference plus any accrued and unpaid Distributions for the then current Distribution Period to the date of payment of the Liquidation Distribution.

Liquidation Rights:

Except as described under "Conditions of the Preferred Securities – Distributions", the Preferred Securities will confer no right to participate in the profits or surplus assets of the Issuer.

If proceedings for the liquidation, dissolution or winding-up of the Bank are commenced or there is a reduction in the shareholder's equity of the Bank under Article 169 of the Spanish Corporations Law, the Issuer shall be liquidated by the Bank and the holders of Preferred Securities will be entitled to receive only the Liquidation Distribution relating to each Preferred Security, which shall not exceed the amount which would have been paid from the assets of the Bank had the Preferred Securities been issued by the Bank.

Except as described above, the Bank shall not liquidate or procure a liquidation of the Issuer.

Purchases:

None of the Issuer, the Bank or any of their respective



subsidiaries may purchase Preferred Securities, save with the prior consent of the Bank of Spain and in any event not before 27 July 2015.

See “Conditions of the Preferred Securities – Purchases of Preferred Securities”.

Pre-emptive rights:

The Preferred Securities do not grant their holders any pre-emption rights.

Voting Rights:

The Preferred Securities do not confer any entitlement to receive notice of or attend or vote at any meeting of the shareholders of the Issuer. Holders of Preferred Securities will have the right, in certain circumstances, to participate in the adoption of certain decisions in the General Assembly.

See “Conditions of the Preferred Securities – Exercise of Rights by Holders of Preferred Securities”.

Withholding Tax:

Save as set out below, all payments of Distributions and other amounts in respect of the Preferred Securities and payments under the Guarantee will be made free and clear of withholding taxes of Spain. In the event of withholding required by applicable Spanish law and regulation, the Issuer or (as the case may be) the Bank shall pay such additional amounts as will result in the holders of the Preferred Securities receiving such amounts as they would have received in respect of such Preferred Securities had no such withholding or deduction been required, subject to certain customary exceptions.

The payment of Distributions and other amounts in respect of the Preferred Securities and payments under the Guarantee will be subject to Spanish withholding taxes (currently at the rate of 15 per cent.) in the case of:

- (a)(i) individual holders who are resident in Spain; and
- (ii) holders who receive payments through a Tax Haven (as defined in Royal Decree 1080/1991, of 5 July, as amended from time to time); and
- (b) holders in respect of which information regarding their identity and tax residence is not received by the Bank.

See “Conditions of the Preferred Securities – Taxation”.

Disclosure of identity of holders:

Under Law 13/1985 (as amended), the Bank is obliged to disclose to the Spanish Tax and Supervisory Authorities the identity of certain holders of the Preferred Securities.

The Clearing Systems are expected to follow certain procedures to facilitate the Principal Paying Agent in the collection of the details referred to above from holders of the Preferred Securities (see “Conditions of the Preferred Securities – Taxation”). If the Clearing Systems are, in the future, unable to facilitate the collection of such information they may decline to allow the Preferred Securities to be cleared through the relevant Clearing System and this may affect the liquidity of the Preferred Securities. Provisions have been made for the Preferred Securities, in such a case, to be represented by definitive Preferred Securities.

*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 Preferred Securities must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Preferred Securities. None of the Issuer, the Bank, the Managers, the Paying Agents or the Clearing Systems assume any responsibility therefor.*

Form:	<p>The Preferred Securities will be issued in bearer form and will be represented by a single global Preferred Security deposited with a common depositary for Euroclear and Clearstream, Luxembourg.</p> <p>Accordingly, for so long as the Preferred Securities are so deposited, holders will have no direct rights against the Issuer or the Guarantor and such rights will only be exercisable via the relevant clearing system. Definitive Preferred Securities will only be issued directly to holders in exceptional circumstances.</p> <p>See “Conditions of the Preferred Securities – Form and Status”.</p>
Ratings:	<p>The Preferred Securities are expected, on issue, to be assigned a Baa1 rating by Moody’s and a BBB rating by S&amp;P.</p> <p><i>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.</i></p>
Governing Law:	<p>The Preferred Securities and the Guarantee will be governed by the laws of Spain.</p>
Listing:	<p>Application has been made to list the Preferred Securities on Eurolist by Euronext Amsterdam.</p>

## **RISK FACTORS**

*Prospective investors should consider carefully the following information in conjunction with the other information contained in this Offering Circular.*

### **Risks associated with the nature of the Preferred Securities**

As it is intended that the proceeds of the Preferred Securities will constitute Tier 1 capital of the Bank for capital adequacy purposes, such proceeds will be available to absorb losses of the Bank as described under “Conditions of the Preferred Securities – Use of Proceeds”. The circumstances described in paragraph 3.3 of the Conditions of the Preferred Securities could result in the holder of each Preferred Security receiving less than the Liquidation Preference of Euro 1,000 or the total loss of their investment.

Spanish law and regulations may differ from laws and regulations in other jurisdictions, and investors should not therefore assume that the Preferred Securities have the same features as preference shares or other similar instruments in any other jurisdiction.

### **Risks associated with the Bank’s financial condition**

An investment in the Preferred Securities will have similar economic risks to an investment in non-cumulative perpetual preferred securities issued directly by the Bank having the same liquidation preference and rate of distribution as the Preferred Securities. The Issuer is a newly-established limited company with no previous operating history or revenues. It is expected that the Issuer’s sole source of funds to pay Distributions on the Preferred Securities will be payments which it receives from the Bank pursuant to the deposit of the proceeds of the Preferred Securities with the Bank. The Preferred Securities are guaranteed on a subordinated basis by the Bank pursuant to the terms of the Guarantee. Payments under the Guarantee are subject to the same limitations as described above in relation to the Preferred Securities. Accordingly, if the Bank’s financial condition were to deteriorate, the holders may suffer direct and materially adverse consequences, including non-payment of Distributions on the Preferred Securities or of payments under the Guarantee.

### **Risks involved in Group’s activities**

The Group carries out banking activities. There are a number of risks inherent in the Group’s activities and these could adversely affect the Group’s financial condition. The principal risks are credit risk (that a borrower is unable to repay loans and credits advanced by the Group); counterparty risk (that, in connection with the Group’s activity in the financial markets, a counterparty is unable to meet its contractual obligations); market risk (that changes in prices of different markets affect products in which the Group has taken a position); interest rate risk (that there are abnormal changes in interest rates); and liquidity risk (that the Group is unable to cover its short and long term liquidity requirements on normal market terms). Although the Group has established procedures to deal with these risks, it is not certain that these procedures will be adequate mitigants.

### **Distributions not cumulative**

Distributions on the Preferred Securities are not cumulative. Distributions on the Preferred Securities will be subject to the availability of Distributable Profits and to the ability of the Group to meet certain capital adequacy requirements and maintain a minimum level of Basic Own Resources, as more fully described under “Conditions of the Preferred Securities – Non-payment of Distributions”. Furthermore, Distributions will not be paid if the Bank is instructed not to make such payments by the Bank of Spain. If Distributions on the Preferred Securities for any Distribution Period are not paid, the holders will not be entitled to receive such Distributions (or any payment under the Guarantee in respect of such Distributions).

### **Perpetual nature of the Preferred Securities**

The Preferred Securities have no fixed final redemption date and holders have no rights to call for the redemption of the Preferred Securities. The Issuer may redeem the Preferred Securities in certain circumstances, namely (i) at its option on 27 July 2015 or on any Distribution Payment Date thereafter at their liquidation preference (plus accrued distributions) per Preferred Security, or (ii) on any Distribution Payment Date if the Preferred Securities cease to qualify as Tier 1 capital of the Group as a result of any change in Spanish law, applicable Spanish banking regulations or any change

in the official application or interpretation thereof effective on or after the date of issue of the Preferred Securities at the Early Redemption Amount (as defined in the “Conditions of the Preferred Securities”). However, the Bank may be prevented from doing so by the Bank of Spain for regulatory capital reasons. Therefore, holders should be aware that they may be required to bear the financial risks of an investment in the Preferred Securities for an indefinite period of time.

### **Early redemption if Preferred Securities cease to qualify as Tier 1 capital**

If the Preferred Securities cease to qualify as Tier 1 capital of the Group pursuant to Spanish banking regulations, as a result of a change in Spanish law, applicable Spanish banking regulations or any change in the official application or interpretation thereof becoming effective on or after the Closing Date, the Preferred Securities may be redeemed in whole, at the option of the Issuer, subject to the prior consent of the Bank and of the Bank of Spain, at their Early Redemption Amount. In these circumstances, the holders of the Preferred Securities will have no recourse against the Issuer or the Bank in respect of future Distributions which may have been payable after the date set for redemption and will only have recourse for payment of the Early Redemption Amount.

### **No voting rights**

The Preferred Securities do not give holders the right to vote at shareholders’ meetings. The rights conferred by the Preferred Securities to attend at General Assembly of holders of preferred securities are described in paragraph 6 of the Conditions of the Preferred Securities and holders should note that such rights must be exercised together with holders of all other preferred securities of the Issuer issued from time to time.

### **Status and no limitation on senior debt**

The obligations of the Guarantor under the Guarantee will rank junior as to payments to all liabilities to creditors of the Guarantor (including without limitation depositors, general creditors and subordinated debt holders). In the event that the Guarantor is wound-up, liquidated or dissolved, the assets of the Guarantor would be available to pay obligations under the Guarantee only after all payments have been made on such senior liabilities and claims. The Guarantor is not prohibited from issuing, guaranteeing or otherwise incurring further debt ranking *pari passu* with, or senior to, its obligations under the Guarantee.

### **Absence of prior public markets**

The Preferred Securities constitute a new issue of securities by the Issuer. Prior to this issue, there will have been, and there is currently, no public market for the Preferred Securities. Although application has been made for the Preferred Securities to be listed on Euronext Amsterdam, there can be no assurance that an active public market for the Preferred Securities will develop and, if such a market were to develop, the Managers are under no obligation to maintain such a market. The liquidity and the market prices for the Preferred Securities can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Bank and other factors that generally influence the market prices of securities.

### **Possible withholding to holders which are entities subject to Spanish corporate tax**

In accordance with Section 59.s) of the Corporate Income Tax Regulations there is no obligation to make a withholding on income obtained by Spanish Corporate Tax payers (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 Preferred Securities to be traded on Euronext Amsterdam and they will therefore, upon admission to trading on Euronext Amsterdam, fulfil the requirements legally established for the exemption from withholding.

The Directorate General for Taxation (*Dirección General de Tributos*), on 27 July 2004, issued a tax ruling 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 Preferred Securities be placed outside Spanish territory in another OECD country. The Issuer considers that the issue of the Preferred Securities falls within this exemption as the Preferred Securities are to be placed outside Spain and in the

international capital markets and none of the entities initially placing the Preferred Securities is resident in Spain. Consequently, the Issuer will not make any withholding on Distributions to Spanish Corporate Income Tax payers 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.

### **Spanish insolvency law**

Under Spanish insolvency law, a debtor is considered insolvent when it cannot possibly comply with its due obligations on a regular basis. If filed by the debtor, the insolvency is deemed voluntary (*concurso voluntario*) and, if filed by a third party, the insolvency is deemed mandatory (*concurso necesario*). In the case of voluntary insolvency, as a general rule, the debtor retains the management and full powers of disposal over its assets, although it is subject to the intervention (*intervención*) of the insolvency administrators. In the case of mandatory insolvency, as a general rule, the debtor's management powers are suspended, and management's former power, including the power to dispose of assets, is conferred solely upon the insolvency administrators.

Under Spanish insolvency law, upon declaration of insolvency, acts detrimental (*perjudiciales*) to the debtor's estate carried out during the two years prior to the date on which the insolvency is declared may be rescinded, regardless of fraudulent intention. Article 71 of Law 22/2003, of 9 July, on Insolvency (as amended, **Law 22/2003**) contains an un rebuttable presumption that those acts where no consideration is received for a disposed asset and acts which result in the early repayment of obligations which would have become due after the declaration of insolvency are detrimental. In addition, unless the debtor or another affected party (such as a creditor) can prove otherwise to the court's satisfaction, a disposal made in favour of a related person or entity (e.g. a person holding 10% or more of an unlisted entity's share capital) and the creation of a security interest securing a pre-existing obligation or a new obligation that replaces an existing one, are presumed to be detrimental. In the case of acts which are not included in the presumptions above, the burden of proof is on the person bringing the action of rescission. Acts deriving from the debtor's ordinary course of business may not be rescinded. Accordingly, any disposal by the Guarantor with a related person or entity (such as the Issuer) is presumed to be detrimental unless proved otherwise. Finally, Law 22/2003 contains a general principle that agreements may not be terminated as a result of a debtor's insolvency.

The Spanish insolvency law also makes a distinction between general debts under insolvency proceedings and debts against the insolvent estate. Debts against the insolvent estate, such as certain amounts owed to employees and costs and expenses of the insolvency proceedings, are not considered part of the debtor's general debts and have priority over these general debts. General debts are further divided into privileged creditors (either creditors with general privilege (e.g. payments to tax authorities) or with special privilege (essentially secured creditors)); ordinary creditors (creditors who are neither privileged nor subordinated creditors); and subordinated creditors (e.g. related parties). The order of payments to these creditors is established in Law 22/2003.

### **Adoption of new accounting standards in 2005**

In 2004 the Bank and the Issuer prepared their financial statements in accordance with Spanish GAAP. Under current European Union (EU) law, listed EU companies have to apply, from 1 January 2005, the International Financial Reporting Standards (IFRS) adopted by the EU in preparing their consolidated financial statements.

Applying these standards to the Group's consolidated financial statements will imply a change in the presentation of its financial information, since the financial statements will include more components and additional disclosure will be required. Additionally, there will be a change in the valuation of certain items. Regarding the former, at this moment it is not possible to determine the exact impact that this new regulation will entail compared to Spanish GAAP, since new pronouncements from the International Accounting Standards Board (IASB), or pronouncements that are not endorsed by the EU prior to the preparation of the Group's 31 December 2005 consolidated financial statements, may have an impact on its financial statements.

In particular, the adoption of IFRS may result in the Group's distributable profits being lower than they would have been had they been accounted for under Spanish GAAP. This could have adverse

consequences on investors since Distributions are dependent on the Group having a sufficient level of distributable profits in order to meet its obligations under the Preferred Securities and any other preferred securities ranking *pari passu* therewith.



## **DOCUMENTS INCORPORATED BY REFERENCE**

The following documents, which have previously been published and have been approved by the *Autoriteit Financiële Markten* (the Netherlands Authority for the Financial Markets) (**AFM**) or filed with it, shall be deemed to be incorporated in, and to form part of, this Offering Circular:

- (a) the audited consolidated financial statements of the Bank for the years ended 31 December 2004 and 2003 (and the report of the auditors in respect of such financial statements);
- (b) the unaudited interim consolidated financial statements of the Bank for the three months ended 31 March 2005; and
- (c) the audited unconsolidated financial statements of the Issuer for the period ended 31 December 2004 (and the report of the auditors in respect of such financial statements),

save that any statement contained in any document deemed to be incorporated in, and to form part of this Offering Circular shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any subsequent document (including the Offering Circular) differs from such earlier statement in a manner which modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

Copies of documents incorporated by reference in this Offering Circular may be obtained free of charge during normal business hours from the specified office of each Paying Agent.

## CONDITIONS OF THE PREFERRED SECURITIES

*The following is the text of the conditions of the Preferred Securities whilst in definitive form. It is intended that the Preferred Securities will be represented by a global Preferred Security. The Issuer will be required to make available definitive Preferred Securities only if it has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available. The terms of the global Preferred Security are set out in the Agency Agreement, which is available during normal business hours at the specified office of each Paying Agent.*

The Preferred Securities (as defined below) are issued by virtue of (i) the meeting of the sole shareholder of Pastor Participaciones Preferentes, S.A. Unipersonal (the **Issuer**) held on 20 July 2005, and (ii) the meeting of the board of directors (*Consejo de Administración*) of Banco Pastor, S.A. (the **Bank**) held on 22 April 2005 (together, the **Corporate Resolutions**) and in accordance with Law 13/1985, of 25 May, on investment ratios, capital adequacy and information requirements for financial intermediaries (*Ley 13/1985, de 25 de mayo, de coeficientes de inversion, recursos propios y obligaciones de información de los intermediarios financieros*) as amended (**Law 13/1985**) and in accordance with Law 19/2003, of 4 July, on the legal regime on movements of capital and economic transactions and the prevention of money laundering (*Ley 19/2003, de 4 de julio, sobre el regimen jurídico de los movimientos de capitales y de las transacciones económicos con el exterior y sobre determinadas medidas de prevención del blanqueo de dinero*).

The Preferred Securities will be created by virtue of a public deed registered with the La Coruña Mercantile Registry on or before the Closing Date (the **Public Deed of Issuance**).

*Paragraphs in italics are a summary of certain procedures of the Clearing Systems (as defined below) and certain other information applicable to the Preferred Securities and do not form part of the Conditions of the Preferred Securities. The Clearing Systems may, from time to time, change their procedures.*

### 1. Definitions

For the purposes of these conditions, the following expressions shall have the following meanings:

**Adjusted Yield** means the Bond Yield plus 1.264 per cent.;

**Agent Bank** means Citibank, N.A. and includes any successor agent bank appointed in accordance with the Paying Agency Agreement;

**Bond Yield** means the rate per annum equal to the annual yield to maturity of the Comparable Bond Issue, assuming a price equal to the Comparable Bond Price for the Calculation Date;

**Calculation Agent** means Citibank, N.A. and includes any successor calculation agent appointed in accordance with the Paying Agency Agreement;

**Calculation Date** means the third TARGET Business Day prior to the Early Redemption Date;

**Clearing Systems** means Euroclear Bank S.A./N.V. as operator of the Euroclear System and Clearstream Banking, société anonyme;

**Closing Date** means 27 July 2005;

**Comparable Bond Issue** means, with respect to the Early Redemption Date, the bond selected by the Quotation Agent that would be used, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a comparable maturity from the Early Redemption Date to the First Call Date;

**Comparable Bond Price** means (a) the average of five Reference Bond Dealer Quotations, after excluding the highest and lowest such Reference Bond Dealer Quotations (or, in the case of repeated highest and/or lowest quotations, only one of such repeated highest and/or lowest quotations), or (b) if the Quotation Agent obtains fewer than five such Reference Bond Dealer Quotations, the average of all such Reference Bond Dealer Quotations;

**Distributions** means the non-cumulative cash distributions determined in accordance with paragraph 2 below;

**Distribution Payment Date** means each Distribution Payment Date (Fixed) and each Distribution Payment Date (Floating);

**Distribution Period** means the period from and including one Distribution Payment Date (Fixed) (or, in the case of the first Distribution Period, the Closing Date) or Distribution Payment Date (Floating) (as the case may be) to but excluding the next Distribution Payment Date (Fixed) or Distribution Payment Date (Floating) (as the case may be);

**Distributable Profits** means, in respect of any Fiscal Year of the Bank, the reported net profit (calculated in accordance with regulations of the Bank of Spain), determined after tax and extraordinary items for such year, as derived from the consolidated audited statement of income of the Group, prepared in accordance with international financial reporting standards, Bank of Spain requirements and guidelines in effect at the time of such preparation;

**Early Redemption Amount** means an amount payable in respect of each Preferred Security, which shall be (a) if the Early Redemption Date falls before the First Call Date, the higher of (i) the Redemption Price per Preferred Security and (ii) the Make Whole Amount and (b) otherwise, the Redemption Price per Preferred Security;

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

**Fiscal Year** means the accounting year of the Issuer or the Bank, as the case may be, as set out in its by-laws;

**General Assembly** means the general assembly of all holders of preferred securities (*participaciones preferentes*) of the Issuer (including of the Preferred Securities);

**Group** means the Bank together with its consolidated subsidiaries in accordance with article 8.3 of Law 13/1985, article 16.1 of Royal Decree 1343/1992, 6 November, and Rule 2º of Bank of Spain Circular 5/1993 regarding capital adequacy requirements;

**Guarantee** means the guarantee dated 22 July 2005 and given by the Bank in respect of the Issuer's obligations under the Preferred Securities for the benefit of holders of Preferred Securities;

**Liquidation Distribution** means, subject to the limitation set out in paragraph 2.8, the Liquidation Preference per Preferred Security plus any accrued and unpaid Distributions for the then current Distribution Period to the date of payment of the Liquidation Distribution;

**Liquidation Preference** means Euro 1,000 per Preferred Security;

**Make Whole Amount** means an amount in Euro rounded to the nearest cent (half a cent being rounded upwards), as determined by the Calculation Agent, equal to the sum of (a) the then present value of the Liquidation Preference, and (b) the then present values of the scheduled Distribution amounts, calculated on the basis of the Liquidation Preference, from (and including) the Early Redemption Date to the First Call Date. The present values of (a) and (b) shall be calculated by discounting the Liquidation Preference and the scheduled Distribution amounts from the Early Redemption Date to the First Call Date at the Adjusted Yield on an Actual/Actual (ISMA) basis;

**Offering Circular** means the offering circular dated 22 July 2005 relating to the Preferred Securities;

**Parity Securities** means any preferred securities (*participaciones preferentes*) or other securities or instruments ranking *pari passu* with preferred securities issued by the Issuer, the Bank or any other Relevant Subsidiary, as the case may be, and, in the case of a Relevant Subsidiary, having the benefit of a guarantee ranking *pari passu* with the Bank's obligations under the Guarantee;

**Paying Agency Agreement** means the paying agency agreement dated on or about the Closing Date relating to the Preferred Securities;

**Paying Agents** means the Principal Paying Agent and the other agents named herein and includes any successors thereto appointed from time to time in accordance with clause 21 (Termination of Appointment) of the Paying Agency Agreement;

**Preferred Securities** means the €250,000,000 Fixed/Floating Rate Non-Cumulative Perpetual Guaranteed Preferred Securities issued by the Issuer on the Closing Date;

**Primary Bond Dealer** means any credit institution or financial services institution that regularly deals in bonds and other debt securities;

**Principal Paying Agent** means Citibank, N.A. (or any successor Principal Paying Agent appointed by the Issuer from time to time and notice of whose appointment is published in the manner specified in paragraph 8 below);

**Quotation Agent** means any international bank or securities firm in London of international repute, appointed by the Issuer for the purpose of carrying out the role of Quotation Agent in respect of the Preferred Securities;

**Redemption Price** means the Liquidation Preference plus any accrued and unpaid Distributions for the then current Distribution Period to the date fixed for redemption;

**Reference Bond Dealer** means either the Quotation Agent or any other Primary Bond Dealer selected by the Quotation Agent after consultation with the Issuer;

**Reference Bond Dealer Quotations** means the average, as determined by the Quotation Agent, of the bid and ask prices for the Comparable Bond Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Quotation Agent by such Reference Bond Dealer at 11:00 a.m. (London time) on the Calculation Date;

**Relevant Subsidiary** means any entity in respect of which the Bank owns, directly or indirectly, more than 50 per cent. of its share capital or voting rights;

**Spain** means The Kingdom of Spain;

**TARGET** means the Trans European Real-Time Gross Settlement Express Transfer (TARGET) System; and

**TARGET Settlement Day** means a day on which TARGET is open.

## **2. Distributions**

### **2.1 Fixed Distribution Period**

Subject to paragraph 2.8, the Preferred Securities bear Distributions from (and including) the Closing Date to (but excluding) 27 July 2015 at the rate of 4.564 per cent. per annum (the **Distribution Rate (Fixed)**) payable in arrear on 27 July in each year falling on or before 27 July 2015 (each, a **Distribution Payment Date (Fixed)**).

The amount of Distribution payable on each Distribution Payment Date (Fixed) shall be Euro 45.64 in respect of each Preferred Security of Euro 1,000 Liquidation Preference. If a Distribution is required to be paid in respect of a Preferred Security on any other date, it shall be calculated by applying the Distribution Rate (Fixed) to the Liquidation Preference of such Preferred Security, multiplying the product by the relevant 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) a Distribution Payment Date (Fixed) (or, in the case of the first period, the Closing Date) to (but excluding) the next Distribution Payment Date (Fixed).

## 2.2 *Floating Rate Period*

Subject to paragraph 2.8, the Preferred Securities bear Distributions from (and including) 27 July 2015, payable on each 27 October, 27 January, 27 April and 27 July in each year falling after 27 July 2015 (each, a **Distribution Payment Date (Floating)**); provided, however, that if any Distribution Payment Date (Floating) would otherwise fall on a date which is not a TARGET Settlement Day, it will be postponed to the next TARGET Settlement Day unless it would thereby fall into the next calendar month, in which case it will be brought forward to the preceding TARGET Settlement Day. Each period beginning on (and including) a Distribution Payment Date (Floating) (or, in the case of the first period, 27 July 2015) to (but excluding) the next Distribution Payment Date (Floating) is herein called a **Distribution Period (Floating)**.

## 2.3 *Distribution Rate (Floating)*

The rate of Distributions applicable to the Preferred Securities (the **Distribution Rate (Floating)**) for each Distribution Period (Floating) will be determined by the Agent Bank on the following basis:

- (a) the Agent Bank will determine the EURIBOR rate for deposits in Euro for a period equal to the relevant Distribution Period (Floating) which appears on the display page designated 248 on the Moneyline 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 Distribution Period (Floating) (the **Distribution Determination Date**);
- (b) if such rate does not appear on that page, the Agent Bank will:
  - (i) request the principal Euro-zone office of each of five major banks in the Euro-zone interbank market (as selected by the Issuer and the Agent Bank) 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 Distribution Determination Date to prime banks in the Euro-zone interbank market for a period equal to the relevant Distribution Period (Floating) and in an amount that is representative for a single transaction in that market at that time; and
  - (ii) disregarding the highest and the lowest quotations received (or, in the case of repeated highest and/or lowest quotations, only one of such repeated highest and/or lowest quotations) 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;
- (c) if fewer than three such quotations are provided as requested, the Agent Bank will determine the arithmetic mean (rounded, if necessary, as aforesaid) of the rates quoted by major banks in the Euro-zone selected by the Agent Bank in its sole discretion acting in good faith and in a commercial and reasonable manner, at approximately 11:00 a.m. (Brussels time) on the first day of the relevant Distribution Period (Floating) for loans in Euro to leading European banks for a period equal to the relevant Distribution Period (Floating) and in an amount that is representative for a single transaction in that market at that time,

and the Distribution Rate (Floating) for such Distribution Period (Floating) shall be the sum of 1.17 per cent. plus 1.00 per cent. per annum and the rate or (as the case may be) the arithmetic mean so determined; provided, however, that if the Agent Bank is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Distribution Period (Floating), the Distribution Rate (Floating) applicable to the Preferred Securities during such Distribution Period (Floating) will be the sum of 1.17 per cent. plus 1.00 per cent. per annum and the rate or (as the case may be) arithmetic mean last determined in relation to the Preferred Securities in respect of a preceding Distribution Period (Floating).

In making any of the determinations and selections above, the Agent Bank shall do so in its sole discretion, acting in good faith and in a commercial and reasonable manner.

## 2.4 *Calculation of Distribution Amount*

The Agent Bank will, as soon as practicable after the Distribution Determination Date in relation to each Distribution Period (Floating), calculate the amount of Distribution (the



**Distribution Amount**) payable in respect of each Preferred Security for such Distribution Rate (Floating). The Distribution Amount will be calculated by applying the Distribution Rate (Floating) for such Distribution Period (Floating) to the Liquidation Preference of such Preferred Security, multiplying the product by the actual number of days in such Distribution Period (Floating) divided by 360 and rounding the resulting figure to the nearest cent (half cent being rounded upwards).

## 2.5 *Notification of Distribution Amount*

The Agent Bank will cause each Distribution Rate (Floating) and Distribution Amount determined by it, together with the relevant Distribution Payment Date (Floating), to be notified to the Paying Agents and each listing authority, stock exchange and/or quotation system (if any) on which the Preferred Securities have been admitted to listing, trading and/or quotation as soon as practicable after such determination. The Agent Bank will be entitled to recalculate any Distribution (on the basis of the provisions of this paragraph 2) without notice in the event of an extension or shortening of the relevant Distribution Period (Floating).

## 2.6 *Binding nature of notifications*

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this paragraph 2 by the Agent Bank will (in the absence of manifest or proven error) be binding on the Issuer, the Bank the Paying Agents, the holders of Preferred Securities and (subject to the aforesaid) no liability to any such person will attach to the Agent Bank in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

## 2.7 *Payment of Distributions*

Subject to any applicable fiscal or other laws and regulations, each such payment in respect of the Preferred Securities will be made in Euro by transfer to an account capable of receiving Euro payments, as directed by the person(s) having physical custody of the relevant Preferred Securities.

If the due date for payment of any amount in respect of any Preferred Security is not a business day in the place of presentation, the holder 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 presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and, in the case of payment by transfer to a Euro account, a TARGET Settlement Day.

*It is intended that the Preferred Securities will be represented by a global Preferred Security in bearer form for the total number of the Preferred Securities. Such global Preferred Security will be delivered into the physical custody of a common depositary for Euroclear and Clearstream, Luxembourg on or about the Closing Date. Euroclear and Clearstream, Luxembourg will make payment of any amounts received by them to their accountholders in accordance with their published rules and regulations.*

## 2.8 *Non-payment of Distributions*

Distributions must not be paid to the extent that any one or more of the following circumstances exists:

- (a) the aggregate of (i) such Distributions; (ii) any Distributions paid on the Preferred Securities during the then-current Fiscal Year; and (iii) any other distributions (as contemplated by paragraph 1(c) of the Second Additional Disposition of Law 13/1985, as amended) on or in respect of Parity Securities issued by the Guarantor, the Issuer or by any other Relevant Subsidiary either paid during the then-current Fiscal Year or proposed to be paid during the then-current Distribution Period, would exceed the Distributable Profits of the immediately preceding Fiscal Year; and/or
- (b) even if Distributable Profits are sufficient:
  - (i) there is a shortfall (*déficit*) in the Group's Own Resources which is more than 20% of the minimum Own Resources required for the purposes of complying with capital adequacy requirements; or



- (ii) there is a shortfall (*déficit*) in the Group's Own Resources which is equal to or less than 20% of the minimum Own Resources required for the purposes of complying with capital adequacy requirements and the Bank of Spain has not authorised the payment of Distributions; and/or
- (c) even if Distributable Profits are sufficient, the Group's Basic Own Resources are less than % of the minimum Own Resources required for the purposes of complying with rule 12.1 of the Circular.

Subject to the above limitations, Distributions will be payable on each Distribution Payment Date out of the Issuer's own legally available resources and distributable items.

For the purposes of this paragraph:

**Basic Own Resources** means *recursos propios básicos* as calculated in accordance with the Circular.

**Circular** means Circular nº 5/1993, of 26 March, on the determination and control of minimum own resources (*Circular nº 5/1993, de 26 de marzo, sobre determinación y control de los recursos propios mínimos*), as amended.

**Own Resources** means *recursos propios* as calculated in accordance with the Circular.

#### 2.9 *Payment under Guarantee*

If the Issuer does not pay a Distribution with respect to a Distribution Period (as contemplated herein) other than as a result of the limitations set out in paragraph 2.8 above, the Issuer's payment obligation in respect thereof will be satisfied if and to the extent that the Bank pays such Distribution pursuant to the Guarantee.

#### 2.10 *Distributions non-cumulative*

Distributions on the Preferred Securities will be non-cumulative. Accordingly, if Distributions are not paid on a Distribution Payment Date in respect of the Preferred Securities as a result of the limitations described in paragraph 2.8 above, then the right of the holders of the Preferred Securities to receive a Distribution in respect of the relevant Distribution Period will be extinguished and the Issuer will have no obligation to pay the Distribution accrued for such Distribution Period or to pay any interest thereon, whether or not Distributions on the Preferred Securities are paid in respect of any future Distribution Period.

#### 2.11 *Pro rata reduction of Distributions*

If, as a result of the limitations described in paragraph 2.8 above, a Distribution is not paid in full on the Preferred Securities, all distributions on the Preferred Securities and any Parity Securities will be paid *pro rata* in relation to the amounts outstanding of such securities. Therefore, the Distribution amount to be received by the holders of Preferred Securities on such Distribution Payment Date will depend on the total outstanding amount of Preferred Securities and Parity Securities and on the distributions scheduled to be paid on such securities, each as of the time of such payment. If, as a result of the limitations described in paragraph 2.8 above no Distribution is paid on the Preferred Securities, no distributions may be paid on any Parity Securities of the Issuer, the Bank or any Relevant Subsidiary until such time as the relevant circumstances described in paragraph 2.8 cease to apply.

#### 2.12 *Restrictions on dividends*

If Distributions are not paid in full on or prior to a Distribution Payment Date in respect of the relevant Distribution Period as a consequence of the limitations of paragraph 2.8, then neither the Issuer nor the Bank shall pay dividends or any other distributions on its ordinary shares or on any class of share capital or securities issued by it and expressed to rank junior to the Preferred Securities or to the Bank's obligations under the Guarantee, as the case may be, until such time as the Issuer or the Bank shall have resumed the payment in full of Distributions on the Preferred Securities on any Distribution Payment Date (Fixed) or on any four consecutive Distribution Payment Dates (Floating).

#### 2.13 *No right to participate in profits*

Save as described in this paragraph 2, the Preferred Securities will confer no right to participate in the profits of the Issuer.

### **3. Liquidation Distribution**

#### **3.1 *Rights on liquidation of Issuer***

Subject as provided below, in the event of a voluntary liquidation, dissolution or winding-up of the Issuer, holders of the Preferred Securities shall be entitled to receive out of the assets of the Issuer available for distribution to holders of preferred securities, the Liquidation Distribution. Such entitlement will arise rateably among the Preferred Securities and any Parity Securities issued by the Issuer (subject, if applicable, to the different entitlement of each series of Parity Securities of the Issuer to accrued and unpaid distributions) before any distribution of assets to holders of ordinary shares or any other class of shares of the Issuer ranking junior to the Preferred Securities. Payment of the Liquidation Distribution is guaranteed by the Bank.

#### **3.2 *Consequences of liquidation of the Bank***

In the event of the voluntary or involuntary liquidation, dissolution or winding-up of the Bank or of a reduction in the shareholders' equity of the Bank under Article 169 of the Spanish Corporations Law, the board of directors of the Issuer shall convene an Extraordinary General Shareholder's Meeting of the Issuer to propose a resolution to put the Issuer into voluntary liquidation. Following such liquidation, holders of Preferred Securities will be entitled to receive only the Liquidation Distribution in respect of each Preferred Security held by them, subject to the limitation set out below.

#### **3.3 *Reduction of Liquidation Distribution***

Notwithstanding the availability of sufficient assets of the Issuer to pay a full liquidating distribution in respect of the Preferred Securities or any Parity Securities of the Issuer, if at the time such liquidating distribution is to be paid proceedings are or have been commenced for the voluntary or involuntary liquidation, dissolution or winding-up of the Bank or for a reduction in the shareholders' equity of the Bank under Article 169 of the Spanish Corporations Law, the aggregate of liquidating distributions in respect of the Preferred Securities and of all Parity Securities shall not exceed the aggregate of liquidating distributions that would have been paid from the assets of the Bank (after payment in full in accordance with Spanish law, to all creditors of the Bank, including holders of its subordinated debt, but excluding holders of any guarantee or any other contractual right expressed to rank *pari passu* with or junior to the Guarantee) had the Preferred Securities and all such Parity Securities been issued by the Bank and ranked (a) junior to all obligations of the Bank owed to creditors and (b) *pari passu* with Parity Securities of the Bank. The Issuer shall be released from its obligation to pay such liquidating distributions by payment to the bearer of the relevant Preferred Securities.

#### **3.4 *Pro rata reduction and satisfaction of obligation to pay Liquidation Distribution***

If liquidating distributions amounts are limited as described in paragraph 3.3, such distributions will be payable *pro rata* among holders of the Preferred Securities and Parity Securities in proportion to the amounts that would have been payable but for such limitation (taking account, if applicable, of the different entitlement, of the Preferred Securities and each series of Parity Securities to accrued and unpaid distributions). After payment of the full or limited Liquidation Distribution in respect of a Preferred Security as described in paragraphs 3.1 and 3.3, such Preferred Security will confer no further right or claim on holders to any remaining assets of the Issuer.

#### **3.5 *References to liquidating distributions***

References herein to liquidating distributions in respect of the Preferred Securities shall mean the Liquidation Distributions.

#### **3.6 *No liquidation of Issuer***

Except as provided above, the Bank undertakes not to permit, or take any action to cause, the liquidation, dissolution or winding-up of the Issuer.

### **4. Optional Redemption**

#### **4.1 *Optional redemption***

Subject to paragraph 4.2 below, the Preferred Securities shall not be redeemable prior to 27 July 2015 (the **First Call Date**). All, or some only, of the Preferred Securities may be

redeemed at the option of the Issuer, subject to the prior consent of the Bank of Spain and the Bank, on any Distribution Payment Date falling on or after 27 July 2015, at the Redemption Price per Preferred Security by giving notice to the holders of Preferred Securities in accordance with paragraph 8 (which notice shall be irrevocable and shall oblige the Issuer to redeem the Preferred Securities in whole or in part as the case may be).

In the case of partial redemption of the Preferred Securities, redemption will be affected on a *pro rata* basis in relation to each holder's holding of Preferred Securities (including those held through Euroclear and Clearstream, Luxembourg) in the proportion that the total number of Preferred Securities to be redeemed shall bear to the total number of Preferred Securities outstanding prior to such redemption (no account being taken of any fraction of a Preferred Security).

#### 4.2 *Redemption for regulatory capital purposes*

If the Preferred Securities cease to qualify as Tier 1 capital of the Group pursuant to Spanish banking regulations, as a result of a change in Spanish law, applicable Spanish banking regulations or any change in the official application or interpretation thereof becoming effective on or after the Closing Date, the Preferred Securities may be redeemed, in whole but not in part, at the option of the Issuer, subject to the prior consent of the Bank and of the Bank of Spain, on any Distribution Payment Date (the **Early Redemption Date**), at the Early Redemption Amount per Preferred Security by giving notice to the holders of Preferred Securities in accordance with paragraph 8 (which notice shall be irrevocable).

#### 4.3 *Procedure for redemption*

If the Issuer gives a notice of redemption in respect of Preferred Securities, pursuant to paragraphs 4.1 or 4.2 then, by 12:00 (London time) on the relevant redemption date, the Issuer will irrevocably deposit with the Principal Paying Agent immediately available funds sufficient to pay the Redemption Price or the Early Redemption Amount (as the case may be) and will give the Principal Paying Agent irrevocable instructions and authority to pay the Redemption Price or the Early Redemption Amount (as the case may be) to each person in physical custody of the relevant Preferred Security against surrender of the relevant Preferred Security. If notice of redemption shall have been given and funds deposited as required, then, upon the date of such deposit, all rights in respect of the relevant Preferred Securities will cease, except the right to receive the Redemption Price or the Early Redemption Amount (as the case may be) and, subject as provided below, the Preferred Securities so deposited (upon payment of the Redemption Price or the Early Redemption Amount (as the case may be)) will be cancelled. Subject to any applicable fiscal or other law and regulations, payment of the Redemption Price or the Early Redemption Amount (as the case may be) will be made by the Principal Paying Agent in the manner specified in paragraph 2.7 above. If payment of the Redemption Price or the Early Redemption Amount (as the case may be) in respect of any Preferred Securities is improperly withheld or refused by the Issuer (or by the Bank pursuant to the Guarantee), Distributions on such Preferred Securities will continue to accrue from the redemption date to the date of payment of the Redemption Price or the Early Redemption Amount (as the case may be).

### 5. **Purchase of Preferred Securities**

Neither the Issuer, the Bank nor any subsidiary of the Bank may purchase Preferred Securities before 27 July 2015. Thereafter, subject to applicable law then in force and the prior consent of the Bank of Spain, the Issuer, the Bank or any subsidiary of the Bank may at any time purchase outstanding Preferred Securities by tender, in the open market or by private agreement. Any Preferred Securities so purchased by the Issuer shall be cancelled immediately.

### 6. **Exercise of Rights by Holders of Preferred Securities**

#### 6.1 *The General Assembly*

- (a) The General Assembly will be constituted upon registration of the Public Deed of Issuance with the Mercantile Registry of La Coruña. The rules governing the functioning of the General Assembly and the rules governing its relationship with the Issuer are contained in the regulations of the General Assembly (the **Regulations**) attached to the Public Deed of Issuance.

- (b) The Regulations provide that the General Assembly may be convened (and, at the request of one-twentieth of the aggregate liquidation preference of the preferred securities (*participaciones preferentes*) of the Issuer outstanding, will be convened) in any of the circumstances set out below:
  - (i) failure to pay Distributions on any Distribution Payment Date (Fixed) or on four consecutive Distribution Payment Dates (Floating);
  - (ii) liquidation, dissolution or winding-up of the Issuer, except in the event that proceedings for the liquidation, dissolution or winding-up of the Issuer are commenced as a result of the liquidation, dissolution or winding-up of the Bank or for a reduction in the shareholders' equity of the Bank under Article 169 of the Spanish Corporations Law;
  - (iii) further issuance of preferred securities, when the Issuer has not paid the most recent distribution due under its outstanding preferred securities; or
  - (iv) in order to propose any amendment of the terms and conditions of the Preferred Securities.
- (c) The Issuer shall give notice to the holders of Preferred Securities in accordance with paragraph 8 of any convening of a General Assembly and of any resolution adopted pursuant to the Regulations.
- (d) In the General Assembly all resolutions shall be made by an absolute majority of the liquidation preference of the preferred securities present or represented, and will be binding on all of the holders of such preferred securities, including those not in attendance and dissenters. Further, any resolution which may be adopted in the General Assembly may also be adopted in writing by unanimity of the holders of the preferred securities of the Issuer outstanding; any resolution so adopted shall be binding on all holders of the preferred securities.
- (e) The quorum of any General Assembly shall be the holders of preferred securities holding two-thirds of the liquidation preference of all preferred securities issued and outstanding. If the attendance of two-thirds of the holders of preferred securities issued and outstanding cannot be obtained, the General Assembly may be re-convened one day after the first meeting and the resolutions at such reconvened meeting may be adopted by absolute majority of the liquidation preference of the attendees. These resolutions shall be binding on all holders of preferred securities, in the same manner as referred to above.

## 6.2 *Voting rights*

Save as described below, the holders of the Preferred Securities will have no voting rights. The holders of the Preferred Securities will, in the circumstances set out in paragraphs 6.2.1, 6.2.2, 6.2.3 or 6.2.4 below, have the right to participate in the adoption of certain decisions in the General Assembly. The rights referred to above shall be exercised together with all other holders of preferred securities of the Issuer.

### 6.2.1 *Failure to pay Distribution*

- (a) If neither the Issuer nor the Bank pays full Distributions on any Distribution Payment Date (Fixed) or on any four consecutive Distribution Payment Dates (Floating), the holders of the Preferred Securities acting through the General Assembly may resolve to appoint two further members to the board of directors of the Issuer and may also remove or replace such directors.
- (b) Immediately following a resolution for the appointment or the removal of additional members of the board of directors, the person appointed for such purposes by the General Assembly shall give notice of such appointment or removal to:
  - (i) the board of directors of the Issuer so that it may, where necessary, call a general meeting of the shareholders of the Issuer; and
  - (ii) the shareholder(s) of the Issuer, so that they may hold a universal meeting of shareholders.

The shareholder of the Issuer has undertaken to vote in favour of the appointment or removal of the directors so named by the General Assembly and to take all necessary measures to approve such appointment or removal.

- (c) The foregoing shall apply in relation to the Preferred Securities so long as the Issuer has failed to pay Distributions and the Bank has not discharged such payment obligations pursuant to the Guarantee.
- (d) Any member of the board of directors named pursuant to the foregoing shall vacate his position if, subsequent to the circumstances giving rise to his appointment, the Issuer or the Bank makes Distributions on any Distribution Payment Date (Fixed) or on any four consecutive Distribution Payment Dates (Floating).
- (e) Notice of the appointment and the dismissal of directors shall be given on behalf of the Issuer in accordance with paragraph 8 below.

#### 6.2.2 *Liquidation, dissolution or winding-up of the Issuer*

- (a) With respect to the carrying out by the board of directors of the Issuer or the Bank of any act providing for the liquidation, dissolution or winding-up of the Issuer, the intention to adopt such acts will be notified immediately to all holders of preferred securities in accordance with paragraph 8 below, except in the event that proceedings for the liquidation, dissolution or winding-up of the Issuer are commenced as a result of the liquidation, dissolution or winding-up of the Bank or of a reduction in the shareholders' equity of the Bank under Article 169 of the Spanish Corporations Law.
- (b) Once the notice referred to in paragraph (a) above has been received, the General Assembly shall be called in accordance with the rules explained above. The agenda of the General Assembly shall contain a resolution to vote for or against the dissolution and winding-up of the Issuer.
- (c) The person appointed for such purposes by the General Assembly shall give notice of the result of the aforementioned vote to the shareholder of the Issuer.
- (d) The board of directors of the Issuer is not permitted to call a general meeting of shareholders, nor may the shareholder of the Issuer hold a universal meeting of shareholders, until the General Assembly has resolved to vote for or against the dissolution or winding-up of the Issuer.
- (e) The shareholder of the Issuer has undertaken to vote, in the corresponding general meeting of shareholders, in conformity with the result of the vote of the General Assembly.

#### 6.2.3 *Further issuance of preferred securities*

- (a) The issuance of further Preferred Securities or of other preferred securities by the Issuer will not require the approval of the General Assembly unless the Issuer or the Bank, as the case may be, has not paid the most recent distribution due under its outstanding preferred securities.
- (b) The person appointed for such purposes by the General Assembly shall give notice of the decision so adopted to the shareholder of the Issuer. The shareholder of the Issuer has undertaken to vote in the corresponding general meeting of shareholders in conformity with the result of the vote of the General Assembly.

#### 6.3 *Amendment to the terms and conditions of the Preferred Securities*

Any amendment (except for any amendment required by law) to the terms and conditions of the Preferred Securities or any amendment to the Guarantee shall be approved by the holders of the Preferred Securities. An amendment shall only be effective if (a) the Bank of Spain has given its prior consent to the amendment, and (b) the amendment has been approved pursuant to a resolution of the holders of the Preferred Securities adopted in accordance with the Regulations.

#### 6.4 *Pre-emptive rights and other provisions*

The Preferred Securities do not grant their holders pre-emption rights in respect of any further issues of preferred securities.

Neither the Issuer nor any other Relevant Subsidiary nor the Bank may issue, or guarantee the issue of, any preferred securities or securities or other instruments equivalent to preferred securities ranking, either directly or via a guarantee, senior to the Preferred Securities, unless the Guarantee is amended so as to rank *pari passu* with any such issue or guarantee of senior securities.



No vote in respect of the Preferred Securities will be required for the Issuer to redeem and cancel the Preferred Securities.

Notwithstanding that the Preferred Securities confer an entitlement to vote in the above circumstances, neither the Bank nor any subsidiary of the Bank, to the extent that it is a holder of Preferred Securities, shall be so entitled to vote.

## **7. Taxation**

### **7.1 *Payments free of withholding and deductions and payment of additional amounts***

All payments of Distributions and other amounts payable in respect of the Preferred Securities and the Guarantee by the Issuer or the Bank (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 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 Bank shall pay such additional amounts as will result in the holders of the Preferred Securities receiving such amounts as they would have received in respect of such Preferred Securities had no such withholding or deduction been required.

### **7.2 *Exceptions to payment of additional amounts***

Neither the Issuer nor the Bank shall be required to pay any additional amounts as referred to in paragraph 7.1 in relation to any payment in respect of Preferred Securities:

- (a) to, or to a third party on behalf of, a non-resident holder who is liable for such taxes, duties, assessments or governmental charges in respect of the Preferred Securities by reason of his having some connection with Spain other than the mere holding of Preferred Securities; or
- (b) 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 is required in order to comply with Law 19/2003 of 4 July, Royal Decree 1778/2004 of 30 July and Royal Legislative Decree 4/2004 of 5 March; or
- (c) presented for payment more than 30 days after the Relevant Date, except to the extent that the relevant holder would have been entitled to such additional amounts on presenting the same for payment on the expiry of such period of 30 days; or
- (d) where the withholding or deduction referred to in paragraph 7.1 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 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) presented for payment by or on behalf of a holder of Preferred Securities who would have been able to avoid such withholding or deduction by presenting the Preferred Securities to another paying agent in a Member State of the European Union; or
- (f) to, or to a third party on behalf of, individuals resident for tax purposes in Spain or a resident of a tax haven (as defined in Royal Decree 1080/1991 of 5 July, as amended from time to time); or
- (g) to, or to a third party on behalf of, a Spanish resident corporate entity if the Spanish tax authorities determine that the Preferred Securities do not comply with exemption requirements specified in the Reply to a Consultation of the Directorate General for Taxation (*Director General de Tributos*) dated 27 July 2004 and require a withholding to be made.

*A list of the tax havens referred to in paragraph 7.2(f) as at the date of the Offering Circular is set out in "Taxation of Disclosure of Holder Information in Connection with Payments of Distributions – Taxation in Spain – Tax Havens" of the Offering Circular.*



### 7.3 Definition of Relevant Date

For the purposes of paragraph 7, 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 holders of Preferred Securities, notice to that effect shall have been duly given to the holders of Preferred Securities in accordance with paragraph 8 below.

*See “Taxation and Disclosure of Holder Information in connection with Payments of Distributions” for a fuller description of certain tax considerations (particularly in relation to holders which are resident in Spain) relating to the Preferred Securities, the formalities which holders must follow in order to claim exemption from withholding tax and for a description of certain disclosure requirements imposed on the Issuer and the Bank in relation to the identities of holders of Preferred Securities.*

## 8. Notices

Notices, including notice of any redemption of the Preferred Securities, will be given by the Issuer (i) so long as any Preferred Security is listed on the stock market of 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, and (ii) by mail to the Clearing Systems (in each case not less than 30 nor more than 60 days prior to the date of the act or event to which such notice relates).

*In accordance with their published rules and regulations, each of the Clearing Systems will notify holders of securities accounts with it to which any Preferred Securities are credited of any such notices received by it.*

## 9. Form and Status

The Preferred Securities will be issued in bearer form.

*It is intended that a global Preferred Security representing the Preferred Securities will be delivered by the Issuer to a common depositary for the Clearing Systems. As a result, accountholders should note that they will not themselves receive definitive Preferred Securities but instead Preferred Securities will be credited to their securities account with the relevant clearing system. It is anticipated that only in exceptional circumstances (such as the closure of the Clearing Systems, the non-availability of any alternative or successor clearing system, removal of the Preferred Securities from the Clearing Systems and failure to comply with the terms and conditions of the Preferred Securities by either the Issuer or the Bank) will definitive Preferred Securities be issued directly to such accountholders.*

The Preferred Securities rank (a) junior to all liabilities of the Issuer including subordinated liabilities, (b) *pari passu* with each other and with any Parity Securities of the Issuer and (c) senior to the Issuer's ordinary shares and any other class of share capital expressed to rank junior to the Preferred Securities.

## 10. Use of Proceeds

The net proceeds of the Preferred Securities will, in accordance with Law 13/1985, be deposited in their entirety on a permanent basis by way of a deposit with the Bank or with another credit entity (*entidad de crédito*) of the Group and will be used for the Group's general corporate purposes. The deposit shall rank equally with the Guarantee.

The funds raised from the issue of the Preferred Securities and so deposited will be available to absorb losses of the Bank if and when they occur once its reserves have been exhausted.

## 11. Agents

In acting under the Paying Agency Agreement and in connection with the Preferred Securities, the Paying Agents act solely as agents of the Issuer and the Bank and do not assume any obligations towards or relationship of agency of trust for or with any of the holders of the Preferred Securities.

The initial Paying Agents and their initial specified offices are listed in the Paying Agency Agreement. The Issuer and the Bank reserve the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor principal paying agent and additional or successor paying agents; provided, however, that if, and for so long as, the Preferred Securities are listed on Euronext Amsterdam and the rules of such exchange so require, the Issuer and the Bank shall maintain a Paying Agent having its specified office in Amsterdam.

Notice of any change in any of the Paying Agents or in their specified offices shall promptly be given to the holders of the Preferred Securities.

## **12. Prescription**

To the extent that article 950 of the Spanish Commercial Code (*Código de Comercio*) applies to the Preferred Securities, claims relating to the Preferred Securities will become void unless such claims are duly made within three years of the relevant payment date.

## **13. Governing Law and Jurisdiction**

The Preferred Securities shall be governed by, and construed in accordance with, Spanish law.

The Issuer hereby irrevocably agrees for the benefit of the holders of the Preferred Securities that the courts of Madrid are to have jurisdiction to settle any disputes which may arise out of or in connection with the Preferred Securities and that accordingly any suit, action or proceedings arising out of or in connection with the Preferred Securities (together referred to as **Proceedings**) may be brought in such courts. The Issuer irrevocably waives any objection which it may have now or hereinafter to the laying of the venue of any Proceedings in the courts of Madrid. Nothing contained in this clause shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other competent jurisdictions, whether concurrently or not.

## FURTHER INFORMATION ON THE PREFERRED SECURITIES

Set out in this section is further information on the Preferred Securities.

### Reasons for the offer

The net proceeds of the Preferred Securities will, in accordance with Law 13/1985, be deposited in their entirety on a permanent basis by way of a deposit with the 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 Preferred Securities and so deposited will be available to absorb losses of the Bank if and when they occur once its reserves have been exhausted.

### Estimated net proceeds and expenses

The estimated net proceeds and expenses of issue of the Preferred Securities are set out below:

<i>Concept</i>	<i>Amount (in euro)</i>
Issue proceeds	250,000,000
Commissions to Managers	(1,125,000)
AFM fees	(3,200)
Other expenses	(2,000)
<b>Net proceeds</b>	<b>248,871,600</b>

### Ratings

The Preferred Securities are expected, upon issue, to be assigned a Baa1 rating by Moody's and a BBB rating by S&P. 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.

Moody's assigns ratings according to the scale Aaa, Aa, A, Baa, Ba, B, Caa, Ca and C. Moody's applies numerical modifiers 1, 2, and 3 in each generic rating classification from Aa through to Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

S&P assigns ratings according to the scale AAA, AA, A, BBB, BB, B, CCC, CC, C and D. The ratings from AA to CCC may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

An explanation of the meanings of Moody's and S&P's ratings (from Aaa to Ba and from AAA to BB, respectively) is set out in the following table.

	<i>Moody's</i>		<i>S&amp;P</i>
Aaa	Notes which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edged." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure.	AAA	An obligation rated AAA has the highest rating assigned by S&P. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
Aa	Notes which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long term risk appear somewhat larger than the Aaa securities.	AA	An obligation rated AA differs from the highest rated obligations only in small degree. The obligor's capacity to meet its financial commitment on the obligation is still strong.

	<i>Moody's</i>		<i>S&amp;P</i>
A	Notes which are rated A possess many favourable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment some time in the future.	A	An obligation rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.
Baa	Notes which are rated Baa are considered as medium grade obligations. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such notes lack outstanding investment characteristics and in fact have speculative characteristics as well.	BBB	An obligation rated BBB exhibits adequate protection parameters. However, adverse economic conditions changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.
Ba	Notes which are rated Ba are judged to have speculative elements: their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterises bonds in this class.	BB	An obligation rated BB is less vulnerable to non payment than other speculative issues. However, it faces ongoing uncertainties or exposure to adverse business, financial, or economic conditions, which could lead to the obligor not being able to meet its financial commitment on the obligation.

### **Interests of natural and legal persons involved in the issue**

Save for any fees payable to the Managers, so far as the Issuer is aware, no person involved in the issue of the Preferred Securities has an interest material to the offer.

### **Yield**

The Preferred Securities are perpetual in nature but are redeemable at the option of the Issuer on any Distribution Payment Date falling on or after the First Call Date. The yield on the Preferred Securities until the First Call Date is 4.564 per cent. per annum.

### **Past performance of EURIBOR**

Current Euribor rates can be found on Moneyline Telerate page 248/249. Historical data for Euribor can be found on Moneyline Telerate pages 47860-66 (this is for a period going back one month) or by contacting Moneyline Telerate in London (tel: 44-207-832-9577 – fax: 44-207-583-1619). The historical Euribor data is also posted on the Euribor webpage published by the European Banking Federation (FBE) and the Financial Markets Association (ACI), which provides historical Euribor information ([www.euribor.org](http://www.euribor.org)). The historical data for Euribor provided on this website is displayed for information purposes only and should not be relied upon for any reason. Any use thereof is therefore at the user's own risk. Neither the legal sponsors of Euribor, nor anyone else can be held liable in any way for the inaccuracy of such historical data. The historical data provided in the website is no substitute for the Euribor reference rates that are displayed on Moneyline Telerate pages 248-249 and 47860-66 in accordance with the Euribor Technical Features.

### **Payment for and delivery of Preferred Securities**

It is intended that the Preferred Securities be represented by a global Preferred Security. The global Preferred Security will be delivered by the Issuer to a common depositary to be held on behalf of the Issuer until payment for the global Preferred Security is effected through Euroclear and/or Clearstream Luxembourg. Once payment has been effected as described, the common depositary will hold the global Preferred Security on behalf of Euroclear and/or Clearstream Luxembourg.

## THE GUARANTEE

*The following is the text of the Guarantee relating to the Preferred Securities.*

**THIS GUARANTEE** (the **Guarantee**), dated 22 July 2005, is executed and delivered by Banco Pastor, S.A. incorporated under the laws of Spain (the **Bank** or the **Guarantor**) for the benefit of the Holders (as defined below).

**WHEREAS**, the Bank wishes to procure the issue by Pastor Participaciones Preferentes, S.A. Unipersonal, a limited liability company (*sociedad anónima*) incorporated under the laws of Spain (the **Issuer**) of Euro 250,000,000 Fixed/Floating Rate Non-Cumulative Perpetual Guaranteed Preferred Securities (the **Preferred Securities**) and the Bank wishes to issue this Guarantee for the benefit of the Holders.

**NOW, THEREFORE** the Bank executes and delivers this Guarantee for the benefit of the Holders.

### 1. Interpretation

#### 1.1 Definitions

As used in this Guarantee, the following terms shall, unless the context otherwise requires, have the following meanings:

**Conditions** means the conditions of the Preferred Securities, as set out in the Offering Circular;

**Fiscal Year** means the accounting year of the Guarantor as set out in its by-laws;

**Guaranteed Payments** means (without duplication) (i) any accrued but unpaid Distribution relating to the most recent Distribution Period; (ii) the Redemption Price or Early Redemption Amount (as the case may be) payable on the redemption of Preferred Securities; (iii) the Liquidation Distributions due on the Liquidation Date; and (iv) any other sums due but unpaid by the Issuer in respect of the Preferred Securities;

**Holder** means any holder from time to time of a Preferred Security; provided, however, that in determining whether the Holders of the requisite percentage of Preferred Securities have given any request, notice, consent or waiver hereunder, Holder shall not include the Bank or any of its subsidiaries (including the Issuer);

**Liquidation Date** means the date of final distribution of the assets of the Issuer in the case of any liquidation, dissolution or winding-up of the Issuer (whether voluntary or involuntary);

**Offering Circular** means the offering circular dated 22 July 2005 relating to the Preferred Securities; and

**Spain** means the Kingdom of Spain.

#### 1.2 Other defined terms

Terms defined in the Conditions have the same meanings in this Guarantee.

#### 1.3 Clauses

Any reference in this Guarantee to a Clause is, unless otherwise stated, to a clause hereof.

#### 1.4 Headings

Headings and sub-headings are for ease of reference only and shall not affect the construction of this Guarantee.

### 2. Guarantee

#### 2.1 Guarantee

Subject to the limitations contained in the following paragraphs of this Clause 2, the Bank irrevocably and unconditionally agrees to pay in full to the Holders, the Guaranteed Payments (to the extent not paid by the Issuer), as and when due upon receipt of a notice by any Holder demanding payment, regardless of any defence, right of set-off or counterclaim which the Issuer may have or assert. This Guarantee is abstract, autonomous and independent (*abstracta, autónoma e independiente*) of the Guaranteed Payments.

## **2.2 Limitations on the Guaranteed Payments in relation to Distributions**

Notwithstanding Clause 2.1, the Bank will not be obliged to pay any Guaranteed Payment in respect of Distributions (including any accrued and unpaid Distributions relating to the Redemption Price, Early Redemption Amount or Liquidation Distribution) on any Preferred Securities to the extent that any one or more of the following circumstances exists:

- (a) the aggregate of (i) such Distributions; (ii) any Distributions paid on the Preferred Securities during the then-current Fiscal Year; and (iii) any other distributions (as contemplated by paragraph 1(c) of the Second Additional Disposition of Law 13/1985, as amended) on or in respect of Parity Securities issued by the Guarantor, the Issuer or by any other Relevant Subsidiary either paid during the then-current Fiscal Year or proposed to be paid during the then-current Distribution Period, would exceed the Distributable Profits of the immediately preceding Fiscal Year; and/or
- (b) even if Distributable Profits are sufficient:
  - (i) there is a shortfall (*déficit*) in the Group's Own Resources which is more than 20% of the minimum Own Resources required for the purposes of complying with capital adequacy requirements; or
  - (ii) there is a shortfall (*déficit*) in the Group's Own Resources which is equal to or less than 20% of the minimum Own Resources required for the purposes of complying with capital adequacy requirements and the Bank of Spain has not authorised the payment of Distributions; and/or
- (c) even if Distributable Profits are sufficient, the Group's Basic Own Resources are less than  $\frac{5}{8}$  of the minimum Own Resources required for the purposes of complying with rule 12.1 of the Circular.

## **2.3 Limitations to the Guarantee Payments in relation to the Liquidation Distributions**

Notwithstanding Clause 2.1, if, at the time that any liquidating distributions are to be paid by the Bank in respect of the Preferred Securities or any other Parity Securities, proceedings are or have been commenced for the voluntary or involuntary liquidation, dissolution or winding up of the Bank or for a reduction in the shareholders' equity of the Bank under Article 169 of the Spanish Corporations Law, the aggregate of liquidating distributions in respect of the Preferred Securities, of all Parity Securities issued by the Bank and of any Relevant Subsidiary shall not exceed the aggregate of liquidating distributions that would have been paid from the assets of the Bank (after payment in full, in accordance with Spanish law, to all creditors of the Bank, including holders of its subordinated debt, but excluding holders of any guarantee or other contractual right expressed to rank *pari passu* with or junior to this Guarantee) had the Preferred Securities and all Parity Securities been issued by the Bank and ranked (a) junior to all liabilities of the Bank; (b) *pari passu* with Parity Securities issued by the Bank, if any; and (c) senior to any of the Bank's ordinary shares and any other class of share capital of the Bank expressed to rank junior to the Bank's obligations under this Guarantee.

References to the liquidating distribution in respect of Preferred Securities shall mean the Liquidation Distribution.

## **2.4 Pro rata Payments**

If the amounts described in Clause 2.1 cannot be paid by reason of any limitation referred to in Clause 2.2 or 2.3, such amounts will be payable *pro rata* in the proportion that the amount available for payment bears to the full amount that would have been payable but for such limitations. The determination of any such limitation of the Bank's obligations under this Guarantee as set forth will be made on the relevant Distribution Payment Date, Early Redemption Date, redemption date or Liquidation Date, as the case may be.

## **2.5 Ranking of the Guarantee**

The Bank agrees that subject to applicable laws, the Bank's obligations hereunder constitute unsecured obligations of the Bank and rank and will at all times rank (a) junior to all liabilities of the Bank (including subordinated liabilities); (b) *pari passu* with any Parity Securities of the Bank and any obligations of the Bank under any guarantee in favour of holders of any Parity Securities of any Relevant Subsidiary; and (c) senior to any of the Bank's ordinary shares and any other class of share capital of the Bank expressed to rank junior to the Bank's obligations under this Guarantee.



## **2.6 Acceptance of the Guarantee**

The mere subscription of Preferred Securities will be deemed for all purposes to constitute full acceptance of this Guarantee.

## **3. Obligations of the Guarantor**

### **3.1 Waiver**

The Guarantor waives any right which it may have under Spanish law to object to pay under the Guarantee.

The obligations of the Guarantor are independent of those of the Issuer. The Guarantor shall remain liable as the principal and sole debtor hereunder in relation to the Guaranteed Payments pursuant to the terms of this Guarantee, and may not require that the Holders of Preferred Securities exhaust their rights or take any legal action against the Issuer prior to taking action against the Guarantor.

### **3.2 Obligations and Commitments of the Guarantor**

The obligations and commitments of the Guarantor hereunder shall not be affected by any of the following circumstances:

- (a) any waiver by the Issuer, either by the application of a legal provision or for any other reason, to fulfil any commitment, term or condition, whether implicit or explicit, in relation to the Preferred Securities; or
- (b) any extension of any Distribution Payment Date, Liquidation Date or date for payment of the Redemption Price or the Early Redemption Amount or in relation to any other obligation relating to the Preferred Securities; or
- (c) any breach, omission or delay by any Holder in exercising its rights under the Preferred Securities; or
- (d) the liquidation, dissolution, or sale of any asset given as a guarantee, temporary receivership, bankruptcy, receivership proceedings or renegotiation of debt affecting the Issuer; or
- (e) any defect in or invalidity of the Preferred Securities; or
- (f) transactions involving any obligation guaranteed by this Guarantee or undertaken by virtue of this Guarantee.

The Holders shall not be obliged to notify the Guarantor of the occurrence of any of the above circumstances, nor to obtain the consent of the Guarantor in relation to the same.

### **3.3 Subrogation**

The Bank shall be subrogated to any and all rights of the Holders against the Issuer in respect of any amounts paid to the Holders by the Bank under this Guarantee. The Bank shall not (except to the extent required by mandatory provisions of law) exercise any rights which it may acquire by way of subrogation or any indemnity, reimbursement or other agreement, in all cases as a result of a payment under this Guarantee, if, at the time of any such payment, any amounts are due and unpaid under this Guarantee. If any amount shall be paid to the Bank in breach of the preceding sentence, the Bank shall pay such amount to the Holders.

### **3.4 Deposit of the Guarantee**

This Guarantee shall be deposited with and held by Citibank, N.A. as Principal Paying Agent until all the obligations of the Bank hereunder have been discharged in full. The Bank hereby acknowledges the right of every Holder to the production of and to obtain a copy of, this Guarantee. A Holder may enforce this Guarantee directly against the Bank, and the Bank waives any right or remedy to require that any action be brought against the Issuer or any other person or entity before proceeding against the Bank. Subject to Clause 3.1, all waivers contained in this Guarantee shall be without prejudice to the Holder's right to proceed against the Issuer. The Bank agrees that this Guarantee shall not be discharged except by payment of the Guaranteed Payments in full and by complete performance of all obligations of the Bank under this Guarantee.

#### **4. Other obligations of the Guarantor under the Guarantee**

##### **4.1 No further issues**

The Bank will not issue any preferred securities or other instruments equivalent to preferred securities, ranking senior to its obligations under this Guarantee nor give any guarantee in respect of any preferred securities or other instruments equivalent to preferred securities issued by any subsidiary if such guarantee would rank senior to this Guarantee (including, without limitation, any guarantee that would provide a priority of payment with respect to Distributable Profits) unless, (a) in each case, this Guarantee is amended so that it ranks *pari passu* with, and contains substantially equivalent rights of priority as to payment of Distributable Profits as, any such other preferred securities or securities or other instruments equivalent to preferred securities or other such guarantee; and (b) the Distribution payable on the Preferred Securities on the most recent Distribution Payment Date was paid in full by the Issuer or by the Bank pursuant to the Guarantee on such Distribution Payment Date.

##### **4.2 Non-Payments**

The Bank undertakes that if any amount required to be paid pursuant to this Guarantee in respect of any Distribution payable in respect of the most recent Distribution Period has not been paid, whether by reason of the limitations of Clause 2.2 and 2.3 or otherwise, no dividends or any other distributions on its ordinary shares or on any class of share capital or securities issued by it and expressed to rank junior to the Bank's obligations under this Guarantee, as the case may be, shall be declared, paid or set aside for payment, nor will any of its ordinary shares or any class of share capital or securities issued by it and expressed to rank junior to the Bank's obligations under this Guarantee, be redeemed, repurchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such shares of the Bank) by the Bank, until such time as the Issuer or the Bank pursuant to this Guarantee shall have made payment in full of Distributions on any Distribution Payment Date (Fixed) or on any four consecutive Distribution Payment Dates (Floating) in respect of all Preferred Securities then outstanding.

##### **4.3 Ownership**

The Guarantor undertakes to hold (directly or indirectly) 100 per cent. of the ordinary shares of the Issuer so long as any Preferred Securities remain outstanding.

##### **4.4 Voting**

The Bank undertakes, and shall ensure that any transferee of the ordinary shares of the Issuer undertakes, in connection with the right of the Holders to participate in the adoption by the Issuer of certain decisions in the General Assembly as contemplated in the terms and conditions of the Preferred Securities:

- (a) to vote at the corresponding general meeting of shareholders of the Issuer in favour of the appointment or removal of the directors named by the General Assembly and to take all necessary measures in such regard;
- (b) to vote at the corresponding general meeting of shareholders of the Issuer in conformity with the result of the vote of the General Assembly with respect to the dissolution and winding-up of the Issuer; and
- (c) to vote at the corresponding general meeting of shareholders of the Issuer, in conformity with the result of the vote of the General Assembly with respect to the issuance of further Preferred Securities or of other preferred securities where the Issuer has not duly made the most recent distribution required in respect of the preferred securities issued and outstanding at the time.

##### **4.5 Compliance with the Preferred Securities**

The Guarantor agrees to comply with any obligations expressed to be undertaken by it under the terms of the Preferred Securities and shall procure that the Issuer or the board of directors of the Issuer, as the case may be, complies with all of its obligations under the Preferred Securities.

## 5. Termination of the Guarantee

This Guarantee shall terminate and be of no further force and effect upon payment of the Redemption Price or the Early Redemption Amount (as the case may be) or purchase and cancellation of all Preferred Securities or payment in full of the Liquidation Distribution, provided, however, that this Guarantee will continue to be effective or will be reinstated, as the case may be, if at any time payment of any sums paid under the Preferred Securities or this Guarantee must be restored by a Holder for any reason whatsoever.

## 6. General

### 6.1 Successions and Assigns

Subject to operation of law, all guarantees and agreements contained in this Guarantee shall bind the successors, assigns, receivers, trustees and representatives of the Bank and shall inure to the benefit of the Holders, each of whom shall be entitled severally to enforce this Guarantee against the Bank. The Bank shall not transfer its obligations hereunder without the prior approval of the Holders, provided, however, that the foregoing shall not preclude the Bank from merging or consolidating with, or transferring or otherwise assigning all or substantially all of its assets to, a banking organisation or any other entity permitted by applicable laws without obtaining any approval of such Holders. The Bank shall, in relation to any such merger, consolidation or transfer, publish a supplement to the Offering Circular.

The Bank shall notify (a) any request for approval from the Holders and (b) any merger, consolidation, transfer or assignment, each as referred to in this Clause 6.1, in accordance with Clause 6.4 (Notices).

### 6.2 No Transfer

This Guarantee is solely for the benefit of the Holders and is not separately transferable from the Preferred Securities.

### 6.3 Amendments

This Guarantee shall be changed only by agreement in writing signed by the Bank (a) with the prior approval of the Bank of Spain, and (b) (except for those changes (i) required by Clause 4.1 hereof; (ii) which do not adversely affect the rights of Holders; or (iii) necessary or desirable to give effect to any one or more transactions referred to in the proviso to Clause 6.1) with the prior approval of the Holders in accordance with paragraph 6.3 of the Conditions of the Preferred Securities.

### 6.4 Notices

- (a) Any notice, request or other communication required or permitted to be given hereunder to the Bank shall be given in writing by delivering the same against receipt therefore or by facsimile transmission (confirmed by mail) addressed to the Bank, as follows (and if so given by facsimile transmission), shall be deemed given upon mailing of confirmation, to:

**Banco Pastor, S.A.**

Paseo de Recoletos, 19

28004 Madrid

Spain

Facsimile: +34 91 522 1919

Attention: Isabel Sanchez Vallejo

The address of the Bank may be changed at any time and from time to time and shall be the most recent such address furnished in writing by the Bank to Citibank, N.A. as Principal Paying Agent.

- (b) Any notice, request or other communication required to be given by the Bank under this Guarantee will be given by it (i) so long as any Preferred Security is listed on the stock market of 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, and (ii) by mail to Euroclear and Clearstream, Luxembourg (in each case not less than 30 nor more than 60 days prior to the date of the act or event to which such notice, request or communication relates).

*In accordance with their published rules and regulations, each of Euroclear and Clearstream, Luxembourg will notify holders of securities accounts with it to which any Preferred Securities are credited of any such notices received by it.*

## **6.5 Annual Reports**

The Bank will furnish any prospective Holder, upon request of such Holder, with a copy of its annual report, and any interim reports made generally available by the Bank to holders of securities issued by it.

## **7. Law and Jurisdiction**

### **7.1 Law**

This Guarantee shall be governed by, and construed in accordance with, Spanish law.

### **7.2 Jurisdiction**

The Bank hereby irrevocably agrees for the benefit of the Holders that the courts of Madrid are to have jurisdiction to settle any disputes which may arise out of or in connection with this Guarantee and that accordingly any suit, action or proceedings arising out of or in connection with this Guarantee (together referred to as **Proceedings**) may be brought in such courts. The Bank irrevocably waives any objection which it may have now or hereinafter to the laying of the venue of any Proceedings in the courts of Madrid. Nothing contained in this clause shall limit any right to take Proceedings against the Bank in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other competent jurisdictions, whether concurrently or not.

**THIS GUARANTEE** is executed as of the date first above written on behalf of the Bank.

**BANCO PASTOR, S.A.**

By:

## DESCRIPTION OF THE ISSUER

### General

Pastor Participaciones Preferentes S.A. Unipersonal (the **Issuer**) was incorporated on 18 March 2004 for an indefinite period of time as a limited liability company (*sociedad anónima*) under the laws of Spain, with its registered office at Cantón Pequeño 1, La Coruña, Spain (telephone number: +34 98 112 7443). The Issuer is registered in volume 2827, folio 73, sheet 33062 of the Mercantile Registry of La Coruña (*Registro Mercantil*). The Issuer has no subsidiaries.

The Issuer has not conducted any operations or issued any preferred securities in any form to date. The paid-up share capital of the Issuer is Euro 60,200 divided into 602 ordinary shares, each with a nominal value of Euro 100. Shareholders of the Issuer are entitled to certain political rights (including to attend and vote at the shareholders' meeting of the Issuer) and to certain economic rights (including to receive distributions (if declared by the board of directors of the Issuer and approved in the shareholders' meeting)), all as more particularly described in the statutes of the Issuer and the *Ley de Sociedades Anónimas* (the **Spanish Corporations Law**). The entire share capital of the Issuer is fully paid-up and held by the Bank. There are no other shareholders of the Issuer. There are no measures in place to ensure that the Bank does not abuse its control of the Issuer; however, decisions taken by the shareholders will not affect the terms and conditions of the Preferred Securities.

The objects of the Issuer are to issue preferred securities pursuant to Law 13/1985 which are to be traded on national and international markets as specified in Article 2 of the Issuer's statutes (*estatutos*). The Issuer carries out the issue of preferred securities on the Group's behalf. The Issuer is dependent on the Bank to meet its obligations under the Preferred Securities. It will deposit the net proceeds from the issue of the Preferred Securities with the Bank under a deposit agreement (the **Deposit Agreement**) dated the Closing Date. The remuneration received by the Issuer under the Deposit Agreement will enable it to meet its obligations under the Preferred Securities.

### Management

The directors of the Issuer are Mr. Luis Alfredo Jiménez Fernández, Mr. Fernando Durante Pujante, Mr. José Manuel Saenz and Mr. Oscar Rama Penas. The principal activities of the directors of the Issuer are as employees of the Group; their functions within the Group are Treasury Director, Head of Capital Markets, General Auditor and Legal Counsel respectively. The professional address of each director is Cantón Pequeño 1, La Coruña, Spain. No conflicts of interest arise between the duties of the directors of the Issuer and their private interests or other duties. The Issuer does not itself comply with the Spanish corporate governance regime because it is not required to do so as its shares are not listed on a Spanish stock exchange. The Bank, as the parent of the Group, is however required to comply with the Spanish corporate governance regime as its shares are listed on a Spanish stock exchange – see “Description of the Group” below.

### Financial Statements

Under Articles 181 and 203 of the Spanish Corporations Law the Issuer is currently exempt from preparing audited financial statements. The Issuer published audited unconsolidated financial statements for the period ended 31 December 2004 and will publish audited financial statements in subsequent financial years. Such annual financial statements will relate to periods ending on 31 December in each year and will be published before 30 June of the following year. The Issuer does not intend to publish interim financial statements.

The Issuer's 2004 annual financial statements were prepared (and were required to be prepared) in accordance with Spanish generally accepted accounting principles (**Spanish GAAP**). Under the Spanish Corporations Law, any financial statements prepared by the Issuer must be prepared in accordance with Spanish GAAP. The Issuer will therefore prepare future annual financial statements in accordance with Spanish GAAP. To the extent that the Issuer is required to prepare future annual financial statements in accordance with International Financial Reporting Standards (**IFRS**) under Regulation (EC) No 1606/2002, the Issuer will also prepare future annual financial statements in accordance with IFRS.

### Material Contracts

The contracts that the Issuer will enter into (other than in the ordinary course of its business) which are material in connection with the issue of the Preferred Securities are the Subscription Agreement (as defined in “Subscription and Sale” below), the Paying Agency Agreement, the Deposit Agreement and the Public Deed of Issuance.

## SELECTED FINANCIAL INFORMATION — ISSUER

Set out below are extracts from the Issuer's audited financial statements for the period from (and including) 18 March 2004 (the Issuer's date of incorporation) to 31 December 2004. The Issuer prepared these financial statements in accordance with Spanish GAAP.

### Unconsolidated Balance Sheet

As of 31 December 2004  
(euros)

#### ASSETS

##### FIXED ASSETS:

Establishment Costs	—
Total Fixed Costs	—

##### CURRENT ASSETS:

Treasury	58,564.88
Total Current Assets	58,564.88

<b>TOTAL ASSETS</b>	<b>58,564.88</b>
---------------------	------------------

#### LIABILITIES

##### NET EQUITY:

Subscribed capital	60,200.00
Results of the year according to the statement of income	(1,635.12)
Total net equity	58,564.88

<b>TOTAL LIABILITIES</b>	<b>58,564.88</b>
--------------------------	------------------

##### COSTS:

Costs for amortisation of fixed assets	1,481.18
External services	153.94
Income from operations	—
Positive financial results	—
Income from ordinary activities	—
Positive extraordinary results	—
Income before tax	—
Corporate tax	—

<b>TOTAL COSTS</b>	<b>1,635.12</b>
--------------------	-----------------

### Unconsolidated Statement of Income

For the period ended 31 December 2004  
(euros)

#### INCOME:

Net volume of business	—
Exploitation losses	(1,635.12)
Negative financial results	—
Losses due to ordinary activities	—
Losses before taxes	(1,635.12)

<b>NET LOSS FOR THE YEAR</b>	<b>(1,635.12)</b>
------------------------------	-------------------



## DESCRIPTION OF THE GROUP

### Introduction

Banco Pastor, S.A. (the **Bank** or the **Guarantor**), a limited liability company (*sociedad anónima*) organised and existing under the laws of Spain, was first established in 1776 as a retail bank mainly operating in the Galician region of North-West Spain. The Bank's registered office is Cantón Pequeño 1, La Coruña, Spain. The Bank's telephone number is +34 91 524 5100. The Bank adopted its current name in 1925. The Bank is registered with the Mercantile Register of La Coruña (*Registro Mercantil*) in volume 91, book 3, section 3, sheet 107, page 33, and it is incorporated for an indefinite period of time. The Bank is also registered with the special register of banks and bankers at the Bank of Spain under the number 0072.

The Bank offers wholesale and retail banking services, catering mainly to individuals and small and medium size businesses (**SMEs**) in Spain. At 31 December 2004, the Bank and its subsidiaries (the **Group**) carried out the Group's commercial banking activities through its 558 branches, 49.1% of which are located in Galicia. At that date, the Group had 3,639 staff. The Group combines its extensive presence in Galicia with a significant presence in the most important financial centres of Spain. The development of alternative business lines, such as telephone and electronic banking, complements the Group's activities outside Galicia. More than 50% of the Group's total deposits are from non-resident Galicians.

The Group is Spain's eighth largest banking group measured by total assets at 31 December 2004. At 31 December 2004, the Group had total assets of approximately €13,708,626,000.

The Bank's shares are listed on all the Spanish stock exchanges. The Bank's main shareholder (*Fundación Pedro Barrié de la Maza*), which holds 40.71% of its share capital, is a charitable foundation linked to the founder's family. The remainder of the Bank's shares are mainly held by a large number of private shareholders.

### Ratings

As at date hereof, the short-term credit ratings of the Bank are P-1 and A-1 and the long-term credit ratings of the Bank are A2 and A, in each case as assigned by Moody's and S&P respectively. The strategic plan and expected growth and development of the Group were seen as very positive by the ratings agencies. As a result, toward the end of 2003, S&P and Moody's changed the outlooks on their ratings of the Bank from stable to positive.

S&P's revision reflects its confidence in the successful implantation of a strategic plan that is expected to strengthen the Bank and to make it a solid midsize bank in the Spanish domestic sector. As a result of its recent annual evaluation, Moody's announced on 22 February 2005 that it was reviewing its ratings of the Bank for a possible upgrade. According to the agency, the initiation of the Bank's expansion plan has underscored its capacity to generate recurrent profit. At the same time, the Bank's efforts to re-launch its commercial activity, control risks and streamline costs have significantly improved profitability, its cost to income ratio and its solvency ratio.

### Group

The Bank is the parent company of the Group. The following three tables set out a list of the Bank's subsidiaries and other associated companies. Each table details the relevant entity's corporate name, location, activity and percentage held. The first table lists entities controlled by the Bank and whose results are consolidated with those of the Bank. The second table lists entities controlled by the Bank but whose results are not consolidated with those of the Bank since the relevant entities carry out non-banking activities. The third table lists entities that are associated with the Bank: as for the entities listed in the second table, the results of these entities are not consolidated with those of the Bank.

*Table of consolidated subsidiaries*

Company	Location	Activity	Percentage
Aurica XXI, S.C.R., S.A.	Barcelona	Venture capital	50.00
Accion de Cobro, S.A.	La Coruña	Auxiliary finance company	100.00

<b>Company</b>	<b>Location</b>	<b>Activity</b>	<b>Percentage</b>
Bolshispania, S.A., S.I.M.C.A.V.	Madrid	Securities investment company	26.23
Gespastor, S.A., S.G.I.I.C.	Madrid	Fund manager	100.00
Inverpastor, S.A., S.I.M.C.A.V.	La Coruña	Securities investment company	14.63
Pastor International Capital	Cayman Islands	Financial company	100.00
Pastor Participaciones Preferentes, S.A.	La Coruña	Financial company	100.00
Pastor Servicios Financieros, S.A., E.F.C.	La Coruña	Financial company	100.00
Sobrinos de Jose Pastor, S.A.	La Coruña	Portfolio company	100.00
Sobrinos de Jose Pastor Inversiones, S.A.	La Coruña	Portfolio company	100.00
Universal Support, S.A.	La Coruña	IT services	100.00

*Table of non-consolidated subsidiaries*

<b>Company</b>	<b>Location</b>	<b>Activity</b>	<b>Percentage</b>
Abrente Gestora Galicia, S.L.	La Coruña	Services	100.00
B. Pastor Agencia de Seguros, S.A.	La Coruña	Insurances	100.00
Espato de Villabona, S.A.	Madrid	Mining	100.00
Essential Information Systems, S.A.	La Coruña	IT services	100.00
Finisterre, S.A.	La Coruña	Hotel industry	100.00
General de Terrenos y Edificios, S.L.	La Coruña	Property	100.00
Gestora Inmobiliaria La Toja, S.A.	Pontevedra	Property	100.00
Grupo La Toja Hoteles, S.L.	La Coruña	Fund manager	100.00
Hullas de Coto Cortes, S.A.	La Coruña	Mining	100.00
La Toja, S.A.	La Toja	Hotel industry	100.00
Lignitos de Castellon, S.A.	Madrid	Mining	100.00
Pastor Correduria de Seguros, S.A.	La Coruña	Services	100.00
Pastor Vida, S.A.	La Coruña	Insurances	100.00
Ruta Systems, S.L.	La Coruña	Services	100.00
Sermatica, S.A.	La Coruña	IT services	100.00

*Table of associated companies*

<b>Company</b>	<b>Location</b>	<b>Activity</b>	<b>Percentage</b>	
			<b>Direct</b>	<b>Indirect</b>
Gestión de Marcas y Productos, S.A.	Gijón	Services	0.00	40.00
Icho Consulting, S.L.	Madrid	Portfolio Management Company	21.33	2.64
Inver Alia, S.L.	Madrid	Portfolio Management Company	17.24	0.00
Inversiones Ibersuizas, S.A.	Madrid	Portfolio Management Company	16.48	3.00
Mercavalor, S.A.	Madrid	Stockbroking	20.01	0.00
Moura Consulting, S.L.	Madrid	Portfolio Management Company	0.00	48.35
Pérez Torres Handling, S.A.	Pontevedra	Services	35.02	0.00
S.A. Internacional de Terrenos y Edificios	La Coruña	Property	50.00	0.00
Saite-Cobal, S.A.	Madrid	Property	0.00	50.00
Saite-La Grela, S.A.	La Coruña	Property	0.00	100.00
Saite-Habirare, S.A.	La Coruña	Property	0.00	50.00
Unión Fenosa, S.A.	Madrid	Utilities	3.00	0.05
Vilamar Gestión, S.L.	Seville	Property	0.00	32.00

Below is summary information on the principal financial subsidiaries of the Group – see the first table above:

- *Pastor Servicios Financieros, S.A.* – After concluding the restructuring process launched in 2003, the commercial reorientation of this company was completed in 2004. This is combined with a strategy of specialisation in all stages of payment methods.
- *Acción De Cobro, S.A.* – This company was incorporated in 1996 and is exclusively dedicated to the collection of third-party debt. As of 31 December 2004, the number of debtors with unpaid debts was 295,000 cases, constituting 267.9% growth in numbers as against the previous year. 84.1% of this total corresponds to the Group's external holdings. Profit for 2004 rose 88.0% as against the preceding year: this increase benefited from the significant increase in the recovery of the external holdings of the Group, amounting to 47.3%.

- *Gespastor, S.A., S.G.I.I.C.* – Gespastor, a fund manager of collective investment institutions and wholly owned by the Bank, ended 2004 with €1,706,943,000 in funds under management as against €1,424,114,000 a year earlier, constituting a 19.86% increase.
- *Inverpastor, Sicav* – Inverpastor registered a 5.92% increase in profit for 2004, at €1,106,000.
- *Bolshispania, S.A. Sicav* – Bolshispania registered a 6.58% increase in profit for 2004, with profit after tax at €944,000.
- *Pastor Vida, S.A. De Seguros y Reaseguros* – Pastor Vida registered €3,200,000 in net profit, constituting an increase of over 75% as against the previous year.

### Summary Financial Information

The following table sets out the main consolidated financial data of the Group for the last three years:

(after dividend distribution)	2004	2003	2002	% Change	
				2004/2003	2003/2002
<b>Results (thousands of euros)</b>					
Profit before tax	125,111	89,528	84,077	39.75%	6.48%
Net Profit	80,370	63,442	83,138	26.68%	-23.69%
Attributable profit	79,104	61,690	83,653	28.23%	-26.25%
<b>Main figures (thousands of euros)</b>					
Lending (gross)	11,880,012	8,944,790	7,111,712	32.81%	25.78%
Client funds	9,899,264	8,208,511	6,863,579	20.60%	19.60%
Net equity after distribution of results	889,741	628,337	613,329	41.60%	2.45%
Own Resources (computable according to Bank of Spain)	1,493,947	910,557	779,919	64.07%	16.75%
Average own resources	655,633	605,550	569,260	8.27%	6.37%
Average total assets	12,147,570	9,386,397	9,321,646	29.42%	0.69%
Investment and pension funds	1,886,770	1,615,788	1,430,075	16.77%	12.99%
<b>Data per share (euros)</b>					
Book value (%)	1360.02%	1152.54%	1125.01%		
Profit per share	1.209	1.132	1.534		
Dividends per share	0.520	0.520	0.520		
Share price <sup>(1)</sup>	24.31	23.49	17.14		
<b>Ratios</b>					
Net Profit average own resources (ROE) (%)	12.07	10.19	14.60		
Share price net profit (P/E)	20.11	20.75	11.17		

#### Note:

- (1) Share price adjusted after capital increase effected in November 2004. The capital increase resulted in the issue of 10,903,561 shares that represented 20% of the capital stock prior to the increase. The issue price was set at €19.764 per share, which represented a 20% discount on the average share price for the previous six months, for a total volume of €215,500,000. The new shares were listed on the four Spanish stock markets and in the continuous market from 2 December, 2004.

### Principal activities and markets

The Bank offers wholesale banking services, predominantly retail commercial banking, catering mainly to individuals and SMEs in Spain. The Bank, through its subsidiaries, is also engaged in offering specialist services such as investment and pension fund management, leasing, stockbroking and consumer finance. At 31 December 2004, the Group's commercial banking activities were carried out through 546 branches, 54.7% of which are located in Galicia. At that date, the Group had 3,639 staff. The Group combines its extensive presence in Galicia together with a significant presence in the most important financial centres of Spain. The development of alternative channels, such as telephone and electronic banking, complements the Group's activity outside its natural region. The non-resident sector grew 33.5% in 2004.

The Group's lending portfolio is divided roughly into the following areas: 44.9% to individuals, 45% to SMEs, 9.8% to large corporates and 0.3% to the public sector.

The Group has increased its loan portfolio during 2004 by 44.28% (includes securitisation). At the same time, Customer deposits increased by 16.5% and Customer deposits plus Liabilities increased by 23.4%.

Key information on the Group's principal activities is as follows:

- *Growth in network of agents* – At the end of 2004, the Group had 467 agents, accounting for €614,500,000 turnover. This turnover figure represents 111.16% growth, as against the end of 2003. Throughout 2005, this growth is expected to continue, both in the number of agents and the agent's contribution to the balance sheet.
- *Automated telling machines (ATMs)* – The Group concluded 2004 with a total of 692 ATMs, 4% more than in 2003. A total of €10,300,000 was involved in transactions that were made through these ATMs, resulting in €634,905,000 being withdrawn from the Group's ATMs.
- *Cards* – The number of debit cards in circulation as at 31 December was 305,047, 10% more than at the end of 2003. Billing on these cards was €894,431,000. The number of credit cards in circulation as at 31 December 2004 was 171,797, constituting a 16% increase as against the preceding year. Billing on these cards amounted to €311,110,000, amounting to an 11.5% increase on 2003.
- *Non-residents* – The department of non-residents, which coordinates the representative offices and the Miami branch, registered in 2004 year-on-year increases of 33.5% in investment, 7.5% in funds under management and 5.4% in the number of customers.
- *Private banking* – The Group continued to make progress in its efforts to achieve maximum efficiency. It renewed the greater part of management teams in its branches and registered 30% growth in funds under management and 23% growth in security portfolios.
- *Telephone and online banking* – Online banking registered significant growth, with a 35% increase in online customers as against 2003. As at the end of 2004, 25% of transfers, 67% of stock-market orders and 73% of the transmission of payments and collections were made using the internet. The Group offers telephone banking through *Línea Pastor*. The number of users rose 20% as against 2003, with improvements registered in indicators of quality.

## Branches

The evolution of the Group's branches over recent years is shown in the following table:

Years	Operative offices as of 31 December	Percentage increase upon previous year	Growth index (base 1999)
2004	558	7.10%	122.91%
2003	521	10.38%	114.76%
2002	472	0.43%	103.96%
2001	470	2.84%	103.52%
2000	457	0.66%	100.66%

At 31 December 2004, 546 of the Group's branches were branches of the Bank and the remaining 12 branches were of other members of the Group. As at that date, the Bank's breakdown of branches by region was as follows:

Region	Number of Bank's branches
North Galicia	97
Central Galicia	96
South Galicia	77
Central	62
Catalonia	45
Levante	43
Castille-Leon	36
Andalucia/Extremadura	31
North Spain	19
Asturias	18
Aragon/Navarra/Rioja	14
Canary Islands	8
<b>Total</b>	<b>546</b>

## Strategy

The new strategic plan implemented by the Group during 2003 and 2004 aimed to expand its presence in the Spanish market. A further objective of the plan is to enable the Group to compete effectively through profitable growth and substantial efficiency improvements.

The objectives for implementing the strategic plan were:

- Reinforce the customer orientation of the bank and its branches.
- Increase the commercial capacity of the Group through profitable and secure growth.
- Obtain substantial efficiency and productivity gains.

This new plan led to a repositioning of the Bank's strategy from a product driven to a client oriented business model.

Key business highlights for the Group are as follows:

- *Balanced growth* – The Group intends to double the size of the balance sheet in three years; at the end of 2004, the Group had achieved 85% of increase in intended turnover.
- *Safe growth* – The Group intends that its loan growth is backed by the best asset quality. Since 1999, the non-performing loan ratio of the Group has been consistently below the banking sector average (including, for this purpose, savings banks (*cajas*)). The Group also hopes to achieve sustained profitable growth balanced with highest asset quality: management views secured loans as the core element in capturing customers and, at the end of 2004, 53% of the loan book was asset backed.
- *Profitable growth* – Growth must be compatible with obtaining an adequate return in terms of profitability. For this reason a new branch model has been established. This is a universal model and is based on small (three employees) and cost efficient branches which are intended to achieve break-even within 18 to 24 months of opening.
- *Growth in the richest and best potential areas of Spain* – The Group intends to prioritise growth in the Mediterranean area (Andalucia, Levante and Catalonia), the main urban areas (by reinforcing its presence in Madrid and Barcelona) and in urban Galicia.
- *Improve efficiency* – To improve our processes in order to attain an efficiency ratio of 45%, in line with our most efficient competitors, a balance between costs and productivity must be kept. In terms of costs it is necessary to: establish organisational optimisation; streamline central headquarters; set in place cost reduction programmes; and streamline processes linked to the sales process. In terms of productivity, the goals are to: increase financial volume per employee by 32%; increase operating profit per employee by 14.7%; increase average monthly growth per branch; and develop a unique commercial screen.

### **Performance in 2004**

The Bank's consolidated results after tax for 2004 amounted to €80,370,000, constituting a year-on-year increase of €16,928,000 or 26.7%.

Other significant developments in 2004 include the following:

- Growth was sound, as the delinquency payment rate fell from 1.00% as of December 2002 to 0.66% in the same period in 2003, and to an all-time low of 0.52% at the end of 2004.
- Return on equity rose from 10.19% at the end of 2003 to 12.07% in 2004, an increase of 190 basis points.
- There was a favourable development of the cost to income ratio, from 61.46% in December 2002 to 55.40% a year later, and to 50.84% at the end of 2004. This constitutes an improvement of 1,062 basic points in two years despite having opened more than 39 branches more than planned.
- As of December 2004, the Group had 558 branches, constituting a net increase, of 37 branches as against December 2003 and of 86 branches as against December 2002.
- The workforce increased in net terms by 332 employees as of December 2004 to 3,639 and the network of the Group's agents nearly quintupled, from 95 in December 2002 to 467 in December 2004.
- Over the last 24 months, financial volume and operating profit per employee have risen significantly, the increases being 52.8% and 56.2%.

### **Equity and capital ratios**

The Group's equity as of 31 December 2004 totalled approximately €889,741,000, after the 2004 profit distribution proposed to the Bank's Shareholders. The changes in equity during 2004 have meant an



increase of approximately €261,404,000 over that of December 2003. Thus, the Group's reserves total approximately €583,333,000, 7.44% more than in 2003.

As of 31 December 2004, and after applying the Bank of Spain's regulatory criteria once the distribution of the year's consolidated profits was made, the calculable equity of the Group was approximately €1,493,947,000. Of this figure, approximately €885,070,000 was considered basic or first class assets, which represented 59% of all calculable resources and approximately €611,630,000 was considered complementary, or second class assets.

The Group's solvency ratio is 11.76%, which is 3.76% above the minimum 8% solvency ratio required by the Bank of Spain, or approximately €477,551,000 over the minimum assets required to cover the credit risk volume and balancing entries, foreign exchange rates and market risk assumed by the Group. The minimum equity required, approximately €1,016,396,000, is amply covered by basic reserves, and is approximately €376,782,000 over the minimum. The surplus will allow the Group to undertake future growth strategies regarding the balance and optimization of the Group's asset management.

The Group's computable net equity (according to the existing Basle criteria) rose to €1,718,869,000 (comprising €946,805,000 tier 1 capital and €772,064,000 tier 2 capital) as at 31 December 2004, after the proposed distribution of profits.

The solvency ratio of the Group rose to 13.29%, which exceeds the minimum 8% ratio required by law. This represents a surplus of €684,479,000 over the minimum capital resources required to cover the volume of credit and counterparty risk, exchange and market risk, which are undertaken by the Group. The minimum capital resources required by law, €1,034,390,000, are entirely supplied by basic shareholders' equity. Maintaining a high solvency is a basic strategic guideline for the Group. As of 31 December 2004, the Bank's capital stock consisted of €65,421,367 fully subscribed and paid shares of €1 par value each.

## **Risk management**

The activities of the Group involve the assumption of certain risks that must be managed and controlled in such a way that the Group is at all times protected by appropriate systems of control. Basic guidelines have been established regarding the management and control of the different risks incurred by the Group in its activities, including the following:

- *Active participation and supervision by the executive body of the Bank* – The board of directors and the management committee actively participate in the approval of general business strategies and define the policies of assumption and management of risks, ensuring that risk policies, controls and monitoring systems are appropriate and that lines of authority are clearly defined.
- *General environment of internal control* – This must take place within a culture of risk management that, driven from within the board of directors, must be communicated to all levels of the organisation, with a clear definition of the objectives that avoid the incurring of unnecessary risk or the taking of inappropriate positions.
- *Selection of appropriate risk-measurement methodologies* – The Group must use appropriate methodologies for the measurement of risk that make it possible to detect adequately the different factors of risk to which it is exposed.
- *Evaluation, analysis and monitoring of assumed risk* – The identification, quantification, control and ongoing monitoring of risk must allow for the establishment of a relationship between the return on transactions and assumed risk.

The following are the main risks involved in the Group's activity: credit risk; counterparty risk; market risk; interest-rate risk; and liquidity risk.



### *Credit risk*

The risk committee, under the authority of the board of directors, is the highest decision-making body in this regard, and therefore:

- it establishes strategic policies of risk, evaluates performance and development, and establishes the corrective measures considered to be the most appropriate for each case; and
- it is in charge of ratifying measures in consideration that are beyond the capacity of other decision-making bodies.

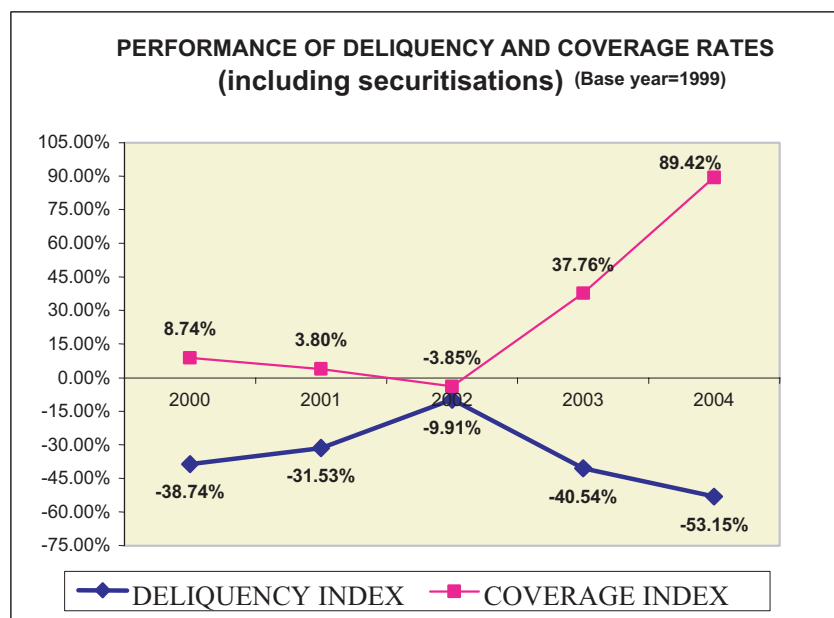
For several years, the Bank has used specific scoring systems of individuals (mortgage loans, consumer loans and credit cards), freelance workers, small companies, SMEs and large corporations. It has also used a rating system for large corporations, based on the historical information the Bank has on this segment, which allows it to classify companies by their level of risk. On a monthly basis, specially designed reports are generated to verify the performance of evaluation systems and, when appropriate, adopt the necessary measures regarding the Bank's credit-risk policy. Periodical revisions are also performed on all automatic evaluation systems.

The Bank's internal model is in accord with Basle II credit-risk requirements and those of the corresponding EU directive.

Despite an increase in the exposure to risk, largely stemming from an increase in lending, the Group's risk quality indicators have continued to register good performance since 2002. The risk quality indicators used by the Group are delinquency and coverage rates. The delinquency rate is calculated by expressing the Group's bad debts as a percentage of the aggregate of its bad debts and debts. The coverage rate is calculated by expressing the Group's insolvency fund provision as a percentage of its bad debts less those bad debts which have not been mandatorily provided for. Delinquency and coverage rates for the last three years are as indicated below:

(%)	2004	2003	2002
Delinquency rate	0.52	0.66	1.00
Coverage rate	327.07	237.87	166.03

The following chart reflects the performance of changes in delinquency and coverage rates using 1999 as the base year:



### *Counterparty risk*

The Group considers this to be credit risk stemming from the Group's activity in financial markets as a result of bankruptcy resulting from the counterparty failing to meet contractual obligations. When operating in financial markets, the treasury department assumes credit risk for the positions taken in public or private fixed-income securities, deposits, shares, temporary acquisition of assets, etc. that are recorded on the balance sheet and for the positions generated through off-balance-sheet OTC instruments.

Annually, the board of directors ratifies the counterparty limits proposed by the management committee, in such a way that operation in financial markets is only possible with entities within an authorised limit. Authorised limits are revised and updated on a yearly basis. Two limits are established: a single limit for each economic group and a specific limit for each of the individual entities involved.

The control of counterparty limits is carried out through an integrated and real-time system. Through this system, it is possible to check at any given moment the line available with any entity and in any product and maturity.

As at 31 December 2004, 99.89% of the counterparty risk was concentrated in financial entities with an A or AA credit rating and only 0.06% of the risk was maintained with unrated Spanish financial entities. Further at that date, 88.17% of counterparty risk involved financial entities of EMU member states (except Spain).

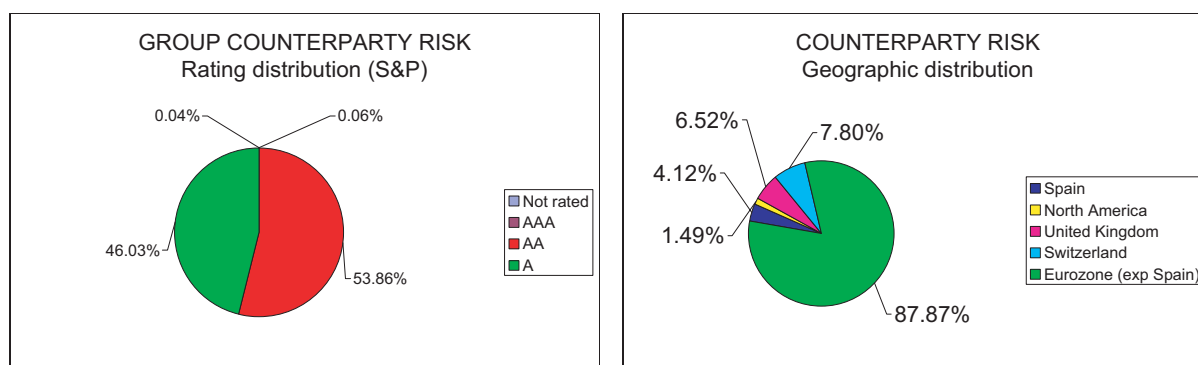
In relation to derivatives, the following is a breakdown of the book value of the derivatives of the Group as of 31 December 2004, 2003 and 2002.

(thousand of euros)	Trading	2004 Hedging	TOTAL	2003	2002
<b>Interest-rate risk</b>					
– FRAS (agreements on interest rates)	—	—	—	23,000	343,000
– Interest-rate swaps <sup>(1)</sup>	2,905,758	302,698	3,208,456	2,071,915	4,757,674
– Futures on interest rates	14,336	—	14,336	29,000	453,793
– Options	24,770	466,993	491,763	490,736	432,447
– Other transactions	—	10,183	10,183	10,982	16,556
<b>Total</b>	2,944,864	779,874	3,724,738	2,625,633	6,003,470
<b>Forex risk</b>					
Forward currency transactions	71,947	550,049	621,996	571,430	1,335,083
Options	—	—	0	3,168	—
<b>Total</b>	71,947	550,049	621,996	574,598	1,335,083
<b>Total</b>	3,016,811	1,329,923	4,346,734	3,200,231	7,338,553

**Note:**

(1) 80% of the interest-rate swaps are related to the Bank's loan securitisations.

The following charts reflect the Group's counterparty risk at 31 December 2004:



### Market risk

Market risk is associated with activities carried out by the departments of financial markets or treasury and is defined as the risk of loss to which the entity is exposed as a result of positions taken in products that are sensitive to changes in the prices of different markets (interest rates, exchange rates, equity, volatility, etc.) Annually, the board of directors ratifies the limits of market risk proposed by the management committee. On a yearly basis, the authorised limits are revised and updated. These limits may be modified at any time upon authorisation of the management committee in the event of changes taking place in financial markets or in order to improve the management and monitoring of assumed risks.

An overall limit has been established for the whole of the activity of the treasury department in financial markets, in such a way that the overall risk assumed by the different portfolios/operating units may not be surpassed at any time. This limit is measured in terms of diversified value at risk (**VaR**).

VaR is a statistical estimate that determines the maximum loss expected under normal market conditions for a group of positions in a predetermined space of time and for a given level of confidence, as the consequence of changes in market prices. The methodology applied in order to estimate market risk is based on a matrix of variances and covariances. In order to verify the reliability of this methodology, analyses are back-tested. Upon comparison of daily VaR data and actual daily results for each portfolio/operating unit, VaR estimates are verified to be within the applied level of confidence.

In addition to each portfolio/operating unit, along with the VaR limit, other complementary limits are assigned, depending on the characteristics of each, these include: overall sensitivity to relevant market-risk factors; sensitivity by interest-rate tranche; sensitivity by product; and maximum open size/position.

The following table sets out information about VaR during the fourth quarter of 2004:

<b>31 December 2004</b>	<b>Minimum</b> <i>(thousands of euros)</i>	<b>Medium</b>	<b>Maximum</b>
44.17	33.68	87.68	144.99

#### *Interest-rate risk*

Changes in market interest rates can adversely affect the financial situation and equity value of the Bank and the Group. This is known as structural interest-rate risk. The assets and liabilities committee evaluates and manages the Group's interest-rate risk. This management body establishes appropriate management policies and limits for risk control, as well as strategies to be carried out depending on the results of the analyses performed.

The methodologies used by the Bank to measure and manage structural interest-rate risk are designed to analyse the sensitivity of the balance sheet to changes in interest rates, both in terms of results and economic value. The sensitivity gap calculated for the different currencies indicates the volumes of the different sensitive assets, liabilities and off-balance-sheet transactions classified by maturity or re-pricing. It is a static analysis that provides information on the balance-sheet structure (allowing for the identification of risk concentration by maturity) and on sensitivity to interest rate variance.

The table below indicates the sensibility gap as at 31 December 2004 (in thousands of euros ex-trading):

	<b>Up to 1M</b>	<b>1M to 3M</b>	<b>3M to 6M</b>	<b>6M to 12M</b>	<b>&gt;12M</b>	<b>Total</b>
<b>SENSITIVE ASSETS</b>	<b>2,194,548</b>	<b>3,527,413</b>	<b>2,052,033</b>	<b>4,085,089</b>	<b>1,131,620</b>	<b>12,990,703</b>
Money market	651,237	27,807	—	2,912	—	681,956
Lending	1,455,046	3,409,233	2,023,296	4,082,166	1,122,375	12,092,116
Securities	88,264	90,373	28,737	12	9,245	216,632
<b>SENSITIVE LIABILITIES</b>	<b>4,778,160</b>	<b>3,057,228</b>	<b>1,463,010</b>	<b>1,322,850</b>	<b>2,196,611</b>	<b>12,817,859</b>
Money market	1,650,351	204,550	306,080	34,096	—	2,195,077
Client funds	2,537,809	1,868,868	1,156,930	1,288,754	2,196,611	9,048,972
Issuance	590,000	983,810	—	—	—	1,573,810
Tranche gap	(2,583,612)	470,185	589,023	2,762,240	(1,064,991)	172,844
Accumulated gap	(2,583,612)	(2,113,427)	(1,524,405)	1,237,835	172,844	172,844

#### *Liquidity risk*

The purpose of management and control of structural liquidity risk is to guarantee that the Group maintains ample levels of liquidity to cover its financing needs in the short and long term under normal market conditions. The assets and liabilities committee evaluates and manages the Group's liquidity risk. This committee also establishes appropriate policies and limits in order to maintain control of liquidity risk.

The diversification of sources of financing in 2004 provided the group with a wide range of financial assets to raise funds in different markets. This measure constitutes a fundamental part of the

structural liquidity management because it allows for the optimization of costs and financing periods through the contracting of alternative financing instruments to cover liquidity needs.

Liquidity needs are evaluated through the use of the liquidity gap and projected liquidity needs in the time horizons of 12 and 24 months. This makes it possible to establish the financing plan for the year and for the time frame of the Group's planned expansion. Simultaneously, the volume of liquid assets is periodically analysed, taking into account at all times the Group's targeted solvency.

The table below indicates the liquidity gap as at 31 December 2004 (in thousands of euros ex-trading):

	Up to 1M	1M to 3M	3M to 6M	6M to 12M	>12M	Total
<b>SENSITIVE ASSETS</b>	<b>1,693,679</b>	<b>1,294,347</b>	<b>642,846</b>	<b>985,752</b>	<b>8,374,078</b>	<b>12,990,703</b>
Money market	651,237	27,807	—	2,912	—	681,956
Lending	1,039,804	1,261,012	617,870	961,508	8,211,922	12,092,116
Securities	2,638	5,528	24,976	21,333	162,156	216,632
<b>SENSITIVE LIABILITIES</b>	<b>4,103,681</b>	<b>2,019,662</b>	<b>1,358,294</b>	<b>1,845,839</b>	<b>3,490,383</b>	<b>12,817,859</b>
Money market	1,650,351	204,550	306,080	34,096	—	2,195,077
Client funds	2,453,330	1,815,112	1,052,213	1,311,743	2,416,573	9,048,972
Issuance	—	—	—	-500,000	1,073,810	1,573,810
Tranche gap	(2,410,002)	(725,315)	(715,447)	(860,087)	4,883,696	172,844
Accumulated gap	(2,410,002)	(3,135,317)	(3,850,764)	(4,710,851)	172,844	172,844

The following is a description of the different channels of financing used to manage the Group's liquidity.

#### *Senior debt*

The passing in 2003 of Law 19/2003, which regulates the movements of capital and economic transactions, has significantly changed applicable laws on the issuance of preferred stock and other debt instruments, establishing a limit for the issuance of debt and preferred stock from tax havens.

Outstanding senior debt (simple debt) as of 31 December 2003 corresponds to issues of the Bank's subsidiary Pastor International Finance. In this regard, the last issue under the Group's EMTN programme matured in June 2004 and the EMTN programme was subsequently cancelled.

On 7 April 2004, the Group's second bond issuance took place as part of the Group's simple fixed-income securities programme (registered with the Spanish Securities Market Commission (*Comision Nacional del Mercado de Valores* – **CNMV**) on 2 December 2003). The principal amount of the issue was €500,000,000.

The following is a breakdown of outstanding senior debt in issue as at 31 December 2004:

Issuer	Currency	Volume (€ million)	Average yield (act/360)	Type	Maturity
Banco Pastor	EUR	500.0	2.229%	Straight bonds	19/12/2005
Banco Pastor	EUR	500.0	2.265%	Straight bonds	10/04/2007
<b>TOTAL</b>		<b>1,000.0</b>	<b>2.245%</b>		

#### *Subordinated debt*

Issuance of this type is subordinated and, in creditor priority, is lower-ranked than all common creditors. On 2 October 2003, the Bank launched its first issuance of subordinated debt, amounting to €108,800,000; this issue was placed in the institutional market. Previously, two issues had been launched by Pastor International Capital, a subsidiary created for this purpose. On 11 June 2004, the Bank launched its first issuance of special subordinated debt (U.T.T.), amounting to €300,000,000; again this was placed in the institutional market.

The following is a breakdown of outstanding subordinated debt in issue as at 31 December 2004:

Issuer	Currency	Volume (€ million)	Average yield (act/360)	Type	Maturity
Pastor International Capital	EUR	120.0	2.800%	10/03/2000	10/03/2010
Pastor International Capital	EUR	60.0	3.885%	15/03/2002	15/03/2012
Banco Pastor	EUR	108.8	2.724%	02/10/2003	30/09/2013
Banco Pastor	EUR	300.0	3.016%	11/06/2004	Perpetual
<b>TOTAL</b>		<b>588.8</b>	<b>3.048%</b>		

### *Securitisations*

Since 1999, the Bank has been actively involved in different securitisations totalling approximately €3,126,000,000. Of the total securitised amount, approximately 43% corresponds to loans extended to SMEs. The greater part of the rest corresponds to mortgage loans. Specifically, in 2003, the Bank participated in several securitisations totalling approximately €1,326,000,000, of which €759,600,000 corresponds to securitisation funds established in 2003. Of these funds, €265,000,000 corresponds to loans extended to SMEs. The greater part of the rest corresponds to mortgage loans. Two new securitisations were seen in 2004, totalling approximately €1,800,000,000: one involved mortgage loans and amounted to €1,000,000,000.

### *Promissory notes*

The Bank's third promissory note programme was registered with the CNMV on 16 December 2004. The programme's amount is €2,000,000,000, but may be increased to €3,000,000,000. Outstanding promissory notes as of 31 December 2004 amounted to €1,121,950,000, with an average yield (act/365) of 2.237%.

### **Material contracts**

The contracts that the Guarantor will enter into (other than in the ordinary course of its business) which are material in connection with the issue of the Preferred Securities are the Subscription Agreement, the Paying Agency Agreement, the Deposit Agreement and the Guarantee.

### **Management**

The following table sets out information on the members of the Bank's board of directors, their functions in the Bank and the principal activities performed by them outside the Group. The board of directors has established a Standing Committee, an Audit and Control Committee, an Appointments and Compensation Committee and a Management Committee. The following table sets out information on the members of the Bank's board of directors and its Management Committee, their functions in the Bank and the principal activities performed by them outside the Group.

**Board of Directors**

<i>Name</i>	<i>Function</i>	<i>Principal activities outside Group</i>
Ms Carmela Arias y Díaz de Rábago,	Honorary	None
Condesa de Fenosa	Chairwoman	
Mr José María Arias Mosquera	Chairman	None
Mr Jorge Gost Gijón	Managing Director	None
Mr Vicente Arias Mosquera	Vice Chairman	None
Mr Ramón Linares Martín de Rosales	Vice Chairman	None
Mr Fulgencio García Cuéllar	Director	None
Mr Alfonso Porras del Corral	Director	None
Mr José Luis Vázquez Mariño	Director	Director of La Voz de Galicia, S.A. and Industrias del Diseño Textil, S.A. (Inditex)
Mr Marcial Campos Calvo-Sotelo	Director	None
Mr Miguel Sanmartín Losada	Secretary	None

**Management Committee**

<i>Name</i>	<i>Function</i>	<i>Principal activities outside Group</i>
Mr José María Arias Mosquera	Chairman	None
Mr Jorge Gost Gijón	Member	None
Mr Amadeu Font Jorba	Member	None
Mr Fernando Díaz Fernández	Member	None
Mrs Yolanda García Cagiao	Member	None
Mr José Ramón Álvarez Fernández	Member	None
Mrs Gloria Hernández García	Member	None
Mr José Manuel Sáenz García	Member	None
Mrs Susana Quintás Veloso	Member	None

The business address of each member of the Bank's board of directors and its Management Committee is Cantón Pequeño 1, La Coruña, Spain. No conflict of interest arises between the duties of members of the Bank's board of directors and its Management Committee and their private interests or other duties.



## SELECTED FINANCIAL INFORMATION — GROUP

### ANNUAL FINANCIAL STATEMENTS

Set out below are extracts from the Bank's audited annual consolidated financial statements for the years ended 31 December 2004 and 2003. The Bank prepared these financial statements in accordance with Spanish GAAP.

#### Consolidated Balance Sheet

	<i>As of 31 December 2004 and 2003</i> <i>(thousands of euros)</i>	
ASSETS	2004	2003
<b>CASH ON HAND AND DEPOSITS AT CENTRAL BANKS</b>	<b>257,129</b>	<b>172,394</b>
Cash on hand	98,528	84,540
Bank of Spain	158,310	87,606
Other central banks	291	248
<b>GOVERNMENT DEBT SECURITIES</b>	<b>11,380</b>	<b>9,006</b>
<b>DUE FROM CREDIT INSTITUTIONS</b>	<b>718,052</b>	<b>401,715</b>
Demand deposits	29,563	40,536
Other	688,489	361,179
<b>CREDITS, LOANS AND DISCOUNTS</b>	<b>11,632,496</b>	<b>8,788,802</b>
<b>DEBENTURES AND OTHER FIXED-INCOME SECURITIES</b>	<b>204,234</b>	<b>236,869</b>
Issued by the public sector	—	—
Other	204,234	236,869
<b>COMMON STOCKS AND OTHER EQUITY SECURITIES</b>	<b>96,182</b>	<b>86,836</b>
<b>INVESTMENTS IN NON-GROUP COMPANIES</b>		
Other	150,583	147,363
<b>INVESTMENTS IN GROUP COMPANIES</b>		
Other	138,305	118,530
<b>INTANGIBLE ASSETS</b>	<b>26,250</b>	<b>16,216</b>
Incorporation and preopening expenses	67	—
Other deferred charges	26,183	16,216
<b>CONSOLIDATION GOODWILL</b>	<b>—</b>	<b>6,982</b>
<b>PROPERTY AND EQUIPMENT</b>	<b>147,781</b>	<b>155,864</b>
Land and buildings for own use	69,369	70,142
Other property	10,764	10,766
Furniture, fixtures and other	67,648	74,956
<b>TREASURY STOCK</b>	<b>173</b>	<b>610</b>
<b>OTHER ASSETS</b>	<b>236,731</b>	<b>220,423</b>
<b>ACCRUAL ACCOUNTS</b>	<b>68,941</b>	<b>50,810</b>
<b>LOSSES AT CONSOLIDATED COMPANIES</b>	<b>20,389</b>	<b>16,549</b>
Fully and proportionally consolidated companies	2,003	1,128
Companies accounted for by the equity method	2,735	2,282
Translation differences	15,651	13,139
<b>TOTAL ASSETS</b>	<b>13,708,626</b>	<b>10,428,969</b>

**Consolidated Balance Sheet***As of 31 December 2004 and 2003  
(thousands of euros)*

	<b>2004</b>	<b>2003</b>
<b>LIABILITIES AND EQUITY</b>		
<b>DUE TO CREDIT INSTITUTIONS</b>	<b>1,880,175</b>	<b>915,010</b>
Demand deposits	23,053	39,389
Time or notification deposits	1,857,122	875,621
<b>CUSTOMER DEPOSITS</b>	<b>7,777,310</b>	<b>6,676,235</b>
Savings deposits	7,485,040	6,379,404
Demand	3,178,093	2,578,733
Time	4,306,947	3,800,671
Other deposits	292,270	296,831
Demand	292,270	—
Time	—	296,831
<b>MARKETABLE DEBT SECURITIES</b>	<b>2,121,954</b>	<b>1,532,276</b>
Bonds and debentures outstanding	1,000,000	800,000
Promissory notes and other securities	1,121,954	732,276
<b>OTHER LIABILITIES</b>	<b>146,431</b>	<b>168,064</b>
<b>ACCRUAL ACCOUNTS</b>	<b>67,957</b>	<b>57,081</b>
<b>PROVISIONS FOR CONTINGENCIES AND EXPENSES</b>	<b>100,478</b>	<b>88,818</b>
Pension allowance	45,521	48,385
Provision for taxes	16,077	12,207
Other provisions	38,880	28,226
<b>CONSOLIDATED INCOME FOR THE YEAR</b>	<b>80,370</b>	<b>63,442</b>
Group	79,104	61,690
Minority interests	1,266	1,752
<b>SUBORDINATED DEBT</b>	<b>588,360</b>	<b>288,390</b>
<b>MINORITY INTERESTS</b>	<b>83,087</b>	<b>27,516</b>
<b>CAPITAL STOCK</b>	<b>65,421</b>	<b>54,518</b>
<b>ADDITIONAL PAID-IN CAPITAL</b>	<b>213,750</b>	<b>17,715</b>
<b>RESERVES</b>	<b>470,045</b>	<b>438,402</b>
<b>REVALUATION RESERVES</b>	<b>23,270</b>	<b>23,270</b>
<b>RESERVES AT CONSOLIDATED COMPANIES</b>	<b>90,018</b>	<b>78,232</b>
Fully and proportionally consolidated companies	18,766	18,025
Companies accounted for by the equity method	71,252	60,207
Translation differences	—	—
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>13,708,626</b>	<b>10,428,969</b>

## Consolidated Statements of Income

	<i>Years ended 31 December 2004 and 2003 (thousands of euros)</i>	
	<b>2004</b>	<b>2003</b>
<b>INTEREST INCOME</b>	<b>527,380</b>	<b>431,516</b>
<b>INTEREST EXPENSE</b>	<b>(186,978)</b>	<b>(145,241)</b>
<b>INCOME FROM EQUITY SECURITIES</b>		
Common stocks and other equity securities	2,022	2,313
Investments in non-Group companies	6,135	7,882
Investments in Group companies	1,352	1,591
	<b>9,509</b>	<b>11,786</b>
<b>NET INTEREST INCOME</b>	<b>349,911</b>	<b>298,061</b>
<b>FEES COLLECTED</b>	<b>118,252</b>	<b>109,893</b>
<b>FEES PAID</b>	<b>(23,393)</b>	<b>(21,227)</b>
<b>GAINS (LOSSES) ON FINANCIAL TRANSACTIONS</b>	<b>7,075</b>	<b>(3,834)</b>
<b>GROSS OPERATING INCOME</b>	<b>451,845</b>	<b>390,561</b>
<b>OTHER OPERATING INCOME</b>	<b>6,540</b>	<b>6,620</b>
<b>GENERAL ADMINISTRATIVE EXPENSES</b>		
Personnel expenses	(164,412)	(153,472)
Other administrative expenses	(65,290)	(62,917)
	<b>(229,702)</b>	<b>(216,389)</b>
<b>DEPRECIATION, AMORTIZATION AND WRITEDOWN OF PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS</b>	<b>(24,962)</b>	<b>(23,871)</b>
<b>OTHER OPERATING EXPENSES</b>	<b>(4,044)</b>	<b>(3,646)</b>
<b>NET OPERATING INCOME</b>	<b>199,677</b>	<b>153,275</b>
<b>NET INCOME FROM COMPANIES ACCOUNTED FOR BY THE EQUITY METHOD</b>		
Share in income of companies accounted for by the equity method	37,112	27,508
Share in losses of companies accounted for by the equity method	(6,131)	(4,058)
Value adjustments due to collection of dividends	(7,487)	(9,473)
	<b>23,494</b>	<b>13,977</b>
<b>AMORTIZATION OF CONSOLIDATION GOODWILL</b>	<b>(3,311)</b>	<b>(7,692)</b>
<b>GAINS ON GROUP TRANSACTIONS</b>		
Gains on disposal of investments in fully and proportionally consolidated companies	—	2,312
Gains on disposal of investments accounted for by the equity method	5,474	3,584
Gains on transactions involving Parent Company shares	580	1,649
	<b>6,054</b>	<b>7,545</b>
<b>LOSSES ON GROUP TRANSACTIONS</b>		
Losses on transactions involving Parent Company shares	—	—
<b>WRITEOFFS AND CREDIT LOSS PROVISIONS</b>	<b>(97,573)</b>	<b>(69,090)</b>
<b>WRITEDOWN OF LONG-TERM INVESTMENTS</b>	<b>—</b>	<b>—</b>
<b>EXTRAORDINARY INCOME</b>	<b>25,767</b>	<b>13,963</b>
<b>EXTRAORDINARY LOSS</b>	<b>(28,997)</b>	<b>(22,450)</b>
<b>INCOME BEFORE TAXES</b>	<b>125,111</b>	<b>89,528</b>
<b>CORPORATE INCOME TAX</b>	<b>(44,741)</b>	<b>(26,086)</b>
<b>CONSOLIDATED INCOME FOR THE YEAR</b>		
Income attributed to minority interests	1,266	1,752
Income attributed to the Group	79,104	61,690
	<b>80,370</b>	<b>63,442</b>

## Consolidated Cash Flow Statements

As of 31 December 2004 and 2003  
(thousands of euros)

2004 2003

### SOURCES OF FUNDS

#### CASH FLOW FROM OPERATING ACTIVITIES:

Net Profit for year	80,370	63,442
Amortisations	24,962	23,871
Amortisation and net provision to insolvency fund	103,964	73,768
Amortisation and net provision to security fund	1,718	-1,912
Contribution to internal pension fund	12,009	3,050
Net contribution to other specified funds	5,276	4,629
Amortisation of the consolidation commercial fund	3,311	7,692
Net losses on sale of assets	-	-
Net profits on sale of assets	-1,894	-3,803
Net profits on sale of financial assets	-6,054	-7,545
Net profits from unconsolidated entities	-23,494	-20,790
<b>Total</b>	<b>200,168</b>	<b>142,402</b>

#### NET EXTERNAL CONTRIBUTIONS TO CAPITAL:

Consolidation funds and contributions of investors	211,713	3,836
Sale of own shares	1,017	6,728
Minor interests	53,819	-895
<b>Total</b>	<b>266,549</b>	<b>9,669</b>

#### INVESTMENTS (EXCLUDING FINANCING) IN BANK OF SPAIN AND ECAs

DEBT INVESTMENT (net decrease)	578,081	1,321
EQUITY INVESTMENTS TEMPORARY (net decrease)	37,159	291,678
CREDITORS (net increase)	-	13,915
SUBORDINATED LOANS AND LIABILITIES (Net increase)	1,101,075	627,287
<b>TOTAL SOURCES OF FUNDS</b>	<b>3,072,680</b>	<b>1,912,307</b>

### USE OF FUNDS

#### INVESTMENT(EXCLUDING FINANCING) IN BANK OF SPAIN AND ECAs

CREDIT INVESTMENT (net increase)	2,948,830	1,857,052
EQUITY INVESTMENT TEMPORARY (net increase)	11,068	-
NET ACQUISITIONS FROM PERMANENT INVESTMENTS	13,721	1,151
OTHER CONCEPTS: ASSETS LESS LIABILITIES (net change)	99,061	54,104
<b>TOTAL USES OF FUNDS</b>	<b>3,072,680</b>	<b>1,912,307</b>

## INTERIM FINANCIAL STATEMENTS

Set out below are extracts from the Bank's unaudited interim consolidated financial statements for the three months ended 31 March 2005 and 2004. The Bank prepared these financial statements in accordance with Spanish GAAP.

### Consolidated Balance Sheet

(€ Thousands)

ASSETS	March 05	March 04	Difference	
			Absolute	%
<b>1. CASH AND CENTRAL BANK</b>	<b>179,419</b>	<b>133,647</b>	<b>45,772</b>	<b>34.2</b>
1.1. Cash on hand	98,204	81,287	16,917	20.8
1.2. Cash at Bank of Spain	81,079	52,111	28,968	55.6
1.3. Cash at other Central Banks	136	249	(113)	(45.4)
<b>2. PUBLIC DEBT SECURITIES</b>	<b>5,221</b>	<b>20,173</b>	<b>(14,952)</b>	<b>(74.1)</b>
<b>3. DUE FROM CREDIT INSTITUTIONS</b>	<b>842,160</b>	<b>447,645</b>	<b>394,515</b>	<b>88.1</b>
3.1. Demand Deposits	66,727	34,971	31,756	90.8
3.2. Other	775,433	412,674	362,759	87.9
<b>4. NET LOANS</b>	<b>12,808,295</b>	<b>10,035,466</b>	<b>2,772,829</b>	<b>27.6</b>
<b>5. DEBENTURES AND OTHER FIXED-INCOME SECURITIES</b>	<b>491,385</b>	<b>221,910</b>	<b>269,475</b>	<b>121.4</b>
5.2. Other	491,385	221,910	269,475	121.4
<b>6. COMMON STOCKS AND OTHER EQUITY SECURITIES</b>	<b>112,441</b>	<b>85,922</b>	<b>26,519</b>	<b>30.9</b>
<b>7. HOLDINGS</b>	<b>124,569</b>	<b>145,623</b>	<b>(21,054)</b>	<b>(14.5)</b>
7.2. Other	124,569	145,623	(21,054)	(14.5)
<b>8. HOLDINGS IN GROUP COMPANIES</b>	<b>141,238</b>	<b>123,968</b>	<b>17,270</b>	<b>13.9</b>
8.2. Other	141,238	123,968	17,270	13.9
<b>9. INTANGIBLE ASSETS</b>	<b>29,776</b>	<b>19,026</b>	<b>10,750</b>	<b>56.5</b>
9.1. Incorporation and Preopening Expenses	25	0	25	
9.2. Other Deferred Charges	29,751	19,026	10,725	56.4
<b>9. BIS GOODWILL</b>	<b>0</b>	<b>0</b>	<b>0</b>	
9 bis 1. Companies Carried by the Equity Method	0	0	0	
<b>10. FIXED ASSETS</b>	<b>147,421</b>	<b>153,465</b>	<b>(6,044)</b>	<b>(3.9)</b>
10.1. Land and Buildings	67,025	69,787	(2,762)	(4.0)
10.2. Other Property	13,223	10,479	2,744	26.2
10.3. Furniture, Installations and Other	67,173	73,199	(6,026)	(8.2)
<b>11. SUBSCRIBED CAPITAL STOCK NON OUTLAYED</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>12. TREASURY STOCK</b>	<b>127</b>	<b>682</b>	<b>(555)</b>	<b>(81.4)</b>
Pro memoria: Registered	10	58	(48)	(82.8)
<b>13. OTHER ASSETS</b>	<b>263,109</b>	<b>217,924</b>	<b>45,185</b>	<b>20.7</b>
<b>14. ACCRUAL ACCOUNTS</b>	<b>90,213</b>	<b>61,611</b>	<b>28,602</b>	<b>46.4</b>
<b>TOTAL ASSETS</b>	<b>15,235,374</b>	<b>11,667,062</b>	<b>3,568,312</b>	<b>30.6</b>

## Consolidated Balance Sheet

(€ Thousands)

ASSETS	March 05	March 04	Difference	
			Absolute	%
<b>1. INTERBANK DEBT</b>	<b>608,531</b>	<b>1,414,039</b>	<b>(805,508)</b>	<b>(57.0)</b>
1.1. Demand Deposits	46,991	43,667	3,324	7.6
1.2. Time or With Notice	561,540	1,370,372	(808,832)	(59.0)
<b>2. DEPOSITS</b>	<b>8,280,195</b>	<b>7,074,402</b>	<b>1,205,793</b>	<b>17.0</b>
2.1. Savings Deposits	7,899,311	6,849,586	1,049,725	15.3
2.1.1. Demand	3,353,811	2,719,752	634,059	23.3
2.1.2. Time	4,545,500	4,129,834	415,666	10.1
2.2. Other Deposits	380,884	224,816	156,068	69.4
2.2.2. Time	380,884	224,816	156,068	69.4
<b>3. DEBT FINANCING</b>	<b>4,528,260</b>	<b>1,905,554</b>	<b>2,622,706</b>	<b>137.6</b>
3.1. Notes and Bonds in Circulation	2,950,000	800,000	2,150,000	268.8
3.2. Notes and Other Securities	1,578,260	1,105,554	472,706	42.8
<b>4. OTHER LIABILITIES</b>	<b>120,348</b>	<b>120,756</b>	<b>(408)</b>	<b>(0.3)</b>
<b>5. ACCRUAL ACCOUNTS</b>	<b>101,493</b>	<b>73,097</b>	<b>28,396</b>	<b>38.8</b>
<b>6. PROVISIONS</b>	<b>109,045</b>	<b>86,980</b>	<b>22,065</b>	<b>25.4</b>
6.1. Pension Allowance	44,457	45,110	(653)	(1.4)
6.2. Tax Provisions	16,077	11,992	4,085	34.1
6.3. Other Provisions	48,511	29,878	18,633	62.4
6 bis. General Risk Allowance	0	0	0	
6 ter. Negative Difference In Consolidation	0	0	0	
<b>7. CONSOLIDATED INCOME FOR THE YEAR</b>	<b>29,453</b>	<b>22,434</b>	<b>7,019</b>	<b>31.3</b>
7.1. Group	28,659	22,101	6,558	29.7
7.2. Minority Interests	794	333	461	138.4
<b>8. SUBORDINATED DEBT</b>	<b>468,360</b>	<b>288,360</b>	<b>180,000</b>	<b>62.4</b>
<b>8 BIS. MINORITY INTEREST</b>	<b>84,596</b>	<b>29,141</b>	<b>55,455</b>	<b>190.3</b>
<b>9. SUBSCRIBED CAPITAL STOCK</b>	<b>65,421</b>	<b>54,518</b>	<b>10,903</b>	<b>20.0</b>
<b>10. PAID-IN SURPLUS</b>	<b>213,750</b>	<b>17,715</b>	<b>196,035</b>	<b>1,106.6</b>
<b>11. RESERVES</b>	<b>625,922</b>	<b>580,066</b>	<b>45,856</b>	<b>7.9</b>
<b>12. PRIOR YEAR'S INCOME</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>15,235,374</b>	<b>11,667,062</b>	<b>3,568,312</b>	<b>30.6</b>



## Balance Sheet Data

(€ Thousands)

LOANS	March 05	March 04	Difference	
			Absolute	%
<b>Loans to Public Authorities</b>	<b>40,457</b>	<b>32,800</b>	<b>7,657</b>	<b>23.3</b>
<b>Loans to Other Resident Borrowers</b>	<b>15,156,412</b>	<b>10,929,900</b>	<b>4,226,512</b>	<b>38.7</b>
Commercial Bills	1,623,431	1,299,691	323,740	24.9
Secured Loans	9,124,742	6,275,822	2,848,920	45.4
Other Term Loans	3,654,366	2,773,788	880,578	31.7
Demand Loans and Other	192,882	123,722	69,160	55.9
Finance Leases	560,991	456,877	104,114	22.8
<b>Non-Resident Borrowers</b>	<b>115,168</b>	<b>117,942</b>	<b>(2,774)</b>	<b>(2.4)</b>
<b>Non Performing Loans</b>	<b>87,163</b>	<b>71,420</b>	<b>15,743</b>	<b>22.0</b>
<b>Total Loan Investment</b>	<b>15,399,200</b>	<b>11,152,062</b>	<b>4,247,138</b>	<b>38.1</b>
<b>Provision for Credit Loss</b>	<b>(278,106)</b>	<b>(185,561)</b>	<b>(92,545)</b>	<b>49.9</b>
<b>Net Loans</b>	<b>15,121,094</b>	<b>10,966,501</b>	<b>4,154,593</b>	<b>37.9</b>
<b>Net Loans (Excluding Securitisations)</b>	<b>12,808,295</b>	<b>10,035,466</b>	<b>2,772,829</b>	<b>27.6</b>

EVOLUTION OF NON PERFORMING LOANS RATIO	March 05	March 04	Excluding Securitisations	
			March 05	March 04
<b>General<sup>(1)</sup></b>	<b>0.57%</b>	<b>0.64%</b>	<b>0.67%</b>	<b>0.70%</b>
<b>Considering Contingency Liabilities<sup>(2)</sup></b>	<b>0.54%</b>	<b>0.71%</b>	<b>0.63%</b>	<b>0.77%</b>
<b>AEB Criteria<sup>(3)</sup></b>	<b>0.50%</b>	<b>0.57%</b>	<b>0.59%</b>	<b>0.62%</b>

EVOLUTION OF NON PERFORMING LOANS COVERAGE	March 05	March 04	Excluding Securitisations	
			March 05	March 04
<b>General<sup>(4)</sup></b>	<b>319.1%</b>	<b>259.8%</b>	<b>315.2%</b>	<b>252.2%</b>
<b>Considering Contingency Liabilities<sup>(5)</sup></b>	<b>332.2%</b>	<b>235.4%</b>	<b>328.4%</b>	<b>228.9%</b>
<b>AEB Criteria<sup>(6)</sup></b>	<b>370.4%</b>	<b>285.6%</b>	<b>365.9%</b>	<b>277.2%</b>

### Notes:

- (1) Calculated as the ratio of total non-performing loans to the sum of total credits, loans and gross discounts (*descuentos en bruto*).
- (2) Calculated as the ratio of the sum of total non-performing loans, non-performing commitments and off-balance sheet risk to the sum of total credits, loans and gross discounts (*descuentos en bruto*).
- (3) Calculated as the ratio of non-performing residential loans to the sum of total residential credits, loans, gross discounts (*descuentos en bruto*) and non-performing residential loans.
- (4) Calculated as the ratio of total credit loss allowances to total non-performing loans.
- (5) Calculated as the ratio of the sum of total credit and commitments and off-balance sheet risk loss allowances to the sum of total non-performing loans, non-performing commitments and off-balance sheet risk.
- (6) Calculated as the sum of total residential credits, loans and gross discounts (*descuentos en bruto*) loss allowance to total non-performing loans with required loss allowance.

CUSTOMER DEPOSITS	March 05	March 04	Difference	
			Absolute	%
<b>Spanish Public Authorities</b>	<b>217,556</b>	<b>152,242</b>	<b>65,314</b>	<b>42.9</b>
<b>Other Resident Sector</b>	<b>6,772,027</b>	<b>5,659,582</b>	<b>1,112,445</b>	<b>19.7</b>
– Excluding Repo Transactions	6,392,315	5,435,524	956,791	17.6
<b>Non Residents</b>	<b>1,290,612</b>	<b>1,262,578</b>	<b>28,034</b>	<b>2.2</b>
<b>Bonds, Marketable Securities &amp; Debentures</b>				
Outstanding (Euronotes)	4,528,260	1,905,554	2,622,706	137.6
<b>Subordinated Debt</b>	<b>468,360</b>	<b>288,360</b>	<b>180,000</b>	<b>62.4</b>
<b>Total Customer Funds and Debentures Issue</b>	<b>13,276,815</b>	<b>9,268,316</b>	<b>4,008,499</b>	<b>43.2</b>
– Excluding Repo Transactions	12,897,103	9,044,258	3,852,845	42.6
<b>Promemoria: Investment + Pension Funds</b>	<b>2,007,668</b>	<b>1,696,014</b>	<b>311,654</b>	<b>18.4</b>
<b>Total Business Volume</b>	<b>30,405,577</b>	<b>21,930,831</b>	<b>8,474,746</b>	<b>38.6</b>

### Profit and Loss Account

(€ Thousands)	March 05	March 04	Yoy March 05/March 04	
			Absolute	%
<b>Net Interest Income</b>	<b>99,197</b>	<b>79,161</b>	<b>20,036</b>	<b>25.3%</b>
Net Commissions	27,296	21,597	5,699	26.4%
<b>Basic Margin</b>	<b>126,493</b>	<b>100,758</b>	<b>25,735</b>	<b>25.5%</b>
Trading Gains	4,747	546	4,201	769.4%
<b>Ordinary Revenue</b>	<b>131,240</b>	<b>101,304</b>	<b>29,936</b>	<b>29.6%</b>
Net operating revenue	443	1,089	(646)	(59.3)%
General Expenses	(66,662)	(61,751)	(4,911)	8.0%
General Administrative Expenses	(60,602)	(55,677)	(4,925)	8.8%
Personnel Expenses	(44,316)	(40,003)	(4,313)	10.8%
General Expenses	(16,286)	(15,674)	(612)	3.9%
Depreciation	(6,060)	(6,074)	14	(0.2)%
<b>Operating Revenue</b>	<b>65,021</b>	<b>40,642</b>	<b>24,379</b>	<b>60.0%</b>
<b>Operating Revenue <sup>(1)</sup></b>	<b>60,274</b>	<b>40,096</b>	<b>20,178</b>	<b>50.3%</b>
Equity and Group Income	8,410	11,175	(2,765)	(24.7)%
Equity Income	8,280	5,450	2,830	51.9%
Net Group Income	130	5,725	(5,595)	(97.7)%
Bad debt writeoffs and credit loss provisions	(30,905)	(24,292)	(6,613)	27.2%
Goodwill	0	(3,311)	3,311	(100.0)%
Extraordinary Items	(917)	5,025	(5,942)	N/A
<b>Earnings Before Taxes</b>	<b>41,609</b>	<b>29,239</b>	<b>12,370</b>	<b>42.3%</b>
Taxes	(12,156)	(6,805)	(5,351)	78.6%
<b>Net Earnings</b>	<b>29,453</b>	<b>22,434</b>	<b>7,019</b>	<b>31.3%</b>
<b>Net Earnings Attributed to the Group</b>	<b>28,659</b>	<b>22,101</b>	<b>6,558</b>	<b>29.7%</b>

Note:

(1) Ex Financial Operations.

## SUPERVISION AND REGULATION OF THE BANK

### Bank of Spain

The Bank of Spain, established in its present form in 1962, is a public law entity (*entidad de derecho público*) which operates as Spain's autonomous central bank and is also a member of the European System of Central Banks. Except in its performance of public functions, the Bank of Spain's relations with third parties are governed by private law and its actions are subject to the civil and business law codes.

The Bank of Spain has, among others, the following supervisory powers over Spanish credit institutions: (i) to conduct periodic inspections of Spanish credit institutions to test compliance with current regulations concerning, among other matters, preparation of financial statements, account structure and credit policies; (ii) to advise a credit institution's board of directors and management when its dividend policy is deemed inconsistent with the credit institution's financial results; (iii) to undertake extraordinary inspections of credit institutions concerning any matter relating to their banking activities; and (iv) to participate with other authorities in appropriate cases in the imposition of penalties applicable to credit institutions for infringement or violation of applicable banking regulations.

Law 13/1994, of 1 June, on the Autonomy of the Bank of Spain (*Ley de Autonomía del Banco de España*), as amended, which vests responsibility for the implementation of monetary policy in the Bank of Spain, repealed Law 26/1983, of 26 December, on the Imposition of Liquidity Ratios of Financial Intermediaries and, effective 3 June 1994, provides that frozen funds relating to minimum reserves which are required to be maintained in accordance with the By-Laws of the European System of Central Banks may be deposited with the Bank of Spain. Ruling (CE) No. 2818/98 of the European Central Bank, of 1 December 1998, on the Application of Minimum Reserves provides that a reserve ratio of 2% apply to certain categories of liabilities and that such reserves be maintained with the respective Central Bank in a euro-denominated account.

### Investment Ratio

The Spanish Government has in the past required credit institutions to invest a portion of certain qualifying liabilities in certain kinds of public sector of public-interest financing (the **investment ratio**). Pursuant to a Royal Decree liberalising the Spanish economy, the investment ratio was reduced progressively beginning in January 1989 and was abolished as of 31 December 1992.

### Capital Adequacy Requirements

#### *Bank of Spain requirements*

Spanish credit institutions and each of their bank subsidiaries are subject to capital adequacy requirements pursuant to Law 13/1985, of 25 May, on Investment and Information Obligations and Own Resources (as amended, **Law 13/1985**). Law 13/1985 has been amended, *inter alia*, by Law 13/1992, of 1 June, on Own Resources and Supervision on a Consolidated Basis (**Law 13/1992**), Law 44/2002, of 22 November, on Reform Measures of the Financial System and Law 19/2003, of 4 July, on the Legal Regime on Capital Movements and Offshore Economic Transaction and Measures on Prevention of Money Laundering. Law 13/1985 adapted Spain's capital adequacy rules to EU requirements. Credit institutions that fail to comply with these capital adequacy requirements are subject to restrictions on distributions, as described below. Such credit institutions may also be subject to fines and other sanctions.

The principal characteristics of the capital adequacy requirements introduced by Law 13/1992 (as amended and supplemented by Royal Decree 1343/1992, of 6 November) are a division of regulatory capital (*recursos propios* or own resources) between core capital (*recursos propios básico* or basic own resources) and complementary capital (*recursos propios de segunda categoría* or second category own resources) and the adoption of a solvency ratio.

- Basic own resources generally includes ordinary shares (or participations (*cuotas participativas*) of credit institutions), voting equity, certain non-voting equity, most reserves and generic allowances less participations in other financial institutions, treasury stock and financing for the acquisition of the issuer's shares (other than by the issuer's employees).

- Second category own resources generally includes certain non-voting equity, revaluation and similar reserves and subordinated and perpetual debt. Circular No. 5/1993, of 26 March, on the Determination and Control of Minimum Own Resources (the **Circular**) provides that the excess of second category own resources of a credit institution over 100% of its basic own resources does not qualify as own resources of the credit institution.

The computation of both basic own resources and second category own resources is subject to provisions limiting the type of stockholding and the level of control which these stockholdings grant a credit institution group.

The solvency ratio (set out in rule 12.1 of the Circular) provides that the consolidated own resources (comprising basic own resources and second category own resources) of a credit institution group, calculated in the manner described above, may not be less than 8% of a bank's risk-weighted assets. The Circular also contains certain other ratios that credit institutions must comply with.

The calculation of total risk-weighted assets implies minimum multipliers of 0%, 10%, 20%, 50% and 100% of a credit institution's assets. Loans to the Spanish Government or OECD and EU countries' central banks and debt securities of Spanish autonomous communities (authorised by the Spanish Government) receive a 0% weighting. Mortgage-backed securities and *cédulas territoriales* receive a 10% weighting. Loans to autonomous communities, to EU and OECD regional and local governments, to banks, banks and brokerage firms and to multilateral development banks receive at least a 20% weighting. Residential mortgage loans receive at least a 50% weighting. All other loans are weighted at 100%; however, such weighting may be lower if the loan is guaranteed or secured. Off-balance sheet liabilities are also included in the calculation of risk-weighted assets.

Credit institutions which fail to comply with capital adequacy ratios by more than 20% are required to devote all of their distributable profits to increasing their own resources. Credit institutions which fail to meet any ratio by 20% or less must obtain prior approval of the Bank of Spain in order to make distributions and must devote at least 50% of their distributable profits to increasing their own resources. In addition, failure to comply with the required ratios and capital adequacy requirements may give rise to fines and other sanctions.

#### *Basle Accord*

The Basle Committee, which includes the supervisory authorities of twelve major industrial countries, has adopted an international framework (the **Basle Accord**) for capital measurement and capital standards of banking institutions. The framework provides (i) definitions for "Tier 1" (core) capital and "Tier 2" (supplemental) capital; (ii) a system for weighting assets and off-balance sheet items according to credit risk; and (iii) a requirement that banks engaged in international operations maintain Tier 1 capital of at least 4% of risk-weighted assets and total capital (i.e. Tier 1 capital plus up to an equal amount of Tier 2 capital) of at least 8% of risk-weighted assets. Spain is not party to the Basle Accord, and therefore has not implemented this capital framework as such, although Spain's current capital requirements are in many aspects similar to the requirements imposed by the Basle Accord, since the Basle Accord is the framework on which EC Directive 89/299/EC of 17 April 1989 is based, which itself is the basis for Law 13/1992.

#### **Concentration on Risk**

Pursuant to Royal Decree 1343/1992, of 6 November 1992, which supplements Law 13/1992, a credit institution's exposure to a single person or group may not exceed 25% (20% in the case of exposure to an affiliate) of its consolidated stockholders' equity. Exposure to a person or a group exceeding 10% of consolidated stockholders' equity is deemed a concentration and the total amount of exposure represented by all such concentrations may not exceed 800% of consolidated stockholders' equity.

#### **Regulation of Fees and Interest Rates**

In March 1987, interest rates on deposits, and fees and commissions chargeable in addition to interest, were substantially deregulated. Interest rates on most kinds of loans and deposits are no longer subject to a maximum limit. Credit institutions must publish their preferential rates, rates applied on overdrafts, and fees and commissions charged in connection with banking transactions and communicate the same to the Bank of Spain. Banking clients must be provided with written disclosure adequate to permit them to ascertain real net transaction costs. Subject to such disclosure requirements, the level of fees and commissions is generally regulated. The foregoing regulations are enforced by the Bank of Spain in response to complaints from credit institutions' clients.

## **TAXATION AND DISCLOSURE OF HOLDER INFORMATION IN CONNECTION WITH PAYMENTS OF DISTRIBUTIONS**

*The following is a general description of certain tax considerations relating to the Preferred Securities. It does not purport to be a complete analysis of all tax considerations relating to the Preferred Securities and in particular does not purport to be a tax analysis for all type of investors, some of which might be subject to a special tax regime. Prospective purchasers of Preferred Securities 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 Preferred Securities and receiving any payments under the Preferred Securities. 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 25 May on investment ratios, own funds and information obligations of financial intermediaries, as promulgated by Law 19/2003, of 4 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 30 July establishing disclosure obligations in relation to preferred shares and other debt instruments and certain income obtained by individuals resident in the European Union and other tax rules;
- (b) for individuals with tax residence in Spain which are Individual Income Tax payers, Royal Legislative Decree 3/2004, of 5 March promulgating the Consolidated Text of the Individual Income Tax Law, and Royal Decree 1775/2004, of 30 July promulgating the Individual Income Tax Regulations, along with Law 19/1991, of 6 June on Wealth Tax and Law 29/1987, of 18 December on Inheritance and Gift Tax;
- (c) for legal entities resident for tax purposes in Spain which are Corporate Income Tax payers, Royal Legislative Decree 4/2004, of 5 March promulgating the Consolidated Text of the Corporate Income Tax Law, and Royal Decree 1777/2004, of 30 July promulgating the Corporate Income Tax Regulations; and
- (d) for individuals and entities who are not resident for tax purposes in Spain which are Non-resident Income Tax payers, Royal Legislative Decree 5/2004, of 5 March promulgating the Consolidated Text of the Non-Resident Income Tax Law, and Royal Decree 1776/2004, of 30 July promulgating the Non-Resident Income Tax Regulations, along with Law 19/1991, of 6 June on Wealth Tax and Law 29/1987, of 18 December on Inheritance and Gift Tax.

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

## **1. Individuals with tax residence in Spain**

### **1.1 Individual Income Tax (*Impuesto sobre la Renta de las Personas Físicas*)**

Both Distributions periodically received and income deriving from the transfer, redemption or repayment of the Preferred Securities constitute financial income in accordance with the provisions of Section 23.2 of the Individual Income Tax Law, and therefore will be taxed at marginal rates (currently ranging between 15 per cent. and 45 per cent.).

In the event of revenues derived from receipt of the Preferred Securities, the aggregate taxable income shall be determined by the amount of interest received, including the withholding tax made.

In the event of transfer, redemption or repayment of the Preferred Securities, the taxable income shall be deemed to be the difference between the transfer, redemption or repayment value (less properly supported ancillary disposal expenses) and the acquisition or subscription value (plus properly supported ancillary acquisition expenses). Expenses corresponding to discretionary or individual portfolio management are not computed for these purposes.

Both types of income are subject to a 15 per cent. withholding tax on account of the individuals' final Income Tax liability.

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

### **1.2 Wealth Tax (*Impuesto sobre el Patrimonio*)**

Spanish Wealth Tax is levied on the net worth of an individual's assets at rates ranging between 0.2 per cent. and 2.5 per cent.

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

### **1.3 Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)**

Individuals with tax residence in Spain who acquire ownership or other rights over any Preferred Securities by inheritance, gift or legacy will be subject to Inheritance and Gift Tax in accordance with the applicable Spanish regional or state rules. The applicable tax rates, after applying all relevant factors, range between 7.65 per cent. and 81.6 per cent.

## **2. Legal entities with tax residence in Spain**

### **2.1 Corporate Income Tax (*Impuesto sobre Sociedades*)**

Both Distributions periodically received and income deriving from the transfer, redemption or repayment of the Preferred Securities constitute financial income subject to tax in accordance with the rules set out in Title IV of the Corporate Income Tax Law and will therefore be taxed at the current rate of 35 per cent.

In accordance with Section 59.s) of the Corporate Income Tax Regulations there is no obligation to make a withholding on income obtained by Spanish Corporate Tax payers (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 Preferred Securities to be traded on Euronext Amsterdam and they will therefore, upon admission to trading on Euronext Amsterdam, fulfil the requirements legally established for the exemption from withholding.

The Directorate General for Taxation (*Dirección General de Tributos*), on 27 July 2004, issued a tax ruling 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 Preferred Securities be placed outside Spanish territory in another OECD country. The Issuer considers that the issue of the Preferred Securities falls within this exemption as the Preferred Securities are to be placed outside Spain and in the international capital markets and none of the entities initially placing the Preferred Securities is resident in Spain. Consequently, the Issuer will not make any withholding on Distributions to Spanish Corporate Income Tax payers 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.

Please see “Disclosure of Holder information in connection with Payments of Distributions” below for information regarding the withholding tax exemption.

## **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 residence in Spain which acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy are not subject to Inheritance and Gift Tax but to Corporate Income Tax by computing the market value of the Preferred Securities as taxable income.

## **3. Individuals and legal entities with no tax residence in Spain**

### **3.1 Non-Resident Income Tax (*Impuesto sobre la Renta de No Residentes*)**

Income obtained by investors who are Non-Resident Income Tax payers, both on interest and in connection with the transfer, redemption or repayment of the Preferred Securities, whether or not through a permanent establishment, shall be considered Spanish source income and therefore subject to taxation in Spain under the applicable domestic legislation, without prejudice to the provisions contained in any applicable treaty for the avoidance of double taxation (**DTT**).

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

The holding of the Preferred Securities 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 Preferred Securities 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 Preferred Securities are the same as those previously set out for Corporate Income Tax payers.

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

Both Distributions periodically received and income deriving from the transfer, redemption or repayment of the Preferred Securities, obtained by individuals or entities who have no tax residence in Spain, being Non-Resident Income Tax payers with no permanent establishment in Spain, are exempt from such Non-Resident Income Tax except if such income is obtained through countries or territories classified as tax havens (being those included in Royal Decree 1080/1991, of 5 July), in which case such income will be subject to Non-Resident Income Tax in Spain at the rate of 15 per cent. to be withheld by the Issuer.

For these purposes it is necessary to comply with certain disclosure obligations relating to the identity of the holders of Preferred Securities, in the manner detailed under “Disclosure of Holder Information in connection with Payments of Distributions” as laid down in section 12 of Royal Decree 2281/1998, as promulgated by Royal Decree 1778/2004. If these disclosure obligations are not complied with in the manner indicated, the Issuer will apply a withholding tax of 15 per cent. 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 Preferred Securities is exempt from Non-Resident Income Tax, individuals who do not have tax residence in Spain who hold such Preferred Securities will be exempt from Wealth Tax.

Furthermore, individuals resident in a country with which Spain has entered into a DTT in relation to Wealth Tax will generally not be subject to Wealth Tax.

In any other case, individuals who are not tax resident in Spain will be subject to Wealth Tax at the rates ranging between 0.2 per cent. and 2.5 per cent., to the extent that rights deriving from the Preferred Securities 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*)**

The transfer of the Preferred Securities to individuals who are not tax resident in Spain by inheritance, gift or legacy, shall be subject to Inheritance and Gift Tax, even if title passes outside Spain and neither the heir nor the beneficiary, as the case may be, is resident in Spain for tax purposes, without prejudice to the provisions of any DTT ratified by Spain.

Such individuals will be subject to tax at the applicable marginal rates (ranging between 7.65 per cent. and 81.6 per cent.) in accordance with the applicable regional and state legislation.

Non-resident entities which acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy are not subject to Inheritance and Gift Tax but to Non-Resident Income Tax. If the entity is resident in a country with which Spain has entered into a DTT, 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 Preferred Securities under the Guarantee 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 5 July the following are each considered to be a tax haven:

Principality of Andorra, Aruba, Netherlands Antilles, 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.
---	--	--

### **6. Disclosure of Holder Information in connection with Payments of Distributions**

*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 Preferred Securities must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Preferred Securities. None of the Issuer, the Guarantor, the Managers, the Paying Agents or the Clearing Systems assume any responsibility therefor.*

*Therefore, each investor is deemed to be aware of the obligations set out below regarding the disclosure of the investor information and the consequences of non-compliance. Specifically, investors are deemed to be aware of the application of Spanish withholding tax when certain information is not provided in a timely manner.*

## **6.1 Legal entities with tax residence in Spain subject to Spanish Corporate Income 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 Corporate Income Tax payers specifying the name, address, Tax Identification Number, ISIN code of the Preferred Securities, number of Preferred Securities held at each Distribution Payment Date, gross income and amount withheld, substantially in the form set out below (see Annex I below).

## **6.2 Individuals and legal entities with no tax residence in Spain**

This section describes the disclosure 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.

In accordance with Section 12.1, the Issuer must file on a yearly basis a return with the Spanish tax authorities specifying the following information with respect to the Preferred Securities:

- (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 Preferred Securities.

In accordance with Section 12.3, for the purpose of preparing the return referred to in Section 12.1, the following supporting documentation drafted in Spanish must be obtained on each payment of income evidencing the identity and tax residence of each holder of Preferred Securities:

- (a) if the non-resident holder of Preferred Securities 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 (containing an exchange of information clause) and subject to a specific administrative registration or supervision scheme, the entity in question must certify its name and tax residence in the manner laid down in Annex I of the Order of 16 September 1991 (see Annex II below);
- (b) in the case of transactions in which any of the entities indicated in the foregoing paragraph (a) acts as an intermediary, the entity in question must, in accordance with the information contained in its own records, certify the name and tax residence of each holder of Preferred Securities in the manner laid down in Annex II of the Order of 16 September 1991 (see Annex III 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 residence of each holder of Preferred Securities in the manner laid down in Annex II of the Order of 16 September 1991 (see Annex III below);
- (d) in other cases, the tax residence must be evidenced by submission of the tax residence certificate issued by the tax authorities of the State of residence of the holder of Preferred Securities. These certificates will be valid for one year as from the date of issue.

In accordance with Section 12.4, for the purpose of implementing the withholding tax exemption provided for non-resident investors, the following procedure must be followed: on the due date of each Distribution the Issuer must transfer the net amount to the entities referred to in paragraphs (a), (b) and (c) above resulting from applying the general withholding tax rate (currently 15 per cent.) to the whole of the Distribution. If the certificates referred to above are received prior to expiry of the Distribution 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 the withholding tax exemption, 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 Preferred Securities by the Distribution Date, such holder may obtain a quick refund of the full amount of withholding tax by ensuring that the documentation described above is received by the Principal Paying Agent no later than 10.00 a.m. (CET) on the tenth 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 Preferred Securities 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 apply for a full refund of withholding tax directly with the Spanish tax authorities (by means of the standard refund procedure).

### **6.3 Format of information to be provided**

Set out on the following pages are Annexes I, II and III referred to in paragraphs 6.1 and 6.2 above. 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 para hacer efectiva la exclusión de retención 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 Real Decreto 1778/2004)**

***Certificate for application of the exemption on withholding to Spanish Corporate Income Tax payers and to permanent establishments of Non-resident Income Tax payers***  
***(to be issued by entities mentioned under article 12.3.a) of Royal Decree 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 1777/2004,

(function) ....., in the name and on behalf of the Entity indicated below, for the purposes of article 59.s) of Royal Decree 1777/2004,

#### **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 (Órgano 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 Corporate Income Tax payers and permanent establishment in Spain of Non-Resident Income Tax payers, 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 per cent.

## ANNEX II

### 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, modificado 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:

**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 (Órgano 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 III

### 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, modificado 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:

**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 (Órgano supervisor)**

that the institution I represent is supervised by ..... (Supervision body)

en virtud de ..... (normativa que lo regula)

under ..... governing rules).

**5. 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 paraíso 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 corresponding income amounts are 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:

## TAXATION IN THE NETHERLANDS

### 1. Introduction

The following summary describes the principal Netherlands tax consequences of the acquisition, holding, redemption and disposal of Preferred Securities for residents of The Netherlands. This summary does not purport to be a comprehensive description of all Netherlands tax considerations that may be relevant to a decision to acquire, to hold, and to dispose of the Preferred Securities.

This summary does not address The Netherlands tax consequences of a holder of Preferred Securities who holds, alone or together with his or her partner or certain other related persons, directly or indirectly, 5 per cent. or more of the Preferred Securities of the Issuer or the rights to acquire, directly or indirectly, such interest. Each prospective holder of Preferred Securities should consult a professional adviser with respect to the tax consequences of an investment in the Preferred Securities. The discussion of certain Netherlands taxes set forth below is included for general information purposes only. This summary is based on The Netherlands tax legislation, published case law, treaties, rules, regulations and similar documentation, in force as of the date of this Offering Circular, without prejudice to any amendments introduced at a later date and implemented with retroactive effect. For the purpose of the principal Netherlands tax consequences described herein, it is assumed that the Issuer is neither a resident nor deemed to be a resident of The Netherlands for Netherlands tax purposes.

### 2. Netherlands Withholding Tax

No Netherlands withholding tax is due upon payments on the Preferred Securities.

### 3. Netherlands Corporate Income Tax and Individual Income Tax

If the holder of Preferred Securities is subject to Netherlands corporate income tax and the Preferred Securities are attributable to its (deemed) business assets, income derived from the Preferred Securities and gains realised upon the redemption and disposal of the Preferred Securities are generally taxable in The Netherlands.

If the holder of Preferred Securities is an individual, resident or deemed to be resident of The Netherlands for Netherlands tax purposes (including the individual holder of Preferred Securities who has opted to be taxed as a resident of The Netherlands), the income derived from the Preferred Securities and the gains realised upon the redemption and disposal of the Preferred Securities are taxable at the progressive rates of the Income Tax Act 2001, if:

- (a) the holder of Preferred Securities has an enterprise or an interest in an enterprise, to which enterprise the Preferred Securities are attributable; or
- (b) such income or gains qualify as “income from miscellaneous activities” (*resultaat uit overige werkzaamheden*) within the meaning of Section 3.4 of the Income Tax Act 2001, which include the performance of activities with respect to the Preferred Securities that exceed “regular, active portfolio management” (*normaal, actief vermogensbeheer*).

If neither condition (a) nor condition (b) applies to the individual holder of Preferred Securities, the actual income derived from the Preferred Securities and the actual gains realised with respect to the Preferred Securities will not be taxable. Instead, such holder of Preferred Securities will be taxed at a flat rate of 30 per cent. on deemed income from “savings and investments” (*sparen en beleggen*) within the meaning of Section 5.1 of the Income Tax Act 2001. This deemed income amounts to 4 per cent. of the average of the individual’s “yield basis” (*rendementsgrondslag*) within the meaning of article 5.3 of the Income Tax Act 2001 at the beginning of the calendar year and the individual’s yield basis at the end of the calendar year, insofar the average exceeds a certain threshold. The fair market value of the Preferred Securities will be included in the individual’s yield basis.

### 4. Netherlands Gift and Inheritance Taxes

Generally, gift and inheritance taxes will be due in The Netherlands in respect of the acquisition of the Preferred Securities by way of a gift by, or on the death of, a holder of Preferred Securities or Substituted Preference Shares who is a resident or deemed to be a resident of The Netherlands for the purposes of Netherlands gift and inheritance tax at the time of the gift or his or her death.

An individual of The Netherlands nationality is deemed to be a resident of The Netherlands for the purposes of The Netherlands gift and inheritance tax, if he or she has been resident in The Netherlands during the ten years preceding the gift or his or her death. An individual of any other nationality is deemed to be a resident of The Netherlands for the purposes of The Netherlands gift and inheritance tax only if he or she has been residing in The Netherlands at any time during the twelve months preceding the time of the gift. The same twelve-month rule may apply to entities that have transferred their seat of residence out of the Netherlands.

Treaties may limit the Dutch sovereignty to levy gift and inheritance tax.

### **EU SAVINGS TAX DIRECTIVE**

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

## SUBSCRIPTION AND SALE

Barclays Bank PLC (of 5 The North Colonnade, Canary Wharf, London E14 4BB), Dresdner Bank AG London Branch (of Riverbank House, 2 Swan Lane, London EC4R 3UX) and Morgan Stanley & Co. International Limited (of 25 Cabot Square, Canary Wharf, London E14 4QA) as managers (the **Managers**) have, in a subscription agreement dated 22 July 2005 (the **Subscription Agreement**) and made between the Issuer, the Bank and the Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe and pay for the Preferred Securities at an issue price of 100.00 per cent. of the aggregate liquidation preference of the Preferred Securities less a combined management, underwriting and selling commission of 0.45 per cent. of such amount. The Issuer (failing which, the Bank) has also agreed to reimburse the Managers for certain of their expenses incurred in connection with the management of the issue of the Preferred Securities. The 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 Preferred Securities.

### United States of America

The Preferred Securities 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 Manager will represent in the Subscription Agreement that it has offered and sold the Preferred Securities, and agrees that it will offer and sell the Preferred Securities (a) as part of their distribution at any time and (b) 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 Preferred Securities, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Manager will agree that, at or prior to confirmation of sale of Preferred Securities, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Preferred Securities 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 (a) as part of their distribution at any time or (b) 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**), Preferred Securities must be issued and delivered outside the United States and its possessions in connection with their original issue. Each Manager will represent that it has not offered, sold or delivered, and agrees that it will not offer, sell or deliver, directly or indirectly, Preferred Securities within the United States or its possessions in connection with their original issue. Further, in connection with the original issue of Preferred Securities, each 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 Manager or such purchaser is within the United States or its possessions or otherwise involve such Manager's U.S. office in the offer or sale of Preferred Securities. 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 Manager will represent, warrant and undertake in the Subscription Agreement to the Issuer and the Guarantor that:

- (a) *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 Preferred Securities in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

- (b) *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 Preferred Securities in, from or otherwise involving the United Kingdom.

## Spain

Each Manager will represent, warrant and undertake in the Subscription Agreement to the Issuer and the Guarantor that the Preferred Securities may not be offered or sold in Spain by means of a public offer as defined and construed in Chapter I of Title III of Law 24/1988, of 28 July, on the Securities Act (as amended by Royal Decree Law 5/2005, of 11 March) and related legislation.

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

## Italy

The offering of the Preferred Securities has not been cleared by CONSOB (the Italian Securities Exchange Commission) pursuant to Italian securities legislation and, accordingly, each Manager will represent, warrant and undertake that Preferred Securities may not be offered, sold or delivered, nor may copies of the Offering Circular or of any other document relating to the Preferred Securities be distributed in the Republic of Italy, except:

- (a) to professional investors (*operatori qualificati*), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1 July 1998, as amended; or
- (b) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998 (the **Financial Services Act**) and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999, as amended.

In addition, each Manager will represent, warrant and undertake any offer, sale or delivery of the Preferred Securities or distribution of copies of the Offering Circular or any other document relating to the Preferred Securities in the Republic of Italy under (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act and Legislative Decree No. 385 of 1 September 1993 (the **Banking Act**); and
- (ii) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the issue or the offer of securities in the Republic of Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy depending, *inter alia*, on the aggregate value of the securities issued or offered in the Republic of Italy and their characteristics; and
- (iii) in compliance with any other applicable laws and regulations.

## Portugal

Each Manager has represented and agreed that: (i) it has not taken and will take no action which will require any document, circular, advertisement or any offering material in relation to the Preferred Securities to have been or be subject to approval by the Portuguese Securities Exchange Commission (*Comissão do Mercado de Valores Mobiliários*, the **CMVM**); (ii) it has not advertised, offered or sold and will not, directly or indirectly, advertise, offer or sell the Preferred Securities in circumstances which could qualify as a public offer of securities pursuant to the Portuguese Securities Code (*Código dos Valores Mobiliários*, the **CVM**) or in circumstances which would qualify as an issue or public placement of securities in the Portuguese market; (iii) it has not distributed or caused to be distributed to the public in Portugal the Offering Circular or any other offering material relating to the Preferred Securities; (iv) all offers, sales and distributions of the Preferred Securities have been and will only be made in Portugal to qualified investors (*investidores institucionais*) or to less than 200 identified people, all in accordance with the CVM; (v) all applicable provisions of the CVM and any applicable CMVM Regulations have been complied with regarding the Preferred Securities, in any matters involving Portugal.

## European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Manager has represented and agreed that

with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Preferred Securities to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Preferred Securities to the public in that Relevant Member State:

- (a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to the Preferred Securities which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Preferred Securities to the public” in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Preferred Securities to be offered so as to enable an investor to decide to purchase or subscribe the Preferred Securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

## **General**

No action has been or will be taken in any jurisdiction by the Issuer, the Guarantor or any Manager that would, or is intended to, permit a public offering of the Preferred Securities, 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 Bank and each Manager to comply with all applicable securities laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Preferred Securities or has in its possession, distribute or publish this Offering Circular or any other offering material relating to the Preferred Securities, in all cases at its own expense.



## GENERAL INFORMATION

1. The creation and issue of the Preferred Securities was authorised by a meeting of the sole shareholder of the Issuer held on 20 July 2005. The giving of the Guarantee of the Preferred Securities was authorised by a meeting of the board of directors (*Consejo de Administración*) of the Bank held on 22 April 2005.
2. There has been no significant change in the financial or trading position of the Issuer or the Group since, in the case of the Issuer, 31 December 2004 or, in the case of the Group, 31 March 2005. There has been no material adverse change in the financial position or prospects of the Issuer or the Group since 31 December 2004.
3. Neither the Issuer, the Guarantor nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or the Guarantor are aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer, the Guarantor or the Group.
4. For so long as any of the Preferred Securities are outstanding, copies of the following documents may be obtained free of charge during normal business hours at the specified office of each Paying Agent:
  - (a) the statutes (*estatutos*) of each of the Issuer and the Guarantor;
  - (b) the Public Deed of Issuance;
  - (c) the Guarantee;
  - (d) the Deposit Agreement;
  - (e) the Paying Agency Agreement; and
  - (f) the Subscription Agreement.
5. For so long as any of the Preferred Securities 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 annual consolidated financial statements of the Bank for the years ended 31 December 2004 and 2003;
  - (b) the unaudited interim consolidated financial statements of the Bank for the three months ended 31 March 2005;
  - (c) the audited unconsolidated financial statements of the Issuer for the period ended 31 December 2004;
  - (d) the latest published unaudited interim and audited annual consolidated financial statements of the Bank; and
  - (e) the latest published audited year-end unconsolidated financial statements of the Issuer.
6. The Bank publishes quarterly unaudited interim consolidated financial statements.
7. Under Articles 181 and 203 of the Spanish Corporations Law the Issuer is currently exempt from preparing audited financial statements. The Issuer published audited financial statements for the period ended 31 December 2004 and will publish audited financial statements in subsequent financial years. Such annual financial statements will relate to periods ending on 31 December in each year and will be published before 30 June of the following year. The Issuer does not intend to publish interim financial statements.
8. Deloitte, S.L. has audited the Bank's financial statements in accordance with generally accepted accounting principles in Spain (**Spanish GAAP**) for the years ended 31 December 2004 and 2003. Deloitte, S.L. has audited the Issuer's financial statements in accordance with Spanish GAAP for the period ended 31 December 2004. These auditors' reports were unqualified. Deloitte, S.L. is registered in the *Registro Oficial de Auditores de Cuentas* (Official Registry of Auditors).
9. The reports of the auditors of the Issuer and the Guarantor are included or incorporated, in the form and context in which they are included or incorporated, with the consent of Deloitte, S.L.

The Issuer and the Guarantor confirm that the reports of the auditors included or incorporated in the Offering Circular have been accurately reproduced and that, as far as the Issuer and the Guarantor are aware and are able to ascertain from information published by the auditors, no facts have been omitted which would render the reproduced information inaccurate or misleading.

10. The Bank prepared its interim and annual financial statements incorporated herein by reference in conformity with Spanish GAAP. In accordance with Regulation (EC) No 1606/2002, the Bank will prepare future interim and annual financial statements in accordance with International Financial Reporting Standards (**IFRS**). Save as required by the Bank of Spain, the Bank will not restate its previous financial statements in accordance with IFRS.
11. The Preferred Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS0225590362 and the common code is 22559036. The *Fondscore* on Euronext Amsterdam is 15337.
12. Notices to the Holders of Preferred Securities, including notices for meetings of Holders of the Preferred Securities and non-payment of distributions or other amounts in relation to the Preferred Securities will be mailed to the holder of record and will be published, for so long as the Preferred Securities are listed on Euronext Amsterdam, in a daily newspaper of general circulation in The Netherlands, which for the time being shall be *Het Financieele Dagblad*, and in the Daily Official List of Euronext Amsterdam (*Officiële Prijscourant*). Any mailed notice shall be deemed to have been given one clear day after the date on which it was posted and any notice published in a newspaper shall be deemed to have been given on the date of publication or, if so published more than once or on different dates, on the date of the first publication.
13. Under article 8.8 of Circular 5/1993, of 26 March, on the determination and control of minimum own funds (*Circular 5/1993, de 26 de marzo, a entidades de crédito, sobre determinación y control de los recursos propios mínimos*) (as amended, **Circular 5/1993**) (a) the Offering Circular must be verified by the Department of Financial Institutions (*Departamento de Instituciones Financieras*) of the Bank of Spain (the **DFI**) for the purposes of qualifying the Preferred Securities as own funds, and (b) the Deposit Agreement must be verified by the DFI in order to ensure that it complies with the conditions established in articles 6 and 7 of Circular 5/1993. The Issuer and the Guarantor have provided the Offering Circular and the Deposit Agreement to the DFI for the purposes of obtaining these verifications in respect of the Preferred Securities but, as at the date hereof, these verifications have not been obtained. The Issuer and the Guarantor have no reason to believe that these verifications will not be obtained in due course such that all or part of the Preferred Securities qualify as own funds of the Group for the purposes of Circular 5/1993 and, under the Subscription Agreement, are obliged to use their best endeavours to obtain them.

#### **THE ISSUER**

**Pastor Participaciones Preferentes, SA, Unipersonal**  
Cantón Pequeño, 1  
La Coruña  
Spain

#### **THE GUARANTOR**

**Banco Pastor, S.A.**  
Cantón Pequeño, 1  
La Coruña  
Spain

#### **PRINCIPAL PAYING AGENT**

**Citibank, N.A.**  
5 Carmelite Street  
London EC4Y 0PA  
United Kingdom

#### **DUTCH PAYING AGENT**

**ABN AMRO Bank, N.V.**  
Kemelstede 2  
4817 ST Breda  
The Netherlands

#### **LISTING AGENT**

**ABN AMRO Bank, N.V.**  
Gustav Mahlerlaan 10  
1082 PP Amsterdam  
The Netherlands

#### **LEGAL ADVISERS**

*To the Managers as to  
Spanish law and English law*

**Allen & Overy**  
Pedro de Valdivia, 10  
Madrid 28006  
Spain

*To the Issuer and  
Guarantor as to Spanish law*

**Banco Pastor, S.A., Internal Legal Department**  
Cantón Pequeño, 1  
La Coruña  
Spain

#### **AUDITORS TO THE ISSUER AND THE GUARANTOR**

**Deloitte, S.L.**  
Ferrol, 1  
La Coruña 15004  
Spain

