

PTAS. 30,000,000,000 MORTGAGE SECURITISATION BONDS FONDO DE TITULIZACIÓN HIPOTECARIA UCI 4

(a mortgage securitisation fund established under the laws of Spain in
accordance with Law 19/1992 of 7th July 1992)

Ptas. 29,350,000,000
Class A Floating Rate Mortgage
Securitisation Bonds
Due February 2027

Ptas. 650,000,000
Class B Floating Rate Mortgage
Securitisation Bonds
Due February 2027

Issue Price 100 per cent

The issue price of the Ptas. 29,350,000,000 Class A Floating Rate Mortgage Securitisation Bonds due February 2027 (the "Class A Bonds") and the Ptas. 650,000,000 Class B Floating Rate Mortgage Securitisation Bonds due February 2027 (the "Class B Bonds") is 100% of their principal amount (the Class A Bonds and the Class B Bonds together being hereinafter referred to as the "Bonds"). The payment date for the Bonds will be on or about 30th June, 1998 (the "Closing Date").

Application will be made for admission of the Bonds to the AIAF, Mercado de Renta Fija, an unofficial organised secondary market for securities in Spain created by the Asociación de Intermediarios de Activos Financieros (the "AIAF"). It is expected that such admission will take place within a period of ninety (90) days from the date of constitution of the Fondo de Titulización Hipotecaria UCI 4 (the "Issuer") (being 30th June, 1998).

It is a condition to issuance that the Class A Bonds be assigned an "AAA" rating and the Class B Bonds be assigned an "A" rating by Standard & Poor's España, S.A. ("Standard & Poor's"). A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. For a discussion of some of the risks associated with an investment in the Class A Bonds and the Class B Bonds, see the section entitled "Credit Structure" herein.

Interest on the Bonds will be payable quarterly in arrear on the 14th of February, May, August and November of each year, or if any such day is not a business day in Madrid on the first business day in Madrid thereafter, (each a "Payment Date"), starting with the Payment Date on 16th November, 1998. Interest will be payable in respect of the quarterly period (each an "Interest Accrual Period") from (and including) the immediately preceding Payment Date (or, in the case of the first Interest Accrual Period, the Closing Date) to (but excluding) the next Payment Date. Interest on the Bonds will accrue during each Interest Accrual Period at a rate equal to the sum of (i) the then applicable three month peseta LIBOR rate (or in the case of the first Interest Accrual Period four month peseta LIBOR) and (ii) 0.16% per annum (in the case of the Class A Bonds) or 0.575% per annum (in the case of the Class B Bonds), in each case adjusted upward by the ratio of 365/360 to reflect a year of 365 days.

The Bonds will be subject to mandatory partial redemption on each Payment Date in an amount equal to the Available Principal Funds (as defined herein). Until the first Payment Date after the Payment Date that falls in August, 2003 and prior to the first Payment Date on which the aggregate Principal Amount Outstanding (as defined herein) of the Class B Bonds is ten percent (10%) of the aggregate Principal Amount Outstanding of the Class A Bonds, all Available Principal Funds will be used to redeem Class A Bonds. Starting on such Payment Date, Available Principal Funds will be applied in partially redeeming both the Class A Bonds and, subject to certain conditions, the Class B Bonds so as to maintain the ratio described above. Available Principal Funds will be applied in this manner until the aggregate principal amount outstanding in respect of the Class B Bonds equals Ptas. 300,000,000. Thereafter, Available Principal Funds will be applied in redeeming the Class A Bonds until they are redeemed in full and only then in redeeming the Class B Bonds. The right to payment of interest on and repayment of the principal of the Class B Bonds will be subordinated to the Class A Bonds and may be limited as particularly described herein.

All payments made in respect of each class of Bonds will be made to holders of Bonds in such class on a pro rata basis.

The Bonds will be subject to early redemption in certain circumstances as described herein, see the section entitled "Summary Information-The Bonds".

Payments of interest on, and repayment of the principal of the Bonds will be subject to any applicable withholding taxes without the Issuer being obliged to pay additional amounts therefor.

Payments of interest on, and repayment of the principal of the Bonds will be limited to the cashflows received by Santander de Titulización, Sociedad Gestora de Fondos de Titulización, S.A. (the "Gestora") on behalf of the Issuer in respect of the Mortgage Participations (as defined herein) and certain other amounts made available to the Gestora (on behalf of the Issuer) as described in the section entitled "Credit Structure".

Neither this Offering Circular nor any copy of or extract from it may be issued or passed on in the United Kingdom except in compliance with all applicable provisions of the Financial Services Act 1986.

The Bonds will not be obligations of the Gestora, Banco Santander, S.A. ("Banco Santander"), Unión de Créditos Inmobiliarios, S.A., Establecimiento Financiero de Crédito, Sociedad Unipersonal (the "Originator"), Paribas or any person other than the Issuer. No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Bonds will be accepted by the Gestora, Banco Santander, Paribas or the Originator. None of the Gestora, Banco Santander, Paribas or the Originator will be under any obligation whatsoever to provide additional funds to the Issuer (save in the limited circumstances described herein).

Title to the Class A Bonds will be established and evidenced by registration in the Class A Register (the "Class A Register") maintained by Servicio de Compensación y Liquidación de Valores ("ESPACLEAR") on behalf of the Issuer. Title to the Class B Bonds will be established and evidenced by registration in the Class B Register (the "Class B Register") maintained by ESPACLEAR on behalf of the Issuer. Subject to certain limited exceptions, the Class A Register will be conclusive as to ownership of the Class A Bonds and the Class B Register will be conclusive as to ownership of the Class B Bonds. Dealings with the Bonds may be effected through ESPACLEAR or through Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("EUROCLEAR") in each case in accordance with their then applicable rules and procedures.

The Gestora is responsible for the information contained in this document. To the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. The Gestora accepts responsibility accordingly.

This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The distribution of this document and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this document (or any part thereof) comes are required by the Gestora and the Managers (as defined herein) to inform themselves about, and to observe, any such restrictions. A fuller description of the restrictions on offers, sales and deliveries of the Bonds and on the distribution of this Offering Circular is set out in the section entitled "Subscription and Sale" below. No one is authorised to give any information or to make any representation concerning the issue of the Bonds other than those contained in this Offering Circular or in the Spanish language prospectus prepared by the Gestora for distribution to Spanish investors in accordance with applicable laws and regulations (the "Folleto"). Only information given or representations made in this Offering Circular or in the Folleto can be relied upon as having been authorised by the Gestora. Neither the delivery of this Offering Circular at any time nor any sale made in connection with the offering of the Bonds shall imply that the information contained herein is correct at any time subsequent to the date of this Offering Circular.

This Offering Circular contains, inter alia, certain information more particularly described in the Folleto which has been registered with the Comisión Nacional del Mercado de Valores (Spanish Securities Market Commission – "CNMV") in accordance with the terms of Law 19/1992 of 7th July on 23rd June, 1998. In accordance with Article 21 of Royal Decree 291/1992 of 27th March the only document that may be used in Spain for the purposes of offering the Bonds is the Folleto.

References to "peseta" and "Ptas." are to the lawful currency of the Kingdom of Spain.

In connection with the issue of the Bonds and in accordance with applicable law, Paribas may over-allot or effect transactions which stabilise or maintain the market prices of the Bonds at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time. Such stabilisation will be carried out in compliance with all applicable laws and regulations.

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SUMMARY INFORMATION

The information on pages 4 to 11 is a summary of the principal features of the issue of the Bonds. This summary should be read in conjunction with, and is qualified in its entirety by reference to, the detailed information presented elsewhere in this Offering Circular and in the Folleto. Copies of the Folleto are available at the offices of the Gestora, the Originator and Banco Santander.

MARKET BACKGROUND

Residential mortgage lending has become a fast growing and highly competitive sector of the Spanish economy in recent years. Residential Mortgage Lending was, dominated until the early 1980's by savings and loans associations (*Cajos de Ahorros*) and *Banco Hipotecario de España*, the official mortgage lending institution. The driving forces behind this phenomenon have been the entry of large commercial banks into the mortgage market and the property boom in the late 1980's.

As at the end of December 1997 total mortgage assets in Spain equalled approximately Ptas. 24,400 billion in aggregate principal amount.

Mortgage based financing is currently regulated by the law known as *Ley del Mercado Hipotecario 2/1981* (Law of the Mortgage Market) of 25th March 1981 (The "Law 2/1981") and its subsequent regulations.

Eligible lenders in the Spanish mortgage market include banks, savings and loans associations, *Banco Hipotecario de España*, specialised mortgage lending companies (*Sociedades de Crédito Hipotecario*) and other kinds of financial institutions most of which are wholly owned by commercial banks. All these institutions are under the supervisory authority of the Bank of Spain.

Residential mortgage loans are fairly uniform. Repayment is on an amortising basis and maturities typically range between 10 and 15 years for fixed rate mortgage loans, and up to 30 years for floating rate mortgage loans. Mixed interest rate mortgage loans, with an initial fixed interest rate period of 12 years, and a variable rate until their final maturity (up to 30 years) are also frequent.

Prepayments are frequent in the Spanish mortgage market. Loan prepayments may reduce the monthly payments or reduce the original term of the loan.

Previously, the interest rates applicable to residential mortgage loans were not linked to any particular money market or capital market rate nor was the lender's cost of funds used as a reference for pricing purposes. Instead most lenders used a set of reference rates for each category of mortgage loan.

From the second half of 1993 and until the general increase of interest rates in the first half of 1994, approximately 40% of new residential mortgage loans were originated on a basis where the rate of interest was fixed for the term of the loan. Currently floating rate mortgage loans with interest rates more closely related to money market rates are more usual, although it is still possible to take out mortgage loans with an interest rate fixed for the term of the loan at approximately 6.25% per annum.

LEGAL AND REGULATORY BACKGROUND

The *Ley sobre Régimen de Sociedades y Fondos de Inversión Inmobiliaria y sobre Fondos de Titulización Hipotecaria 19/1992* (Law on the Regime for Companies and Real Estate Investment and Mortgage Securitisation Funds) of 7th July, 1992 (the "Law 19/1992") has facilitated the development in Spain of a securitisation market in which mortgage lenders can refinance their mortgage loan portfolios. Law 19/1992 allows for the creation of *Fondos de Titulización Hipotecaria* (mortgage securitisation funds) which will be managed by a *Sociedad Gestora* (management company) and builds on Law 2/1981 which provided for the repackaging of mortgage loans as negotiable instruments known as *Participaciones Hipotecarias* (mortgage participations). A mortgage participation is an instrument issued by a mortgage lender which transfers to its holder the rights and interest of such mortgage lender in a particular mortgage loan. Law 19/1992 provides for a pool of homogeneous mortgage participations to be transferred to and grouped in a mortgage securitisation fund, which will finance their acquisition by issuing securities known as "*Bonos de Titulización Hipotecaria*" (mortgage securitisation bonds).

A mortgage securitisation fund is established by a deed of constitution entered into between a mortgage lender intending to issue mortgage participations, a management company and an institution acting as a depository of the mortgage participations.

A deed of constitution will contain the following information:

- details of the mortgage participations to be subscribed by the mortgage securitisation fund;
- the terms of the mortgage securitisation bonds to be issued by the fund;
- the duties of the management company and the depositary; and
- the contracts to be entered into by the management company to hedge mismatches in the cashflows generated by the mortgage participations and the payments due in respect of the mortgage securitisation bonds.

On the basis of current law, a deed of constitution may only be modified in exceptional circumstances.

THE ISSUER

The Issuer will be constituted prior to the Closing Date by a deed of constitution (the “**Deed of Constitution**”) to be entered into by the Originator, the Gestora and Banco Santander (as the “**Depositary**” and guarantor of certain obligations of the Originator) in accordance with Law 19/1992 prior to the Closing Date. The constitution of the Issuer will be authorised by, and will be registered with, the CNMV.

The Issuer will be formed specifically to acquire the Mortgage Participations (as defined below) from the Originator with the proceeds of the issue of the Bonds. The Issuer will have no legal personality but represents a distinct and closed pool of assets available for distribution to the holders of the Bonds (the “**Bondholders**”, with “**Class A Bondholders**” and “**Class B Bondholders**” to be interpreted accordingly) and certain other persons (as described below). The Issuer’s assets will be insulated from the insolvency of either the Originator or the Gestora.

The Issuer will be managed by the Gestora, upon and subject to, the terms of the Deed of Constitution. The Gestora has appointed the Originator to carry out the day to day administration of the Mortgages in accordance with the terms of Law 2/1981.

The Gestora

The management of the Issuer will be carried out by the Gestora pursuant to the terms of the Deed of Constitution and in accordance with applicable laws and regulations. The creation of the Gestora was authorised by the *Ministro de Economía y Hacienda* (Minister of Economy and Finance) on 10th December, 1992, and its creation was recorded in the special register established for such purpose by the CNMV. For further discussion of the role of the Gestora, see the section entitled “**The Gestora**” on page 33 below.

The Originator

The Originator was incorporated in February 1989 as a financial institution specialising in mortgage lending to individuals. The capital in its immediate holding company, UCI, S.A., (UCI stands for Unión de Créditos Inmobiliarios), which holds 100 per cent. of the shares in the Originator is owned by Banco Santander, S.A. as to 50 per cent. and Paribas as to 50 per cent.

The Originator originates residential mortgage loans to individuals through a network of Spanish property agents who bring business to the Originator via one of its fourteen branches located in Spain or through approximately forty agents covering other areas of Spain. After an initial risk assessment screening at branch level, loans are authorised centrally in Madrid. The post-origination relationship with borrowers is centralised in the Madrid head office. The Originator holds approximately 1.5 per cent. of the mortgages outstanding in the Spanish residential mortgage market. Whilst taking a conservative position in lending policies with particular emphasis on risk assessment, the Originator introduces innovative products to the market to differentiate itself from the competition.

The Originator has maintained a steady growth in its mortgage business due to its overall customer service and its ability to fill gaps in the market *vis-à-vis* competitors. As at the end of December 1997, the Originator managed mortgage assets with an aggregate principal value of approximately Ptas. 203,000 million.

The Banco Santander Group has maintained steady growth in its mortgage business due to its strong branch network, overall customer service and its ability to identify gaps in the market before competitors. As at the end of December 1997, the Banco Santander Group serviced mortgage assets (including securitized mortgages) with an aggregate principal value of approximately Ptas. 982,037 million.

As at the end of December 1997, the Santander Group had a mortgage market share in Spain of approximately 4.00 per cent. In addition, members of the Banco Santander Group are some of the most experienced issuers in the Spanish mortgage securitisation market, holding as at the end of December 1997, a market share of 75 per cent.

The mortgage participations.

The Gestora, acting on behalf of the Issuer, shall subscribe for mortgage participations issued by the Originator in an aggregate principal amount of at least Ptas. 30,000,000,000 (the "**Mortgage Participations**") pursuant to, and in accordance with, the terms and conditions of the Deed of Constitution.

The issue by the Originator and subscription by the Gestora of each Mortgage Participation shall result in the transfer to the Gestora (acting on behalf of the Issuer) of the right (a) to receive 100 per cent. of the principal amount outstanding of the related mortgage loan (a "**Mortgage Loan**"), (b) to receive interest from the 18th June, 1998 on such principal amount at a rate equal to the rate then applicable to the related Mortgage Loan, (c) to receive interest on amounts overdue in respect of such Mortgage Loan at a rate equal to the rate of interest applicable thereto, and (d) to exercise the rights and remedies conferred by the mortgage (the "**Mortgage**") guaranteeing the related Mortgage Loan in the event of a failure by the Originator to promptly exercise such rights. For further discussion of the rights conferred by the Mortgage Participations, see the section entitled "**The Mortgage Participations**" on page 31 below.

Outstanding Principal Balance

The Outstanding Principal Balance of a Mortgage Participation (the "**Outstanding Principal Balance**") will be all amounts of principal outstanding (whether or not they have fallen due) in respect of the Mortgage Loan to which the Mortgage Participation relates. After completion of formal enforcement proceedings with respect to a Mortgage Loan, the Outstanding Principal Balance of the related Mortgage Participation will become zero (irrespective of amounts received on enforcement and irrespective of whether any further amounts are likely to be received). Accordingly, the reduction of the Outstanding Principal Balance of a Mortgage Participation to zero does not reflect whether or not a loss has been or is likely to be suffered on the enforcement of a Mortgage Loan.

THE BONDS

Ptas. 29,350,000,000 Class A Floating Rate Mortgage Securitisation Bonds Due February, 2027.
Ptas. 650,000,000 Class B Floating Rate Mortgage Securitisation Bonds Due February, 2027.

The structure of the two issues has been designed to ensure timely payment of interest on, and eventual repayment of the principal of, the Class A Bonds and the Class B Bonds. However, certain payments in respect of the Class B Bonds will only be made if and to the extent that there are funds available after paying or providing for certain liabilities which rank in priority to the Class B Bonds, including the liabilities represented by the Class A Bonds.

The Bonds will not be obligations of the Gestora, Banco Santander, the Originator, or any person other than the Issuer. No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Bonds will be accepted by the Gestora, Banco Santander, or the Originator. None of the Gestora, Banco Santander, or the Originator will be under any obligation whatsoever to provide additional funds to the Issuer (save in the limited circumstances described below and elsewhere in this document).

Interest

Interest will be payable on the Principal Amount Outstanding (see below) of the Bonds quarterly in arrears on each Payment Date. Interest will be payable in respect of the actual number of days in the Interest Accrual Period immediately preceding each Payment Date.

The Class A Bonds will bear interest (as described in clause 12.3 and 12.6 of the terms and conditions of the Bonds) at an annual rate equal to the sum of three month peseta LIBOR (or, in the case of the first Interest Accrual Period two month peseta LIBOR) and a margin equal to 0.16% per annum, adjusted upward to reflect a year of 365 days by multiplication by the ratio of 365/360.

To the extent that funds are available, after paying or providing for interest on the Class A Bonds and certain other liabilities of the Issuer, interest on the Class B Bonds will be payable at an annual rate equal to three month peseta LIBOR (or, in the case of the first Interest Accrual Period four month peseta LIBOR) plus a margin equal to 0.575% per annum, converted as described above.

Mandatory Partial Redemption

Available Principal Funds (as defined below) will be utilised starting on the first Payment Date in partially redeeming the Class A Bonds provided that all the Issuer's prior ranking obligations and liabilities have been met. Whilst any Class A Bonds remain outstanding, no partial redemption of the Class B Bonds will take place until the first Payment Date after the Payment Date falling in August, 2003 and all Available Principal Funds will be applied in redeeming Class A Bonds. After such Payment Date, the Class B Bonds may only be redeemed in part when the aggregate Principal Amount Outstanding of the Class B Bonds is 10 per cent. of the aggregate Principal Amount Outstanding of the Class A Bonds. On such Payment Date and each payment Date thereafter, provided that on the corresponding Determination Date (as defined below), no more than 7 per cent. of the outstanding principal balance (the "**Outstanding Principal Balance**") of the Mortgage Participations represent loans which are ninety days or more in arrears and that there is not a Principal Deficiency (as defined below), Available Principal Funds will be applied in partially redeeming both Class A Bonds and Class B Bonds so as to maintain the ratio described above. Available Principal Funds will be applied in this manner until the aggregate Principal Amount Outstanding in respect of the Class B Bonds equals Ptas. 300,000,000. Thereafter, Available Principal Funds will be applied in redeeming the Class A Bonds until they are redeemed in full and only then in redeeming the Class B Bonds. Within each Class, Bonds will be redeemed on a pro rata basis.

"**Available Principal Funds**" means, on each Payment Date, the amount determined by the Gestora to be available under item (5) in the Priority of Payments (as defined in the section entitled "**Credit Structure**" on page 37) as at the fourth business day in Madrid (a "**Determination Date**") prior to each payment Date, such amounts being broadly, except to the extent they are needed to pay items of a higher priority (see "Priority of Payments" below), the scheduled and unscheduled principal amounts received by the Gestora in respect of the Mortgage Participations (on behalf of the Issuer) during the period (a "**Determination Period**") from (and including) the immediately preceding Determination Date (or, in the case, of the first Determination Period, the Closing date) to (but excluding) the relevant Determination Date.

A "**Principal Deficiency**" means the difference, if any, between the amount targeted to be paid as "**Available Principal Funds**" under item (5) in the Priority of Payments (see above) and the amount that can actually be paid based upon the funds available to the Issuer.

Early Redemption

If the principal balance of the Mortgage Participations falls to or below Ptas. 3,000,000,000, the Gestora (on behalf of the Issuer) may, at its option but only after having given notice to Bondholders at least 30 business days in advance in accordance with Condition 12.10 of the Deed of Constitution, (see "**Summary English Translation of the Terms and Conditions of the Bonds**") redeem the Bonds at their Principal Amount Outstanding (see blow) plus any accrued and unpaid interest on any subsequent Payment Date. In addition, the Gestora, or any replacement therefor, (on behalf of the Issuer) may, at its option but only after having given notice to Bondholders 30 business days in advance in accordance with such condition, redeem the Bonds on any Payment Date at their Principal Amount Outstanding plus any accrued and unpaid interest in the event that (i) due to events not foreseen at the date of the Deed of Constitution, there is a permanent imbalance in the income and payments of the Issuer due to, for example, the imposition of a withholding tax on the Mortgage Participations, the Collection Account (as defined below) or either of the Swaps (as defined below), or (ii) due to the Gestora's bankruptcy or insolvency or the revocation of its authority to manage the Issuer by the *Comisión Nacional del mercado de Valores*, the Gestora ceases to be able to carry out its functions and the Depositary is not permitted to perform these functions on a temporary basis and/or no replacement for the Gestora can be found within a period of one year.

Final Maturity Date

To the extent that they have not been previously redeemed, the Bonds will fall due for redemption in full on the Payment Date falling in February, 2027 (the "**Final Maturity Date**").

Principal Amount Outstanding

The Principal Amount Outstanding of each Bond will be its initial principal amount of Ptas. 25,000,000 less the aggregate amount of principal repayments that have been made on the bonds.

Withholding Tax

Payments of interest and principal on the Bonds will be subject to any applicable withholding taxes, without the Issuer being obliged to pay any additional amounts in respect thereof.

Form and Denomination

Each Bond will be denominated in Pesetas and in an amount of Ptas. 25,000,000. Title to the Bonds will be established and evidenced by registration in the registers maintained by ESPACLEAR. Where interests in the Bonds are held in Euroclear, Euroclear will open an account with ESPACLEAR and each person subscribing for or purchasing Bonds through Euroclear will be shown in its records as the holder of a principal amount of Class A Bonds or Class B Bonds (as the case may be).

Risk Weighting

In the judgement of the CNMV (in accordance with article 3 of Ministerial Order dated 30 December, 1992), Class A Bondholders who are subject to the capital regulations of the Bank of Spain may treat the Class A Bonds as 50 per cent. risk-weighted assets. Class A Bondholders who are not subject to regulation by the Bank of Spain should consult their own bank regulatory bodies as to the capital treatment and riskweighting to be given to the Class A Bonds in the relevant jurisdiction.

Relationship between the Class A Bonds and the Class B Bonds

The Class A Bonds will be issued simultaneously with the Class B Bonds. Interest on the Class A Bonds is payable on the same dates as interest on the Class B Bonds. Class B Bondholders will not be entitled to receive any payment of interest (other than from amounts held in the Secondary Reserve Fund (see below)) unless and until (i) all amounts of interest then due to the Class A Bondholders have been paid in full and (ii) all amounts in respect of principal payable on the Bonds have been repaid in full.

Furthermore, for as long as any Class A Bonds remain outstanding, no partial redemption of the Class B Bonds may take place prior to the first Payment Date after the Payment Date falling in August 2003 and all Available Principal Funds will be applied in redeeming Class A Bonds. After such Payment Date, the Class B Bonds may only be redeemed in part if the aggregate Principal Amount Outstanding of the Class B Bonds is equal to ten (10) per cent. of the aggregate Principal Amount Outstanding of the Class A Bonds. On and following this date, the Class B Bonds will be redeemed so as to maintain the ratio between the Class B Bonds and the Class A Bonds provided that no repayments of principal will be made in respect of the Class B Bonds if on the corresponding Determination Date, 7 per cent. of the Outstanding Principal Balance of the Mortgage Participations represent loans which are ninety days or more in arrears or there is a Principal Deficiency (as defined above).

Partial redemption of the Class B Bonds will cease when the aggregate Principal Amount Outstanding of the Class B Bonds equals Ptas. 300,000,000 and will not recommence until the Class A Bonds have been redeemed in full.

RATING OF THE BONDS

It is a condition to issuance that the Class A Bonds be rated "AAA" and the Class B Bonds be rated "A" by Standard & Poor's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning organization.

THE MORTGAGE LOANS

The Issuer's portfolio (the "Pool") will be composed of the Mortgage participations issued by the Originator in respect of Mortgage Loans selected from a provisional pool (the "Provisional Pool") agreed between the Originator and the Gestora. Each Mortgage Loan in the Provisional Pool was originated between 6th September, 1994 and 7th February, 1997 and will have the characteristics described in the section entitled "The Mortgage Loans" on pages 22 to 30 below.

The Provisional Pool consists of floating interest rate mortgage loans indexed to 3, 6 or 12 month ptas. MIBOR plus an average margin of 1.64%. Approximately 88% of the loans (27,700 millions ptas) is indexed to 12 month ptas MIBOR plus an average margin of 1.67%.

Mortgage Loans are fully amortised with monthly instalments, on the 5th day of each month. Approximately 95% of the loans have 12 instalments per year while the remaining 5% have 14 instalments. Each Loan has a floating rate period which can be quarterly, half-yearly or annually. Approximately 40% of the Mortgage Loans have fixed instalments for the first three years although the rest is floating. After this period, instalments and interest rates float.

In every Mortgage Loan, the borrower has the right to limit the increase of his instalment to twice the rate of inflation. During the first three years 44% of the borrowers may use the *quota comodin (joker payment)* which is

the option to defer payment once a year. The sums thus deferred are then fully capitalised, and the original term of each loan could be extended for 7 years in order to absorb the sums then capitalised.

Key Data on the Provisional Pool as at 8th June, 1998

Outstanding Principal Balance	30,589,764,077.-Ptas.
Number of Loans	4,172
Average Loan Amount	7,332,158.-Ptas.
Weighted Average Current Loan to Value Ratio	58.66 per cent
Shortest Maturity Date	5th October, 1998
Longest Maturity Date	5th February, 2027
Weighted Average Maturity Date	5th September, 2014
Maximum Interest Rate	7.91 per cent
Minimum Interest Rate	4.5 per cent
Weighted Average Interest Rate	6.517 per cent

Key Features of the Mortgage Loans

All of the Mortgage Loans:

- will be guaranteed by at least one first priority Mortgage registered over the freehold of a residential property in Spain (a “Mortgaged Property”);
- will have been granted for the purpose of the acquisition by the borrower(s) (a “Mortgage Debtor”) of his primary residence;
- will have been granted in accordance with the criteria and procedures set out in the section entitled “The Mortgage Loans”;
- will have been subject to prior valuation by valuers duly registered with the Bank of Spain;
- will have a loan to value ratio below 80% calculated by taking the ratio of the outstanding loan balance divided by the appraised value (or the lesser of the appraised value and the maximum legal selling price in case of VPO (“Vivienda de Protección Oficial” a private accommodation whose selling price is government-controlled) of the relevant property(ies);
- will provide for fully amortising monthly payments over their remaining lives;
- will, as of the Closing Date, not be in arrears for a period greater than 30 days; and
- will not have a maturity date later than the Final Maturity Date of the Bonds.

Administration of the Mortgage Loans

Under the terms of the Deed of Constitution, the Originator will be appointed as agent to service the Mortgage Loans on a day-to-day basis, including the collection of payments of principal, interest and insurance proceeds and the implementation of arrears procedures.

CREDIT STRUCTURE

The Bondholders should principally look to repayment from the cashflows generated by the Mortgage Participations and the related Mortgage Loans.

The overall structure of the arrangements provided to support the performance of the terms of the Bonds by the Issuer are summarised below. For a more detailed discussion of each of these elements, see the section entitled “Credit Structure” on pages 37 to 41 below.

Credit Risk

The Quality of the Mortgage Loans

The risk of loss arising on the Mortgage Loans as a result of default by Mortgage Debtors is dependent upon the quality of the Mortgage Loans and the incidence of default by Mortgage Debtors while the Bonds are outstanding. The quality of the Mortgage Loans is described on pages 22 to 30 below.

The Principal Reserve Fund

The Gestora (on behalf of the Issuer) shall establish on the Closing Date a Reserve Fund (the "Principal Reserve Fund") which will be funded initially by part of the proceeds of a subordinated loan provided to the Issuer by Banco Santander and Paribas (the "Subordinated Loan"). The Principal Reserve Fund will initially be in the amount of Ptas. 375,000,000 which will be allowed to decline once it reaches 1.50% of the Outstanding Principal Balance of the Mortgage Participations and thereafter remains at 1.50% of the Outstanding Principal Balance of the Mortgage Participations.

The Principal Reserve Fund may be used to make timely payment of the Issuer's obligations under the Class A Swap (as defined below) and its interest obligations on the Class A Bonds. Amounts initially credited to the Principal Reserve Fund may also, upon their release from the fund, be available to offset any losses incurred upon the enforcement and liquidation of Mortgaged Properties.

The Secondary Reserve Fund

The Gestora (on behalf of the Issuer) shall establish on the Closing Date a Reserve Fund (the "Secondary Reserve Fund") which will be funded initially by part of the proceeds of the Subordinated Loan. The Secondary Reserve Fund will be in the amount of Ptas. 202,500,000 comprising a fixed amount of Ptas. 97,500,000 and Ptas. 105,000,000. The latter will reduce quarterly and be equal to 0,350% of the reduction of the Outstanding Principal Balance of the Mortgage Participations. This declining portion of the Secondary Reserve Fund may not decline if 7% or more of the Outstanding Principal Balance of the Mortgages Participations are ninety days or more in arrears. The Secondary Reserve Fund is primarily intended to make payments due from the Issuer under the Class B Swap (as defined below) and to make interest payments on the Class B Bonds but may also be available on the Final Maturity Date to help redeem in full the Class B Bonds to the extent there are insufficient Available Principal Funds to do so. The Secondary Reserve fund is not available to meet payments on the Class A Bonds or under the Class A Swap.

The Issuer's Margin

The terms of the Class A Swap and Class B Swap (as defined below in "Basis Risk") (together, the "Swaps") provide for the Issuer to pay to the Swap A counterparty amounts calculated to be 0.60 per cent (such amount, the "Issuer's Margin") less than the weighted average rate of interest due on the Mortgage Participations during the preceding quarter. The Issuer's Margin may be available to offset losses incurred upon the enforcement and liquidation of the Mortgaged Properties.

Class B Bonds

The Class B Bonds will be available to absorb losses suffered in respect of the Mortgage Loans. To the extent that, after paying or providing for all prior ranking liabilities of the Issuer, there are insufficient funds to pay all interest accrued and not paid in respect of the Class B Bonds or redeem the Class B Bonds in full, the amounts outstanding in respect of the Class B Bonds will at the Final Maturity Date of the Class B Bonds be reduced by the amount of such shortfall and the Issuer's obligations to the Class B Bondholders will cease and the Class B Bondholders will cease to have any entitlement thereto.

Liquidity Risk

The possibility exists of a delay arising between receipt by the Issuer of income generated by the Mortgage Participations and the Issuer's obligations to make payments in respect of its liabilities, including its payment obligations in respect of the Swaps and principal and interest on the Bonds. If such a delay occurs, the Issuer will be exposed to the liquidity risk of having to fund payments due in respect of the Swaps, the Bonds and its other liabilities.

This risk is addressed, with respect to the payment obligations under the Class A Swap and the interest payment obligations on the Class A Bonds, by making available therefor the amounts available in the Principal Reserve Fund, the Issuer's Margin, the subordination of the payment obligations under the Class B Swap and the interest payment obligations on the Class B Bonds, and by the use of scheduled and unscheduled principal payments received on the Mortgage Participations to meet these obligations.

Interest on the Class B Bonds will only be paid on a Payment Date to the extent that funds are available therefor after having made the payments and provisions ranking in priority thereto. Prior to the Final Maturity Date, no amount of principal will be repaid on the Class B Bonds so long as a Principal Deficiency (as defined above) exists or arrears on the Mortgage Loans exceed certain levels.

With respect to the payment obligations under the Class B Swap and the interest payment obligations on the Class B Bonds, this risk is addressed by the amounts available in the Secondary Reserve Fund and, to the extent these are not used in paying or providing for higher ranking items, by the amounts periodically released from the Principal Reserve Fund and by the Issuer's Margin.

With respect to the Issuer's principal payment obligations on the Bonds, this risk is addressed by the Issuer's obligation to make periodic principal payments only with the funds available to it for such purpose and by its obligation to redeem in full the Bonds only at a Final Maturity Date which is beyond the maturity date of the longest maturity Mortgage Loan with the longest maturity.

Basis Risk

This is the risk of an adverse differential existing between the average interest rate receivable on the Mortgage Participations at any time and the average interest rate payable in respect of the Bonds at such time.

This risk is addressed by the Issuer executing, in both cases with Banco Santander, an interest rate exchange transaction (the "**Class A Swap**") in respect of the Class A Bonds and a separate interest rate exchange transaction (the "**Class B Swap**") in respect of the Class B Bonds. The Issuer will enter into the Class A Swap initially with Banco Santander (the "Class A Swap Counterparty" which expression includes any successor in title or permitted assignee including without limitation General Re Financial Products Corporation if applicable). The Issuer will enter into the Class B Swap agreement with Banco Santander. These Swaps will provide for the Issuer to pay amounts related to the average rate of interest receivable on the Mortgage Participations (less the Issuer's Margin) and to receive amounts equal to the interest payable on both classes of Bonds. In respect of the Class A Swap, the Issuer will enter into a swap replacement agreement (the "Swap Replacement Agreement") with Banco Santander and General Re Financial Products Corporation ("GRFPC"). The Swap Replacement Agreement will provide, *inter alia*, that if the rating of Banco Santander by Standard & Poor's falls below A, then the benefits and obligations of Banco Santander under the Class A Swap shall be novated on substantially the same terms to GRFPC. The obligations of GRFPC and the Issuer under the novated Class A Swap will be governed by a separate master agreement that will be entered into by, *inter alia*, GRFPC and the Issuer on or about the Closing Date. The obligations of GRFPC under the novated Class A Swap agreement will be guaranteed by its parent company, General Re Corporation, a Delaware Corporation, which is rated AAA by Standard & Poor's.

The Swap Replacement Agreement also provides that in the event that the rating of General Re Corporation by Standard & Poor's falls below AA, then GRFPC will either find a replacement swap counterparty rated AA or higher or will provide collateral to the Issuer.

REVENUE RISK

Reinvestment Risk

To the extent that cashflows in respect of the Mortgage Participations are received on dates which do not correspond to the due dates for payment of the Issuer's liabilities, the Issuer's assets will comprise liquid funds which will be standing to the credit of an account (the "**Collection Account**" in which payments received in respect of the Mortgage Participations and certain other amounts will be held.

The risk that the rate of return on such liquid funds will be less than the rate of interest payable on the Swaps is addressed by a guaranteed rate agreement (the "**Guaranteed Investment Contract**") entered into by the Gestora (on behalf of the Issuer) with Banco Santander which will, subject to certain conditions, provide a guaranteed rate of interest equal to the rate applicable from time to time to the Issuer's payment obligations under the Swaps on amounts standing to the credit of the Collection Account.

ENGLISH TRANSLATION OF THE TERMS AND CONDITIONS OF THE BONDS

The Bonds are constituted by the Deed of Constitution, which sets out in Clause 12 the terms and conditions governing their issue. The Deed of Constitution has been prepared in Spanish and is governed by the laws of the Kingdom of Spain. The following is an unofficial translation of the main characteristics of the Bonds as they appear in the relevant sections of Clause 12 of the Deed of Constitution which is provided by way of information only and does not purport to be a complete translation of the same. None of the Issuer, the Gestora, the Originator, Banco Santander, or any of the Managers takes responsibility for its accuracy. Copies of the Spanish language Deed of Constitution will be available for inspection at the office of the Gestora identified on the inside back cover page of this Offering Circular.

12. CHARACTERISTICS OF THE BOND ISSUE

12.1 Amount of the issue

The issue shall be in the amount of thirty thousand million pesetas (Ptas. 30,000,000,000) and shall be made up of one thousand two hundred (1,200) Bonds.

Said nominal value shall be divided into two classes of Bonds.

- (i) **Class A:** made up of one thousand one hundred and seventy four (1,174) bonds, with a total nominal value of twenty-nine thousand three hundred and fifty million pesetas (Ptas. 29,350,000,000).
- (ii) **Class B:** made up of twenty-six (26) bonds, with a total nominal value of six hundred and fifty million pesetas (650,000,000).

The Class B Bonds are subordinated to the Class A Bonds, in respect of payments of interest and principal as set out in the Priority of Payments ("*Orden de Prelación de Pagos*") contained in Clause 20 of the Deed of Constitution.

Subscription to or possession of Bonds of one Class does not imply subscription to or possession of Bonds of the other Class.

12.2 Form of representation

The Bonds shall be represented by book entries in accordance with the provisions of Law 19/1992, and subject to the conditions of Section V of the Deed of Constitution.

12.3 Nominal interest rate

Both Class A and Class B Bonds shall accrue annual interest at a variable rate paid quarterly which shall result from applying the criteria set out below.

Such interest rate shall be paid quarterly on the Principal Amount Outstanding ("*Saldo Pendiente de Pago*") of each Class of Bonds on each Payment Date ("*Fecha de Pago*"), as described in Clause 12.5 below.

Withholding, contributions and taxes which are or may be applicable in the future on or to capital, interest or yield from Bonds shall be paid exclusively by the Bondholders and such amount shall be deducted, if appropriate, by the Gestora, on behalf of the Issuer, in accordance with applicable law.

a) *Accrual*

The duration of the issue will be divided into successive Interest Accrual Periods ("*Periodos de Devengo de Interés*") covering the actual days existing between each Payment Date as set out in Clause 12.5 below. Each Interest Accrual Period shall include the first Payment Date on which it begins and exclude the last Payment Date save in respect of the first Interest Accrual Period which shall have a duration of more than a quarter commencing on (and including) the Closing Date ("*Fecha de Desembolso*") described in Clause 13.2 of the Deed of Constitution, and ending on (but excluding) the first Payment Date. Interest shall be calculated on the basis of a 365 day year.

b) *Reference Interest Rate*

The nominal rate of interest accrued on the Bonds during each Interest Accrual Period shall be equal to the sum of: (i) the LIBOR rate applicable to three (3) month (or in the case of the first Interest Accrual Period, four (4) month) deposits in pesetas, described in paragraph (c) below, and (ii) one of the following two margins:

1. 0.16% for the Class A Bonds.
2. 0.575% for the Class B Bonds.

converted to an equivalent rate of interest for a year of 365 days (i.e., multiplied by 365 and divided by 360) and rounded off to one ten thousandth of a percentage point.

c) *LIBOR Determination*

(i) Such LIBOR rate, (London InterBank Offered Rate), is the rate relating to the interbank interest rate offered by the principal banks in the London Interbank Market for three (3) month (or in the case of the first Interest Accrual Period, four (4) month) deposits in pesetas appearing on the Dow Jones screen, on page 3740, "British Bankers Association Interest Settlement Rates" (or such other page as may be substituted for it in this service), on or about 11:00 a.m. (London time) on the Fixing Date ("*Momento de Fijación de Tipo*"), as described below.

(ii) In the absence of interest rates set out in (i) above, the reference rate to be applied shall be the rate offered between banks in the London Interbank Market for three (3) month (or in the case of the first Interest Accrual Period, four (4) month) deposits in pesetas appearing on the Reuters (*Reuters Monitor Money Rates Service*), on page FRBG (or such other page as may be substituted therefor), on or about 11:00 a.m. (London time) on the Fixing Date, as described below.

(iii) In the absence of interest rates set out in section (i) and (ii) above, due to the lack of rates quoted by prime banks operating in the London Interbank Market, the interest rate to be applied shall be a rate equal to the simple arithmetic mean of the interbank interest rates offered for three (3) month (or in the case of the first Interest Accrual Period, four (4) month) deposits in pesetas on the Fixing Date by the financial institutions listed below:

- Banco Santander, London branch
- Paribas, London branch
- J.P. Morgan, London branch

If only two of the above mentioned institutions are quoting such a rate continuously, on the Fixing Date, then the interest rate to be applied shall be a rate equal to the simple arithmetic mean of the interbank interest rates offered by the two remaining institutions.

In the event that it is not possible to apply the above reference interest rate to any Interest Accrual Period, due to the fact that fewer than two of said institutions provide a continuous quotation, the interest rate to be applied shall be the interest applicable to the last Interest Accrual Period, and this rate shall apply for all successive Interest Accrual Periods for as long as such circumstances continue.

If two of the institutions set out above were once again to begin quoting, the substitute rate would be applied pursuant to the preceding rules.

(iv) In the event of the disappearance or modification of the current definition of the LIBOR rate as a result of a decision adopted in relation thereto as a result of European Monetary Union, the successor index to be used shall be fixed by the regulations which may have been issued to that effect and, in the absence thereof, it shall be that determined by the Gestora on behalf of the Issuer on the basis of strict criteria to the proximity in characteristics to the current index. This shall be notified immediately to the Bondholders in accordance with the provisions of Clauses 12.14

(b) (b") of the Deed of Constitution and to the CNMV in accordance with that set out in Clauses 12.14 (b).

d) *Fixing Date*

The nominal interest rate applicable to both classes of Bonds during each Interest Accrual Period shall be set by the Gestora on behalf of the Issuer, on the second business day in London prior to each Payment Date, (defined in Clause 12.5 below), at 11:00 a.m. (London time) on such day (hereinafter the "Fixing Date") and will be applied for the following Interest Accrual Period.

The rate of interest for both classes of Bonds during the first Interest Accrual Period shall be determined on the basis of the reference interest rate (LIBOR for four (4) month deposits) at 11:00 a.m. (London time), on the date of the granting of the Deed of Constitution, or if such day is not a business day in London, the first business day immediately prior thereto, and will be communicated to the general public in the announcement of the constitution of the Issuer and the issue of the Bonds pursuant to Clause 12.14, b), b) of the Deed of Constitution.

The resulting nominal interest rates for both Classes of Bonds for the successive Interest Accrual Periods will be communicated to the Bondholders in the place and manner provided for in the above mentioned Clause.

12.4 Priority given to interest payments on the Bonds in the Fund's priority of payment order.

Payment of interest accrued on Class A Bonds is given third priority in the order of priority of payment order as set out in Clause 20 of the Deed of Constitution).

Payment of interest accrued on Class B Bonds is given seventh priority in the order of priority of payment order (as set out in Clause 20 of the Deed of Constitution).

12.5 Dates, place, institutions and procedure for payment of interest:

Interest on both Class A and Class B Bonds shall be paid on 14th February, 14th May, 14th August and 14th November of each year, or if any such day is not a business day on the first following business day (each a "Payment Date") until full payment has been made, with the procedure set out in Clause 12.12 below, and also taking into account the references to the possible currency change from pesetas to euros in Clause 12.11.8.

In the event that any such day is a non-business day, (for the purposes of this Clause a day which is a Saturday, Sunday or a holiday in Madrid, as described in Clause 12.3d above), payment of interest shall be made on the first business day immediately thereafter in Madrid, no further interest shall be payable in respect of the Interest Accrual Period (as described in Clause 12.3a above) as a result of such delay.

The first interest payment for the Bonds of both Series will take place on 16th November, 1998, such interest having been accrued at the relevant nominal rate since (and including) the Closing Date for the subscribers established in Clause 13.2, up to (but excluding) 16th November, 1998.

12.6 Calculation of interest payments

The interest to be paid on each Payment Date in respect of each Interest Accrual Period shall be calculated according to the following formula:

$$I = N \times C \times d/365$$

Where:

- I= Interest payable on any given Payment Date.
- N= Principal Amount Outstanding of the Bonds on the Determination Date preceding the corresponding Payment Date.
- C= Interest rate expressed as an annual percentage.
- d= Number of days elapsed during each Interest Accrual Period.

Both the interest accruing in favour of both Classes of Bonds calculated as set out above, and the amount of interest accrued and not paid on each Class of Bonds (if any), shall be notified to Bondholders in the manner described in Clause 12.13 hereunder, one (1) calendar day prior to each Payment Date.

In the event that on any given Payment Date, the Issuer has only enough funds to make a partial payment of interest accrued on the Bonds of any Class (in accordance with the order of priority of payments set out in Clause 20 of the Deed of Constitution) such amounts as the Bondholders have not received shall be paid on the following Payment Date. The deferred amounts of interest in respect of any class of Bonds shall accrue interest, in favour of Bondholders, at the interest rate applicable to such class during the Interest Accrual Period(s) until the Payment Date on which they are paid and without this implying capitalisation of the unpaid amount.

The Issuer, through the Gestora, may not defer payment of interest on the Bonds beyond 14th February, 2027, or the business day following the Final Maturity Date of the Bonds.

12.7 Issue price

The issue price of both Series of Bonds shall amount to twenty five million pesetas (Ptas. 25,000,000) per Bond, and the subscriber shall not have to pay any taxes or subscription expenses.

Such expenses and taxes as are inherent to the subscription, shall be paid at the expense of the Issuer.

12.8 Redemption price

The redemption price for the Bonds shall amount to twenty five million pesetas (Ptas. 25,000,000) per Bond, equivalent to its face value, free of expenses for the Bondholder, payable progressively on each Payment Date.

12.9 Partial Repayment of Principal (Amortización)

(a) Final Repayment

The Final Maturity Date, and consequently the definitive repayment of the Bonds, is on 14th February, 2027, or if it is a non-business day, the following business day, without prejudice to the fact that the Gestora, on behalf of the Issuer and in accordance with Clause 12.10 below, may redeem this issue earlier, in which case the Payment Date on which this occurs will be the final repayment date of the Bonds.

(b) Partial Repayment

Notwithstanding the above, pursuant to the provisions of Law 19/1992, so that the flow of principal and interest of the aggregate Mortgage Participations coincides with those of the Bonds issued without any differences in time other than those arising from administration and management fees or expenses, insurance premiums or other applicable items, the Issuer, through the Gestora, shall repay both classes of Bonds as described below:

1. Repayment Dates

These will coincide with the Payment Dates, that is, 14th February, 14th May, 14th August and 14th November of each year (or the following business day, as described in Clause 12.5 above) until it has been fully repaid.

The first repayment of Class A Bonds shall fall on 16th November, 1998, in accordance with the rules set out in such Clause.

The first repayment of Class B Bonds shall take place on the first Payment Date after the Payment Date which falls on 14th August, 2003, on which the Principal Amount Outstanding (described in point 3 below) of the Class B Bonds is equal to or higher than 10 per cent of the Principal Amount Outstanding of the Class A Bonds, and subject to the provisions relating to the amortisation of the Class B Bonds referred to in point 6. below, and Clause 20 of the Deed of Constitution.

2. *Determination Dates and Determination Periods*
 These will be the dates on which the Gestora, in the name of the Issuer, will make the necessary calculations for distributing or retaining the funds available as at such dates, in accordance with the Priority of Payments, in Clause 20 of the Deed of Constitution.

 The "Determination Date" shall be the date corresponding to the fifth business day in Madrid prior to each Payment Date, and the consecutive periods falling between Determination Dates shall be known as "Determination Periods" including in each period the initial Determination Date and excluding the final Determination Date.

 Exceptionally, the first Determination Period will run from the Closing Date described in Clause 13.2 below to the first Determination Date.
3. *Principal Amount Outstanding of the Class A and Class B Bonds*
 This will be the outstanding balance of both Classes of Bonds, including in such balances the amounts accrued, as described in paragraph 4 below, on prior Payment Dates and not paid due to a lack of Available Funds in accordance with the Priority of Payments in Clause 20 of the Deed of Constitution.
4. *Quantity Accrued for repayment on each Payment Date*
 The accrued amount for repayment of both Class A and Class B Bonds, without distinction between them, will be equal to the difference between the Outstanding Principal Balance of the Mortgage Participations (as defined below) and the sum of the Principal Amounts Outstanding of both Class A and Class B Bonds, on the first business day immediately prior to the Determination Date prior to each Payment Date.

 The Outstanding Principal Balance of the Mortgage Participations will consist of amounts which have fallen due for payment and have not been paid, as well as amounts not yet due for payment.
5. *Liquid funds to be paid for repayment on each Payment Date and Principal Deficiency*
 Subject to cash available, the amount that may be the subject of the withholding described in item (5) of the Priority of Payments, described in Clause 20 of the Deed of Constitution, will constitute the Available Principal Funds (Fondos Disponibles para Amortización).

 The Principal Deficiency will be the difference (if any) between the Quantity Accrued for Repayment and the Available Principal Funds.
6. *Distribution of the Available Principal Funds between the Bonds of each Class*
 Such Available Principal Funds will be distributed between both Class A and Class B Bonds in accordance with the following rules:
 - (a) Until (but excluding) the first Payment Date falling after 14th August, 2003, on which the Principal Amount Outstanding of the Class B Bonds is equal to or higher than 10 per cent of the Principal Amount Outstanding of Class A Bonds, the Available Principal Funds will be used in whole to repay the Class A Bonds.
 - (b) On the Payment Date falling after 14th August, 2003, on which the above mentioned relationship is equal to or higher than 10%, the Available Principal Funds shall be applied to the repayment of both Class A and Class B Bonds, in the relevant proportion, in such a way that the relationship between the Principal Amounts Outstanding of Class B and Class A Bonds remains at 10%.
 - (c) At the time when the Principal Amount Outstanding of the Class B Bonds reaches three hundred million pesetas (Ptas. 300,000,000), repayment of Class B Bonds shall cease, and the whole of the Available Principal Funds shall be used for Class A Bonds until they have been fully repaid.
 - (d) Following the total repayment of the Class A Bonds, repayment of the Class B Bonds shall once again be made until they have been fully repaid.

In relation to the repayment of the Class B Bonds, despite compliance with all the matters provided for in the above mentioned clauses, the same will not take place if either of the two following circumstances arise:

- (i) the total amount in respect of the Mortgage Participations in arrears of ninety (90) days or more on the Determination Date preceding the next Payment Date is equal to or more than 7 per cent of the Outstanding Principal Balance of the Mortgage Participations on that date. In this situation, all of the Available Principal Funds will be used to repay the Class A Bonds; or
- (ii) there is a Principal Deficiency, as described above, in which case all of the Available Principal Funds will be used solely for repayment of the Class A Bonds.

Notwithstanding the above, and in the event that on any given Payment Date, and as a result of the order of Priority of Payments set out in Clause 20 of the Deed of Constitution, the Issuer does not have sufficient funds available to repay the Bonds in the manner described above, such amount shall be added to the payment to be made on the following Payment Date, accruing interest at the applicable rate to the relevant Class A and/or Class B Bonds, without any additional or default interest whatsoever, given that in any case, such amount shall form part of the Principal Amount Outstanding for the Class A and/or Class B Bonds.

The Gestora will proceed to notify Bondholders, as provided in Clause 12.14, (a), of the Deed of Constitution of the amount of the repayment to be made to them, the Principal Amounts Outstanding of the Bonds, the Principal Deficiency due to lack of available funds, as well as the actual prepayment rates of the underlying Mortgage Loans and the remaining average life of the Bonds.

7. *Certificates*

Within seven (7) business days following each Payment Date, the Gestora shall produce a certificate issued by a duly authorised person, whose signature should be validated by a notary, verifying the Principal Amounts Outstanding of the Bonds, the Principal Deficiency not paid due to lack of available funds, pursuant to the provisions of this Clause, as well as the interest amount accrued and not paid to the Bondholders, if applicable, according to the provisions of Clause 12.3 above.

Such certificate shall be submitted to the *Comisión Nacional del Mercado de Valores* (CNMV), to the entity in charge of the Accounts Register (SCLV) and to the Supervisory Body of the AIAF (*Asociación de Intermediarios de Activos Financieros*) Fixed Income Market, so that it may be made available to the public, together with the Issuer's Deed of Constitution.

8. *European Economic and Monetary Union*

As a consequence of the Brussels Summit held on 2nd May, 1998 Spain is going to participate in the third phase of the European Economic and Monetary Union, from 1st January, 1999 (in accordance with the terms set out in the Treaty on European Union) and during the transition period therefor, the Issuer, represented by the Gestora, may substitute the peseta amounts to be paid both to Bondholders (in relation to repayment and interest) and to the persons entitled to amounts owed by it in accordance with that set out in the Deed of Constitution and subject to the Priority of Payment order set out in Clause 20 for amounts corresponding thereto in euros, calculated at the conversion rate established in the regulations which may be published to that effect, Banco Santander as a member of the "*Servicio de Compensación y Liquidación de Valores, S.A.*" and as Paying Agent carrying out the conversion from Pesetas to euros, if required.

Following the end of the transition period, the Issuer, represented by the Gestora, shall make all payments exclusively in euros and at the conversion rate established therefor.

12.10 Early redemption

Without prejudice to the obligation of the Issuer, through the Gestora, to repay the Bonds on the Final Maturity Date ("*Fecha de Vencimiento Final*") and to what is set out in the preceding paragraphs, the Issuer, acting through the Gestora, will be able to repay in advance, on a Payment Date the Bonds in their totality, if less than 10% of the initial balance of the portfolio of Mortgage Participations remains outstanding, in accordance with law 19/1992.

Law 19/1992 (fifth article at point 6) provides that the flows of principal and interest corresponding to the Bonds issued and charged to the Issuer, must coincide with the flows of the whole of the Mortgage Participations grouped within it, apart from other temporary inconsistencies such as those derived from commissions, administration and management costs, insurance premiums or other applicable items. In this sense, and if by reason of any exceptional event or circumstance unforeseen on the date of the granting of the Deed of Constitution the financial equilibrium of the Issuer was affected in a permanent manner, in accordance with Law 19/1992, for reasons outside the normal operation of the Issuer, such as new regulations or complementary legislative developments, withholdings, or other situations which could affect the said equilibrium in a permanent manner (not taking into account, therefore, as a cause of the disequilibrium of the existence of a possible Principal Deficiency ("*Deficis de Amortización*"), which would form part of normal operations) the Issuer, acting through the Gestora, will be able to repay in advance the issue of the Bonds.

In the same manner, the liquidation of the Issuer and the early repayment of the Bonds will occur on the assumption that the Gestora was declared bankrupt or its authorisation was revoked and the depository of the Mortgage Participations was not able to legally assume the management of the Issuer or designate a new management company within a period of 1 year in accordance with Clause 2.3 of such authorisation.

The following are the necessary requirements in order to be able to proceed with such early liquidation of the Issuer:

- (i) that all the payment obligations can be met and paid off in their totality,
- (ii) and that the Bondholders are notified in the form set out at Clause 12.14, b), b'') and c) within a period of 30 Business Days prior to the date upon which the early redemption takes place, which must be a Payment Date. Such communication (which must be previously notified to CNMV) must comply with the procedure described below, in relation to the mechanisms for the obtaining of sufficient liquidity, in order to be able to meet and pay off all of the payment obligations derived from the Bonds.

The early redemption of all of the Bonds in accordance with the provisions set out above will result in the payment of the Principal Amount Outstanding as at that date plus the interest accrued and not paid since the last Payment Date until the Payment Date upon which such early redemption occurs, less withholding tax and free of costs for the Bondholder, amounts which for all legal purposes will be considered on such latter date to be due, liquid and payable.

In order that the Issuer, through the Gestora or the depository of the Mortgage Participations, as appropriate, carries out the early redemption of the issue of the Bonds in the circumstances set out in this paragraph and, specifically, so that the Issuer is sufficiently liquid in order to meet the payment of the Principal Amount Outstanding of the Bonds plus the interest accrued and not paid since the last Payment Date up until the Payment Date upon which such early redemption occurs, the Gestora or, as appropriate, the depository of the Mortgage Participations will proceed, in the name of the Issuer to:

- (i) sell the Mortgage Participations for a price which will not be less than the sum of the value of the principal plus the interest accrued and not charged on the Mortgage Participations pending repayment; and/or
- (ii) arrange for a line of credit with Banco Santander to be set up which will with immediate effect be completely set aside for the early repayment of the Bonds. The return on the line of credit will be guaranteed only by the flows of interest and principal deriving from the Mortgage Participations pending repayment.

12.11 Priority given to repayment in the order of priority of payments

The Available Principal Funds from which, in accordance with the provisions of Clause 20 of the Deed of Constitution, principal of the Class A and Class B Bonds will be paid, is listed (5) in the order of priority of payments set out in Clause 20.

12.12 Publicity for principal repayment and interest payment; paying agency function

Banco Santander has been appointed as Paying Agent. Bondholders shall be notified of the payment of interest and repayments of principal in the events and with the advance notice set out for each case in Clauses 12.14, a), a”) below. Interest payments and repayments of principal shall be made when the Bondholders submit a document verifying their ownership or when the institution entrusted with the accounts registry identified in Section V of the Deed of Constitution, issues the relevant certificate.

12.13 Obligations and time limits for the publishing and filing with the “Comisión Nacional del Mercado de Valores” of scheduled information on the economic and financial status of the Issuer

The Gestora, as manager and administrator of the Issuer, undertakes to notify to the Comisión Nacional del Mercado de Valores, as soon as possible, the information described in the Ordinary and Extraordinary Notices, in accordance with the following provisions, and, on each Payment Date (regardless of additional information required by the CNMV), except for the information contained in (e), which will be annual, in relation to both classes of Bonds, and the performance of the Mortgages Participations, the prepayments and the financial situation of the Issuer, as well as informing it of all Ordinary and Extraordinary Notices, referred to in Clause 12.14 and as well as all additional information that may be required by the above mentioned institution:

(a) *In relation to each of the Class A and Class B Bonds:*

1. Principal Amount Outstanding and percentages that each class represents in relation to its initial nominal amount.
2. Interest accrued and paid.
3. Interest accrued and unpaid.
4. Repayments accrued and paid.
5. Principal Deficiency.

(b) *In relation to the Mortgage Participations:*

1. Outstanding Principal Balance of the Mortgage Participations.
2. Interest accrued and collected.
3. Amounts due and not collected of the Mortgage Participations in arrears on the date of this information.

(c) *In relation to the financial situation of the Issuer:*

Information on the origin and later application of the Available Funds, in accordance with the Priority of Payments contained in Clause 20 of the Deed of Constitution.

(d) *In relation to the prepayments:*

Print-outs showing average real prepayment rates of the Mortgage Loans underlying the Mortgage Participations, and the average lives of the Bonds assuming maintenance of the mentioned prepayment rates.

(e) *And in relation to the Annual Accounts of the Issuer:*

Balance Sheet, Profit and Losses account, Management Report and Audit Report within four (4) months from the end of each financial year.

12.14 Notices

The Gestora, for the exact compliance with the conditions of the issue, undertakes to make the following notices:

(a) *Ordinary periodic notices*

- (á) The Issuer, through the Gestora, shall notify the Bondholders of the nominal interest rates resulting for both Classes of Bonds for the following Interest Accrual Period, according to the criteria contained in Clause 12.3, d), within the period falling between the Fixing Date and a maximum of three (3) business days following the relevant Payment Date.
- (a") The Issuer, through the Gestora, shall proceed to notify the Bondholders, each quarter at least one (1) calendar day prior to each Payment Date, not only the interest applicable to both classes of Bonds, together with the repayment thereof, but also if appropriate:
 - (i) actual prepayment rates for the mortgage loans underlying the Mortgage Participations, on the Determination Date, and
 - (ii) the remaining average lives of the Bonds calculated according to the hypotheses of maintaining the actual rate and early redemption as set out in Clause 12.10.
 - (iii) the Principal Amount Outstanding (after the repayment to be made on each Payment Date) of each Bond of each Class and the percentage that such Principal Amount Outstanding represents of the initial nominal amount of each Bond, i.e., Ptas. 25,000,000.

Likewise, and if appropriate, the Bondholders shall be notified of the amounts of interest and/or Principal Deficiency not paid due to lack of available funds, in accordance with the order of Priority of Payments set out in Clause 20 of the Deed of Constitution.

The preceding notices shall be made pursuant to the provisions of section (c) below, and will also be made available to ESPACLEAR (Sociedad de Compensación y Liquidación de Valores, S.A.), to the clearing system operated by Morgan Guaranty Trust Company of New York, ("Euroclear") at least three (3) business days before each Payment Date.

(b) *Extraordinary notices*

- (b) As a result of the Deed of Constitution of the Issuer and the issue of the Bonds, the Gestora, on behalf of the Issuer, shall proceed to serve notice (by the procedure indicated in section (c) below) of the constitution of the Issuer and of the issue of the Bonds, together with the floating quarterly annual interest rates, for both classes of Bonds during the first Interest Accrual Period, which shall fall between the Closing Date and 16th November, 1998, all the above in accordance with the Clause 12.3. Such notice may be made on either a calendar day or a business day.

(b) Others:

The Issuer, through the Gestora, shall likewise inform the Bondholders of any relevant fact arising in respect of the Mortgage Participations, the Bonds, the Issuer and the Gestora itself, which could have a material influence on the trading of the Bonds and, in general, of any relevant modification of the assets or liabilities of the Issuer, and furthermore, of any decision to repay of the Bonds early for any of the reasons set out in the Spanish "Offering Circular" being remitted to the CNMV, in this case, the Notarial Act of Liquidation and Procedure referred to in Clauses 5.1 and 12.10 above.

(c) *Procedure*

All notices which, pursuant to the above, must be made by the Issuer, through the Gestora, must be published in a daily newspaper of general circulation in Spain. Such notices shall be considered duly made on the date such newspaper is published, on any calendar day, be it a banking day or a bank holiday, as indicated in the Spanish "Offering Circular".

(d) *Information to the Comisión Nacional del Mercado de Valores*

The Gestora shall proceed to notify the Comisión Nacional del Mercado de Valores of both, ordinary periodic and extraordinary notices, which are given according to the provisions of the preceding sections, as well as any possible Notarial Acts complementary to this deed which relate to any modifications of the Mortgage Loans, in accordance with the provisions of Clause 5.1 of the Deed of Constitution, and whatever other information is required.

12.15 National legislation under which the securities are created and competent courts in the event of litigation

This issue is protected by Spanish Law on the basis of the following legislation:

- Law 19/1992, dated 7 July, on the Regime of Companies and Real Estate Investment Funds ("*Régimen de Sociedades y Fondos de Inversión Inmobiliaria*") and on Mortgage Securitisation Funds ("*Fondos de Titulización Hipotecaria*") ("*Law 19/1992*");
- Law 24/1998, dated 28 July, of the Securities Market ("*Mercado de Valores*") ("*Law 24/1998*") and conforming to that set out in Royal Decree 291/1992, dated 27 March on Issues and Public Offerings for the Sale of Securities ("*Emisiones y Ofertas Públicas de Venta de Valores*"), as well as in the Order of 26 February 1982;
- Order dated 12 July 1993 on Brochures and Other Developments ("*Folletos Informativos y Otros Desarrollos*") of Royal Decree 291/1992, dated 27 March on Issues and Public Offerings for the Sale of Securities;
- Circular 2/1994, dated 16 March, of the National Commission of the Securities Market, through which the precedent of the Brochure for the constitution of the Mortgage Securitisation Funds was approved, with the objective of the setting up through the Gestora of the Issuer and of the issue charged to the Fund of Ptas. 30,250,000,000 in 1,210 Mortgage Securitisation Bonds of Ptas. 25,000,000 nominal value each. All issues and disputes which might arise in relation to the Issuer, in its capacity as issuer of the Mortgage Securitisation Bonds and the holders of the same, will be resolved subject to the jurisdiction of the Courts of Madrid, with express renunciation by the parties of any jurisdiction which could have been available to them.

THE MORTGAGE LOANS

The Mortgage Loans will consist of mortgage loans secured by a first priority mortgage over freehold residential property located in Spain.

The Mortgage Loans will be drawn from the Provisional Pool which consists of mortgage loans with an aggregate Outstanding Principal Balance of Ptas. 30,589,764,077 as at 8th June, 1998.

The Originator will make, *inter alia*, the following representations and warranties in relation to the Mortgage Loans:

- each Mortgage Loan and its related Mortgage is valid and enforceable in accordance with applicable law;
- each Mortgage Loan is secured by at least one first priority mortgage over the freehold of the property the subject thereof;
- each Mortgage Loan is in the form of an *escritura pública* as required by applicable law, and is duly constituted and registered against the relevant property in the register maintained for such purpose (a "Property Register").
- each Mortgage Debtor is an individual resident in Spain;
- each Mortgage Loan has been granted in order to finance the purchase of property in Spain which is intended to be the principal residence of the Mortgage Debtor;
- each Mortgaged Property has been valued by valuers duly registered with the Bank of Spain;
- each Mortgage Loan did not exceed 80% of the appraised value (or the lesser of the appraised value and the maximum legal selling price in the case of a VPO) of the relevant properties as at the date of the constitution of the Issuer;
- each Mortgaged Property has fire insurance cover, in respect of which the Originator is a named beneficiary and, as far as it is aware, the premia with respect thereto have been paid in full; and
- as of the date of the constitution of the Issuer, no Mortgage Loan will have been in arrears for a period in excess of 30 days; and
- no Mortgage Loan has a maturity date later than the Final Maturity Date of the Bonds.

In the event of a breach of any representation or warranty of the Originator in relation to any Mortgage Loan, the Originator shall undertake to substitute such Mortgage Loan with a Mortgage Loan from its own portfolio bearing similar characteristics with respect to, *inter alia*, remaining maturity, principal balance and loan to value ratio ("LTV"). If, for any reason, it is impossible to substitute a loan with similar characteristics, the Originator shall be obliged to repurchase such Mortgage Loan for cash at its then Outstanding Principal Balance plus accrued interest.

Enforcement of these undertakings shall be the sole remedy of the Issuer and the Gestora in respect of a breach of representation or warranty in respect of any Mortgage Loan.

The obligation of the Originator to substitute or repurchase a non complying Mortgage Loan as described above will be guaranteed by Banco Santander.

General Information relating to Origin of Mortgage Loans

A summary of the basic documentation and information relating to an application for a Mortgage Loan is as follows:

1. The application form.
2. Such relevant information on the property to be mortgaged as may be available at the time of risk analysis, including, in all circumstances, an appraisal of the property.
3. Salaried applicants: the three latest monthly pay slips (*nóminas*) and tax return for the previous financial year.
Professionals and self-employed applicants: tax return for the previous financial year.
4. Evidence of identification of the applicant(s).

Procedures

Risk assessment by the Originator involves the risk analysts checking applications and accompanying documents, making appropriate inquiries, searching the credit risk files maintained by the Bank of Spain and other organisations. Depending on the characteristics of the application and the amounts involved, the final decision to lend will be made at the relevant level: risk analyst, CAN Committee (*Central de Autorización Nacional*, based at the Madrid head-office), or Risk Committee. The process of risk selection may have evolved in its details during the lifetime of the Originator, however all the mortgages in the Pool have been granted according to the risk-assessment policy prevailing at the relevant time.

Evaluation

The decision-maker (whether it is the analyst, CAN Committee or the Risk Committee) assesses the loan application and issues a provisional authorisation subject to a final valuation of the property to be carried out by the valuers Sociedad de Tasación Valtecnic (the “Valuer”) and confirmation of registration details by the administrative officer who liaises with the Originator. All valuations in the Provisional Pool have been carried out by the Valuer. The Valuer has provided an official certificate of valuation as well as a more detailed valuation report for each Mortgaged Property.

In order to take the decision to lend, the following basic criteria are applied:

1. Use of the Mortgage Loan must be for acquisition of a property which will be the primary residence of the applicant.
2. Applicants must be individuals, of age, resident in Spain and must be acquiring a property in Spain. In addition, the following considerations are taken into account:
 - The professional stability of the applicant, as well as the underlying trend of the applicant's professional life. If an applicant is considered to have insufficient professional stability, additional sureties are sought, including a personal guarantee.
 - The LTV depends on the employment situation of the applicant the maximum being 60% for self-employed persons, and 70% for professionals. These thresholds may be exceeded for salaried applicants.
 - The assessment process is backed by a statistical scoring system based on the probability of non-payment according to the credit profile of the applicant, and an expert system which ensures that the transaction complies with all the acceptance policy regulations of the Originator.

In every transaction the existence of mortgagors and guarantors is systematically checked with several registers. The relevant registers are maintained by the *Asociación Nacional de Entidades de Financiación* (“ASNEF”) (an association of financial entities) and the *Central Información de Riesgos del Banco de España* (“CIRBE”) (a risk information unit of the Bank of Spain).

ASNEF is an association of more than 100 institutions granting consumer loans which maintains a register of borrowers who have defaulted in payment. This information is updated on a monthly basis. Any default will remain on the register for five years, from the date of the default.

CIRBE is a register of the Bank of Spain which reports all commercial loans (including mortgage loans) granted in Spain for an amount higher than Ptas. 4,000,000.

Granting of the loan

Once the evaluation procedures have been completed and the final authorisation has been granted, the mortgage deed (*escritura de hipoteca*) relating to the loan is signed before a Notary at the same time as the funds are transferred by the Originator to the Mortgage Debtor or any other person that the latter may have designated for this purpose. If there is an existing mortgage over the property, the administrative agent appointed by the Originator will arrange for its cancellation, retaining the necessary funds for this purpose. The agent will also ensure that the new loan agreement is registered in the Property Register in order that the mortgage in favour of the Originator is registered as a first mortgage, with priority over all subsequent mortgages.

Security

Each Mortgage Loan is guaranteed by a first priority Mortgage in the form of a notarised deed (*Escritura de Hipoteca*) which is registered in the relevant Property Register. Registration of the mortgage in such Property

Register requires presentation of the notarised public deed together with an application for registration. When a mortgage deed is first presented for registration an entry to this effect is made in the Register. This entry establishes priority over any subsequent claims in respect of the relevant property. Stamp duty, calculated at the rate of 0.50 per cent of the amount guaranteed by the mortgage, is then assessed and paid by the administrative agent on behalf of the Mortgage Debtor from a lump sum which has been retained from the loan by the Originator.

Insurance and Life Insurance

The Mortgage Debtor is required to take out insurance in respect of the property against risk of fire and other accidental damage for the full restitution value thereof. The Mortgage Debtor may also be required to take out life insurance for the term of the Mortgage Loan. The Originator is required to be named as a beneficiary on each policy. The Originator's rights in respect of the insurance (including any amounts received) and the life insurance taken out in respect of each Mortgage Debtor will be assigned to the Issuer by the terms of the Deed of Constitution.

In the event that the Mortgage Debtor fails to pay the insurance premium applicable, the insurer is required to inform the Originator of such non-payment and the Originator shall pay the same for the account of the Mortgage Debtor.

Valuation of Properties

Valuations are carried out by the employees of the valuer which is registered with the Bank of Spain. Work is allocated to individual valuers on a regional basis. All valuations are done in standard form requiring the submission of at least one comparable sale, and in accordance with applicable law.

Administration

Pursuant to the Deed of Constitution and as provided by Law, the Originator will be appointed the agent of the Gestora (on behalf of the Issuer) to conduct the day-to-day administration of the Mortgage Loans. The Originator will be obliged to administer the Mortgage Loans with the same diligence and skill as Mortgage Loans of which it is itself the beneficial owner. The collection of proceeds and duties expressed below will be carried out by Banco Santander in the event that the Originator for any reason does not perform such duties.

The duties of the Originator in its role as servicer of the Mortgage Loans will include:

- collecting interest and/or principal payments and/or any other amounts due in respect of the Mortgage Loans and paying such amounts (except, in certain circumstances prepayment penalties) within forty eight hours of receipt into the Collection Account. This payment obligation is guaranteed by Banco Santander;
- monitoring and, where appropriate, pursuing arrears in accordance with the arrears policy from time to time of the Originator (see "**Arrears and Enforcement Policy**") as well as taking such steps as it deems appropriate in order to enforce the guarantee constituted by the Mortgages;
- storage of all title deeds and documents in respect of the Mortgage Loans and related Mortgages; and
- collecting the proceeds of any related insurance policies and paying such proceeds into the Collection Account.

Remuneration of Originator

In consideration of the administration of the Mortgage Loans, the Originator (or its substitute) will have the right to receive an annual fixed fee (inclusive of VAT) of Ptas 10,000,000.- payable on each Payment Date in equal quarterly instalments..

In the event that, on any given Payment Date, the Gestora (on behalf of the Issuer) has insufficient funds to pay the whole or part of the fee (including previously accrued fees) the amounts not paid will be payable on the next Payment Date and will not accrue any default interest.

In addition, the Originator, as remuneration for the financial intermediation procedure necessary for the issue of the Mortgage Loans, will have the right to receive on each Payment Date, a variable and subordinated amount calculated on the profit and loss account (i.e. the difference between income and expenses) of the Issuer on such Payment Date. This amount will not be regarded as fees for the sale of goods or the provision of services to the Issuer.

The administration fee for the Mortgage Loans as well as the remuneration for the role of financial intermediary will be paid to the Originator as long as the Issuer has funds available and subject to the Priority of Payment order (see below).

In addition, on each Payment Date, the Originator, will be entitled to reimbursement of all the extraordinary expenses that it has justifiably incurred (e.g. enforcement costs), in relation to the management of such Mortgage Loans. Such reimbursement will be made subject to available funds and to the Priority of Payments order.

Arrears and Enforcement Policy

Most of the Originator's clients are required to open a bank account with Banco Santander and to have their regular income credited to it, or if this is not practicable, to have their mortgage payments debited from it, thus increasing instalment payment efficiency for the Originator. Mortgage payments are made by direct debit, which is allowed up to four times a month if needed, as set out below.

Delinquencies are handled by the Originator's debt-recovery department located at the Originator's head-office in Madrid. There are currently 12 departmental staff.

Each instalment is due on the 5th of each month or on the following business day. If the instalment is unpaid, a request for payment will be presented again within ten days. If unsuccessful, the same process takes place approximately 10 days later. If and when the third presentation fails the instalment is regarded and accounted for as unpaid.

Late repayments are dealt with by the debt-recovery department as soon as they occur, which may mean before the instalment is regarded as unpaid.

After notice of non-payment of the first presentation is received, the debt-recovery department warns the relevant borrower that a second presentation is to be submitted for direct debit, and tries to discover, to the extent practicable, the borrower's situation. The same process takes place if notice of non-payment of the second presentation is received.

If the third direct debit is unpaid, the debt-recovery department's duty at that stage is to contact the defaulting borrower and, at the very least, check the accuracy of the information that was given at the time of granting the mortgage, or to try to discover any changes in circumstance (family break-up, etc.).

At this point, the emphasis is still that of a "benevolent" approach. The Originator understands that when practicable, action taken should be personalized and that this involves trying to solve problems at their inception, prevention being seen as the most efficient means of stopping a default occurring or worsening. Of the 3.6% of the Originator's mortgages which are currently being dealt with by the debt-recovery department, two-thirds are mortgages with just one unpaid instalment.

After the second unpaid instalment, the emphasis switches to a deeper investigation of the borrower's financial situation, which implies the determination of the "disposable income" left to the borrower taking into account monthly expenses (basic expenses, housing, including the Originator's mortgage, other loans, etc.).

Depending on the level of disposable income (positive, nil or even negative), the Originator's debt-recovery department evaluates the borrower's ability to repay outstanding unpaid amounts and/or monthly instalments. The relevant proposal is presented to the borrower (return to regular situation after a lump payment, temporary payment freeze or advising the borrower to sell his house if the financial situation offers no reasonable alternative).

At this stage, the approach is less benevolent but decisions are still made on a case-by-case basis with a personal approach being used for decisions taken. Decisions are made from a wide spectrum of options strictly defined within the framework of the Originator's policy, from which the debt-recovery department chooses the optimum steps to take.

If there appears to be no other solution, the Originator still has recourse to legal action, although this is viewed as a last resort. The priority is to seek the best compromise between time-efficiency and economic balance bearing in mind that the repossession procedures under the Spanish law takes an average of 14 months, at an average cost of approximately 5% of the value of the repossessed property.

Under Bank of Spain accounting rules, a mortgage is regarded as non-performing if payments in arrears exceed three monthly instalments. As at 31st March, 1998, non-performing assets amounted to 0.51% of the Originator's entire portfolio.

Due to its limited experience in terms of repossession, the Originator is not able so far to provide statistically relevant information on the profit and losses arising from repossession and sales of repossessed property.

Loan Delinquency and Default Statistics

The evolution in the last 3 years of net investment, average profitability and arrears in the Originators' portfolio of Mortgage Loans granted for the acquisition of property by individuals is shown in the table below:

Date	Total number of Loans	Outstanding Principal Balance (Ptas. millions)	Uncertain cases (number)	Arrears %	Average profitability %
31-03-96.	17,963	135,123	2,050	1.52	10.64
30-09-96.	19,413	148,750	1,491	1.00	9.91
31-03-97.	18,384	146,680	1,302	0.89	8.72
30-09-97.	20,333	163,446	1,211	0.74	7.37
31-03-98.	22,972	184,942	940	0.51	6.87

Loan Sizes

The distribution of Mortgage Loans in the Provisional Pool by reference to size of Outstanding Principal Balance (both by Outstanding Principal Balance and number of Mortgage Loans) is set out in TABLE A. This table was prepared on the basis of information as at 8th June, 1998.

TABLE A
Size of Mortgage Loans in the Provisional Pool

Range of Outstanding Principal Amount (Ptas.)	Outstanding Principal Balance		Number of Loans	
	Within Range (Ptas. thousands)	Proportion of Total (%)	Within Range	Proportion of Total (%)
521,719 – 6,199,999	7,970,657	26.05	1,811	43.40
6,200,000 – 12,399,999	17,381,947	56.82	2,033	48.72
12,400,000 – 18,599,999	3,783,844	12.36	266	6.37
18,600,000 – 24,799,999	1,037,543	3.39	49	1.17
24,800,000 – 30,999,999	213,268	0.69	8	0.19
31,000,000 – 37,199,999	100,272	0.32	3	0.07
37,200,000 – 43,399,999	41,878	0.13	1	0.02
43,400,000 – 60,355,171	60,355	0.19	1	0.02
Totals	30,589,764	100.00	4,172	100.00

The average principal balance of the Mortgage Loans as at 8th June, 1998 was Ptas. 7,332,158.

Loan Interest Rates

The Mortgage Loans in the Provisional Pool consists of 100% floating rate loans for their entire term.

The distribution of Mortgage Loans in the Provisional Pool by reference to actual applicable interest rates (both by Outstanding Principal Balance and number of Mortgage Loans) is set out in TABLE B. This table was prepared on the basis of information as at 8th June, 1998.

TABLE B

Interest Rates applicable to Mortgage Loans in the Provisional Pool

Range of Interest Rates (%)	Outstanding Principal Balance		Number of Loans	
	Within Range (Ptas. thousands)	Proportion of Total (%)	Within Range	Proportion of Total (%)
4.50 – 4.99	15,197	0.05	1	0.02
5.00 – 5.49	602,531	1.97	55	1.32
5.50 – 5.99	2,573,355	8.41	291	6.98
6.00 – 6.49	8,908,732	29.12	1,183	28.36
6.50 – 6.99	11,151,365	36.45	1,549	37.13
7.00 – 7.49	7,235,951	23.65	1,076	25.79
7.50 – 7.91	102,634	0.34	17	0.41
Totals	30,589,764	100.00	4,172	100.00

The weighted average rate of interest applicable to the Mortgage Loans as at 8th June, 1998 was 6.517 per cent.

Maturity of Loans

The distribution of Mortgage Loans in the Provisional Pool by maturity (both by Outstanding Principal Balance and number of Mortgage Loans) is set out in TABLE C. This table was prepared on the basis of information as at 8th June, 1998.

TABLE C

Maturity of the Mortgage Loans in the Provisional Pool

Range of Maturities	Outstanding Principal Balance		Number of Loans	
	Within Range (Ptas. thousands)	Proportion of Total (%)	Within Range	Proportion of Total (%)
05/10/1998 – 31/12/1998	1.368	0,00	2	0,04
01/01/1999 – 31/12/1999	57.765	0,18	24	0,57
01/01/2000 – 31/12/2000	104.056	0,34	28	0,67
01/01/2001 – 31/12/2001	260.490	0,85	59	1,41
01/01/2002 – 31/12/2002	557.499	1,82	94	2,25
01/01/2003 – 31/12/2003	672.661	2,19	99	2,37
01/01/2004 – 31/12/2004	659.110	2,15	105	2,51
01/01/2005 – 31/12/2005	616.197	2,01	103	2,46
01/01/2006 – 31/12/2006	720.290	2,35	131	3,13
01/01/2007 – 31/12/2007	624.007	2,03	97	2,32
01/01/2008 – 31/12/2008	497.428	1,62	81	1,94
01/01/2009 – 31/12/2009	781.610	2,55	123	2,94
01/01/2010 – 31/12/2010	2.326.210	7,60	353	8,46
01/01/2011 – 31/12/2011	2.367.839	7,74	357	8,55
01/01/2012 – 31/12/2012	401.400	1,31	60	1,43
01/01/2013 – 31/12/2013	231.704	0,75	29	0,69
01/01/2014 – 31/12/2014	1.182.391	3,86	152	3,64
01/01/2015 – 31/12/2015	3.393.098	11,09	451	10,81
01/01/2016 – 31/12/2016	4.316.975	14,11	549	13,15
01/01/2017 – 31/12/2017	434.989	1,42	52	1,24
01/01/2018 – 31/12/2018	63.678	0,20	8	0,19
01/01/2019 – 31/12/2019	441.094	1,44	59	1,41
01/01/2020 – 31/12/2020	1.535.650	5,02	199	4,76
01/01/2021 – 31/12/2021	2.146.540	7,01	238	5,70
01/01/2022 – 31/12/2022	443.641	1,45	50	1,19
01/01/2023 – 31/12/2023	15.521	0,05	2	0,04
01/01/2024 – 31/12/2024	518.424	1,69	60	1,43
01/01/2025 – 31/12/2025	1.962.936	6,41	248	5,94
01/01/2026 – 31/12/2026	2.995.484	9,79	331	7,93
01/01/2027 – 05/02/2027	259.709	0,84	28	0,67
Totals	30,589,764	100.00	4,172	100.00

The weighted average maturity date of the Mortgage Loans as to 8th June, 1998 was 5th September, 2014, being 14.2 years from the Closing Date.

Loan to Value Ratios

The distribution of Mortgage Loans in the Provisional Pool by LTV (both by Outstanding Principal Balance and number of Mortgage Loans) is set out in TABLE D. The LTVs used to compile this table were computed by dividing the current principal balance of each Mortgage Loan by the lesser of (i) the valuation of the Mortgaged Properties used at the time of the loan's origination, and (ii) their maximum legal selling prices in the case of VPO. This table was prepared on the basis of information as at 8th June, 1998.

TABLE D**LTVs Mortgage Loans in the Provisional Pool**

Range of LTVs (%)	Outstanding Principal Balance		Number of Loans	
	Within Range (Ptas. thousands)	Proportion of Total (%)	Within Range	Proportion of Total (%)
2.0 – 9.9	48,254	0.15	31	0.74
10.0 – 19.9	382,736	1.25	114	2.73
20.0 – 29.9	1,467,954	4.79	294	7.04
30.0 – 39.9	2,877,046	9.40	454	10.88
40.0 – 49.9	4,699,666	15.36	633	15.17
50.0 – 59.9	4,938,170	16.14	635	15.22
60.0 – 69.9	5,352,064	17.49	674	16.15
70.0 – 79.0	10,823,875	35.38	1,337	32.04
Totals	30,589,764	100.00	4,172	100.00

The weighted average LTVs of the Mortgage Loans as at 8th June, 1998 was 58.66 per cent.

Geographical distribution

The 13 provinces which had the highest geographic concentration of Mortgage Loans in the Provisional Pool by Outstanding Principal Balance and number of Mortgage Loans as at 8th June, 1998 are set out in TABLE E. The concentration by Outstanding Principal Balance in each of the other 32 provinces was less than 1.16 per cent at such date.

TABLE E**Geographical Distribution of Mortgage Loans in the Provisional Pool**

Provinces	Outstanding Principal Balance		Number of Loans	
	Within Range (Ptas. thousands)	Proportion of Total (%)	Within Range	Proportion of Total (%)
28 Madrid	10,351,810	33.84	1,243	29.79
08 Barcelona	6,162,004	20.14	736	17.64
29 Malaga	1,813,156	5.92	302	7.23
33 Oviedo	1,477,261	4.82	217	5.20
41 Sevilla	1,396,172	4.56	223	5.34
11 Cadiz	1,321,343	4.31	231	5.53
46 Valencia	931,603	3.04	154	3.69
14 Cordoba	719,558	2.35	115	2.75
38 Tenerife	686,013	2.24	90	2.15
35 Las Palmas	578,580	1.89	87	2.08
15 La Coruña	568,452	1.85	81	1.94
07 Baleares	476,269	1.55	76	1.82
21 Huelva	467,397	1.52	81	1.94
Otros	3,640,145	11.72	536	12.67
Totals	30,589,764	100.00	4,172	100.00

Origination Date

The distribution of Mortgage Loans in the Provisional Pool (both by Outstanding Principal Balance and number of Mortgage Loans) by reference to their dates of origination is set out in TABLE F. This table was prepared on the basis of information as at 8th June, 1998.

TABLE F**Origination Date of Mortgage Loans in the Provisional Pool**

Range of Origination Dates	Outstanding Principal Balance		Number of Loans	
	Within Range (Ptas. thousands)	Proportion of Total (%)	Within Range	Proportion of Total (%)
06/09/1994 – 31/12/1994	3,042,755	9.94	441	10.57
01/01/1995 – 30/06/1995	5,742,636	18.77	839	20.11
01/07/1995 – 31/12/1995	5,481,007	17.91	790	18.93
01/01/1996 – 30/06/1996	6,383,775	20.86	854	20.46
01/07/1996 – 31/12/1996	8,009,466	26.18	1,009	24.18
01/01/1997 – 07/02/1997	1,930,125	6.30	239	5.72
Totals	30,589,764	100.00	4,172	100.00

THE MORTGAGE PARTICIPATIONS

The Gestora, acting on behalf of the Issuer, shall subscribe for the Mortgage Participations pursuant to, and in accordance with, the terms and conditions of the Deed of Constitution. The Gestora shall effect such subscription using the proceeds of the issue of the Bonds and part of the proceeds of the Subordinated Loan.

The Mortgage Participations shall be represented by means of a certificate issued in the name of the Issuer, setting forth the details which appear in the relevant property registers of the Mortgage Loans so assigned by the Mortgage Participations. Banco Santander has been appointed by the Gestora as the Depositary of the Mortgage Participations.

The Mortgage Participations confer on their holder the right:

- (a) to receive 100 per cent of the principal amount of the Mortgage Loans;
- (b) to receive the number of days of interest accrued from the 18th June, 1998 on such principal amount at the interest rate applicable to the Mortgage Loans;
- (c) to receive default interest on amounts overdue in respect of the Mortgage Loans at a rate equal to the rate of interest on the relevant Mortgage Loans;
- (d) to receive any other amount, asset or right paid or distributed in respect of the Mortgage Loans (other than as described immediately below) including, without limitation, the proceeds of any insurance claim in respect of the Mortgaged Property which is not used in its restoration and the proceeds of any enforcement of any Mortgage Loan;
- (e) to compel the Originator to initiate enforcement proceedings in respect of the Mortgage Loans, to participate in such proceedings and, if the Originator fails to take enforcement proceedings, to undertake such proceedings itself.

The right of the Issuer to receive the amounts referred to in paragraphs (a) to (e) is conditional upon the Originator having received such amounts from the Mortgage Debtors or otherwise in respect of the relevant Mortgage Loans.

The Gestora (on behalf of the Issuer) will establish a Collection Account into which the Originator shall pay, within forty-eight hours of receipt, all amounts to which the Issuer is entitled in its capacity as holder of the Mortgage Participations. The Collection Account will initially be an account with Banco Santander. In the event that the short term unsecured and unguaranteed debt obligations of Banco Santander cease to be rated at least A-1 by Standard & Poor's, the Collection Account will be moved within 5 business days to an institution whose short term unsecured and unguaranteed debt obligations are so rated.

The Outstanding Principal Balance of a Mortgage Participation will be equal to the sum of amounts of principal due (whether or not they have fallen due) in respect of the Mortgage Loan to which the Mortgage Participation relates. After completion of formal enforcement proceedings with respect to a Mortgage Loan, the Outstanding Principal Balance of the related Mortgage Participation will become zero (irrespective of amounts received on enforcement and irrespective of whether any further amounts are likely to be received). Accordingly, the reduction of the Outstanding Principal Balance of a Mortgage Participation to zero does not reflect whether or not a loss has been or is likely to be suffered on the enforcement of a Mortgage Loan.

THE ISSUER

On the Closing Date the Issuer will have at its disposal funds derived from the following sources:

- the subscription proceeds of the Bonds, and
- the proceeds of the Subordinated Loan

The Issuer will apply these funds in acquiring the Mortgage Participations, to meet expenses incurred in connection with the constitution of the Issuer and the issue of the Bonds and to fund the Principal Reserve Fund and the Secondary Reserve Fund.

The Issuer will be liquidated after the Mortgage Participations have been fully amortised or if the Bonds are subject to early redemption in full. Any amounts remaining in such liquidation after paying or providing for all liabilities of the Issuer will be paid to the Originator.

THE GESTORA

The management and administration of the Issuer shall be the responsibility of the Gestora.

The share capital of the Gestora is Ptas. 100,000,000 represented by ten thousand shares, each with a nominal value of Ptas. 10,000.

The duties of the Gestora, as set out in the Deed of Constitution, will include:

- managing the use and reinvestment of funds in the Collection Account and the Principal Reserve Fund (to the extent that such funds are not reinvested in the Collection Account), subject to the reinvestment restrictions described in the section entitled “**Credit Structure**”;
- managing the Principal Reserve Fund and the Secondary Reserve Fund;
- appointing auditors and arranging for the preparation of the annual accounts of the Issuer;
- arranging for payment of interest and principal in respect of the bonds and payment of any other liabilities of the Issuer (including the fees and expenses due to it in its capacity as Gestora) subject to and in accordance with the Priority of Payments;
- calculating the amounts due to and payable by the Issuer under the Class A Swap and the Class B Swap and making payments thereunder on behalf of the Issuer;
- making payments of interest and principal in respect of the Subordinated Loan, subject to and in accordance with the Priority of Payments;
- calculating the funds available for distribution on each Payment Date;
- calculating the interest rates applicable to the Bonds;
- calculating the return due under the Guaranteed Investment Contract (see below) or the amount due under any alternative investment of the funds in the Collection Account;
- paying, on behalf of the Issuer, its ordinary and extraordinary expenses;
- filing information with the CNMV, on a quarterly basis, information concerning the condition and performance of the Issuer and providing any other information required by such body or by Standard & Poor’s.
- disclosing to the CNMV and the Bondholders any material fact or event of which it is aware and which may materially affect the trading performance of the Bonds (and in particular which may affect the payment of interest and/or principal on the Bonds) or any material change in the assets and/or liabilities of the Issuer;
- paying the commission due to General Re Financial Products Corporation for entering into the Swap Replacement Agreement in relation to the Class A Swap;
- calculating the fractions expressed as a decimal to the eighth decimal point equal to the quotient of the Principal Amount Outstanding of a Bond of each class as of the first day of each Interest Accrual Period and Ptas. 25,000,000, and delivering notice of the same to Euroclear for communication to the Bondholders at least 3 business days in Madrid prior to each Payment Date;
- publishing in a newspaper of general circulation in Spain (a) between the date on which the LIBOR rate is fixed for the forthcoming Interest Accrual Period and 3 business days in Madrid after the relevant Payment Date, the interest rates applicable to both Classes of Bonds during the forthcoming Interest Accrual Period, and (b) at least one day before each Payment Date, the amount of principal and interest payable on one bond of each Class on the immediately following Payment Date; the (cumulative annual) prepayment rate experienced on the Mortgage Loans since the Closing Date and the projected remaining average life of each Class of Bonds at such prepayment rate; and the Principal Deficiency, i.e., the difference, if any, between (i) the amount of funds available under item (5) of the Priority of Payments and (ii) the aggregate Principal Amount Outstanding of the Bonds less the Outstanding Principal Balance of the Mortgage Participations as of the business day after the immediately preceding Determination Date; and

- in certain limited circumstances as set out in the conditions of the Bonds, giving notice of and effecting an early redemption in full of the Bonds.

Subject to, and in accordance with the Priority of Payments, the Gestora shall be entitled to receive on each Payment Date a fee (the “**Administration Fee**”) for these services in the amount of 0.0675 per cent per annum calculated on the Principal Amount Outstanding of the Bonds and in respect of the number of days in the immediately preceding Interest Accrual Period. In addition, on the Closing Date, the Gestora will be entitled to receive a structuring fee in the amount of Ptas. 25,000,000.

The Gestora shall also be entitled to reimbursement of ordinary and extraordinary expenses paid by it on behalf of the Issuer, subject to, and in accordance with, the Priority of Payments. Included among these ordinary expenses will be a commission to General Re Financial Products Corporation for entering into the Swap Replacement Agreement in relation to the Class A Swap,, in an amount substantially less than 0.05 per cent per annum calculated on the Principal Amount Outstanding of the Class A Bonds.

The Bondholders shall have a claim against the Gestora in circumstances where the Gestora is in breach of the duties and undertakings set out in the Deed of Constitution and in no other circumstances.

The Gestora may be substituted at its request by any other entity willing to take over its role which is duly authorised and registered with the CNMV as a manager of mortgage securitisation funds. Any substitution shall be made only with the consent of the CNMV.

If the Gestora were to be declared bankrupt or insolvent or its authorisation to act as a manager of mortgage securitisation funds were to be revoked, the task of finding a replacement would fall upon the Depository who would also be obliged to provide, on an interim basis and only if it could legally do so, the same services as those previously provided by the Gestora. If no replacement is found within a period of one year, the Bonds will be subject to early redemption in full.

AVERAGE LIVES OF THE BONDS

The average life of the Bonds cannot be predicted, as the actual rate at which Mortgage Loans will be prepaid and a number of other relevant factors (including the effect of any renegotiations of the rates of interest applicable to the Mortgage Loans as described below) are unknown.

Calculations of the possible average lives of the Bonds can be made based on certain assumptions. For example, based on the assumptions that:

- (a) the Mortgage Loans are subject to a constant annual rate of prepayment;
- (b) all scheduled payments of principal and interest on the Mortgage Loans are received on a timely basis by the Issuer;
- (c) each Mortgage Loan bears a rate of interest equal to the rate of interest applicable to each Mortgage Loan as at 8th June, 1998, and such rate of interest remains unchanged for the life of the Issuer; and
- (d) the Gestora (on behalf of the Issuer) exercises its option to redeem in full the bonds on the first Payment Date after the date on which the Outstanding Principal Balance of the Mortgage Participations falls below Ptas. 3,000,000,000.

the approximate average lives of the Bonds, at various assumed rates of prepayment for the Mortgage Loans, would be as follows:

Constant prepayment rate (% per annum)	Average Lives (years)	
	Class A Bonds	Class B Bonds
0	12,6	21,9
4	8,9	17,6
8	6,7	14,2
12	5,2	11,4
16	4,1	9,4
20	3,4	7,8

Assumption (a) is stated as an average annualised prepayment rate however the prepayment rate for one period may be substantially different from that for another.

Assumptions (b) and (c) relate to circumstances which are not predictable.

Assumption (d) reflects the current intentions of the Gestora but no assurance can be given that such redemption will occur as described.

The average lives of the Bonds are subject to factors largely outside the control of the Issuer and consequently no assurance can be given that the estimates above will prove in any way to be realistic and they must therefore be viewed with considerable caution.

Prepayment Considerations

The terms of the Mortgage Loans provide for penalties to be paid in the event of full or partial prepayment. The penalties are equivalent to 1% of the principal balance prepaid on the loan. Such penalties, which will be paid to the Originator, may not be enforced if market conditions dictate that to do so would be counter-productive.

New legislation has recently been passed in Spain which substantially reduces the legal and certain other costs of mortgage refinancing. The legislation also reduces prepayment penalties in respect of variable rate mortgages to a maximum of 1 per cent of the principal balance of the loan, although no such limitation has been imposed with respect to fixed rate mortgages.

The reduction in cost, combined with recent reductions in interest rates, is expected to encourage refinancing by borrowers. The Originator may, on a case by case basis, but subject to the approval of the Issuer, agree a negotiated reduction in the interest rate of a Mortgage Debtor otherwise intending to refinance. Any such reduction will reduce the average rate of interest receivable by the Issuer but will not affect the Issuer's ability to meet its payment obligations under the Swaps due to the manner in which such obligations are calculated.

CERTAIN TAX MATTERS

1. **Taxation of Interest and Capital Gains on the Bonds**

Under current law the payment of interest on the Bonds will be subject to withholding tax (which will in turn be deductible from the annual tax debt) at source at a rate of 25% on account of personal income tax (in the case of individuals resident in Spain) or corporation tax (in the case of entities resident in Spain or permanent establishments in Spain).

As regards individuals and entities not resident in Spain, interest and capital gains will be taxed in Spain at applicable Spanish tax rates unless a double tax treaty between Spain and the country of residence of the Bondholder exists which establishes a reduced rate (in the case of interest) or an exemption (in the case of capital gains). Where no Treaty applies, interest payments will be subject to withholding tax at a rate of 25% and capital gains will be subject to taxation at a rate of 35%.

Notwithstanding the above, in accordance with current regulations, interest and capital gains on the Bonds are considered to be exempt from taxation in Spain when they pertain to entities or individuals who have their customary residence in other member States of the European Union and do not operate through a permanent establishment in Spain (in accordance with Article 46 of Law 43/1995 of 27th December, 1995 regarding Corporation Tax and Article 17 of Law 18/1991 of 6th June, 1991 regarding Personal Income Tax), provided that they are not acting through a territory considered a tax haven.

In this sense, evidence of residency of the Bondholders in an EU member State should be given by means of a certificate duly issued by the relevant Tax Authorities of the country of residence of the tax payer. Unless evidence of residency of the Bondholders in an EU member State except Spain is given to the payer of the interest, a 25% withholding tax at source will be levied on the payment of interest. Any withholding levied in excess of the amount to be paid by the Bondholder will be refunded by the Spanish Tax Authorities.

The above, which applies only to persons who are beneficial owners of the Bonds, is not a complete summary of Spanish taxation law and practice currently applicable (and some aspects do not apply to certain classes of taxpayer, such as dealers). Prospective Bondholders who are in any doubt as to their tax position should consult independent financial advisers.

2. **Taxation of the Issuer**

Pursuant to Law 43/1995, the Issuer will be subject to corporation tax at the general rate (currently 35%). This should not be material, however, as the assets and liabilities of the Issuer should be such that its net worth and taxable income are zero.

The Issuer will be exempt from transfer taxes and stamp duties. The Issuer will also be exempt from any obligation to pay VAT on the Administration Fee.

3. **Tax on the Mortgage Participations**

Pursuant to article 57(p) of the regulations which implement the Corporate Income Tax (Royal Decree 537/1997 of 14th April), payments in respect of interest deriving from the Mortgage Participations will be exempt from withholding tax.

CREDIT STRUCTURE

The Bonds will not be obligations of, or guaranteed by, the Originator, the Gestora, Banco Santander, the Managers or any person other than the Issuer. No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Bonds will be accepted by the Originator, the Gestora, Banco Santander, the Managers or any person other than the Issuer.

None of the Originator, the Gestora, Banco Santander, the Managers or any other person will be under any obligation whatsoever to provide additional funds to the Issuer save in the limited circumstances set out below.

The selection of the Provisional Pool and the arrangements for the protection of Bondholders against the risks involved have been reviewed by Standard & Poor's. It is a condition to issuance that the Class A Bonds be rated "AAA" and the Class B Bonds be rated "A" by Standard & Poor's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time.

STRUCTURE

The Bondholders should principally look to repayment from the cashflows generated by the Mortgage Participations and the related Mortgage Loans. However, certain additional sources of protection against various risks have been provided (including the Swaps).

The overall structure of the arrangements provided to support performance by the Issuer of the terms of the bonds may be seen as comprising the following principal elements, which are considered further below:

- the quality of the assets of the Issuer, principally the Mortgage Participations and the underlying Mortgage Loans;
- the Principal Reserve Fund;
- the Secondary Reserve Fund;
- in the case of the Class A Bonds, the Class A Swap;
- in the case of the Class B Bonds, the Class B Swap;
- the Guaranteed Investment Contract;
- in the case of the Class A Bonds, the subordination of the Class B Bonds.

CREDIT RISK

This is the risk of loss arising on the assets of the Issuer, principally as a result of default by Mortgage Debtors, and is addressed by the factors described below.

The Quality of the Mortgage Loans

The risk of loss arising on the Mortgage Loans as a result of default by Mortgage Debtors is dependent upon the quality of the Mortgage Loans and the incidence of default by Mortgage Debtors whilst the Bonds are outstanding.

The quality of the Mortgage Loans in the Provisional Pool is described on pages 22 to 30. To the extent that any Mortgage Loan does not correspond to the characteristics stated, the Originator will be obliged to substitute or repurchase such Mortgage Loan. This obligation of the Originator is guaranteed by Banco Santander.

The Principal Reserve Fund

Amounts standing to the credit of the Principal Reserve Fund, although available primarily to guarantee the ability of the Issuer to make timely payments of amounts due under the Class A Swap and therefore to have the proceeds of the Class A Swap available to make interest payments on the Class A Bonds, may also be available, when released from the Principal Reserve Fund, to cover losses incurred upon the enforcement of Mortgaged Properties. The Principal Reserve Fund will have an initial balance of Ptas. 375,000,000 which will be allowed to decline once it reaches 1.50% of the Outstanding Principal Balance of the Mortgage Participations. The required balance of the Principal Reserve Fund in respect of each Payment Date will thereafter remain at 1.50 per cent of the Outstanding Principal Balance of the Mortgage Participations as of the business day after the immediately

preceding Determination Date and will consequently reduce proportionately to the aggregate balance. This decline in the required balance of the Principal Reserve Fund will have the effect of releasing amounts originally credited to this fund which may therefore become available, by virtue of item (5) of the Priority of Payments, to offset losses incurred upon the enforcement and liquidation of Mortgaged Properties.

Funds comprising the Principal Reserve Fund may be invested in instruments and/or securities issued by an entity whose long term unsecured and unguaranteed peseta debt obligations are rated "AAA", or whose short term unsecured and unguaranteed peseta debt obligations are rated A-1+, by Standard & Poor's, including the obligations of the Kingdom of Spain. These instruments and /or securities must mature and provide for payment in pesetas on or before the next Payment Date. For so long as the short term unsecured and unguaranteed peseta debt obligations of Banco Santander are rated A-1+ by Standard & Poor's, such funds will be retained in the Collection Account, where they will earn a rate of interest under the terms of the Guaranteed Investment Contract, subject to an obligation to invest such funds as indicated above within 30 days of any date on which the short term unsecured and unguaranteed peseta debt obligations of Banco Santander cease to be rated A-1+ by Standard & Poor's.

The Secondary Reserve Fund

Amounts standing to the credit of the Secondary Reserve Fund, although available primarily to assure the ability of the Issuer to make timely payments of amounts due under the Class B Swap and therefore to have the proceeds of the Class B Swap available to make interest payments on the Class B Bonds, may also be available, on the Final Maturity Date of the Class B Bonds, to help redeem in full the Class B Bonds to the extent that uncompensated losses have made it impossible to use the amounts available as the Available Principal Funds. The Secondary Reserve fund will have an initial balance of Ptas. 202,500,000 comprising a fixed amount of Ptas. 97,500,000 and Ptas. 105,000,000 which will reduce quarterly as the Outstanding Principal Balance of the Mortgage Participations reduces. If used, the balance of the Secondary Reserve Fund will be replenished to this required level until (but not including) the Final Maturity Date, but only if funds are available for this purpose in accordance with the Priority of Payments. Amounts standing to the credit of the Secondary Reserve Fund may not be used to pay interest or principal on the Class A Bonds or to make payments under the Class A Swap.

Funds comprising the Secondary Reserve Fund will be held in the Collection Account where, for so long as the short term unsecured and unguaranteed peseta debt obligations of Banco Santander are rated at least A-1 by Standard & Poor's they will be invested in accordance with their terms and subject to the conditions of the Guaranteed Investment Contract.

The Issuer's Margin

The terms of the Swaps provide for the Issuer to pay amounts calculated to be less than the average rate of interest receivable by the Issuer on the Mortgage Participations during the preceding quarterly period by an amount equal to 0.60% per annum. This Margin, after paying or providing for all items in the Priority of Payments ranking in priority thereto, may be available, by virtue of item (5) of the Priority of Payments, to offset losses incurred upon the enforcement and liquidation of Mortgaged Properties.

The amount of funds available to offset losses by virtue of the Issuer's Margin will depend upon the Outstanding Principal Balance from time to time of the Mortgage Participations and will therefore be dependent, *inter alia*, upon the rate of prepayment of the Mortgage Loans.

Class B Bonds

The Class A Bonds will rank senior to the Class B Bonds for payment of interest and, save for the partial redemption features applicable to the Class B Bonds, will rank senior to the Class B Bonds for repayment of principal.

The Class B Bonds will be available to absorb losses suffered in respect of the Mortgage Loans. To the extent that after paying or providing for all prior ranking liabilities of the Issuer, there are insufficient funds to pay all interest accrued and not paid in respect of the Class B Bonds or redeem the Class B Bonds in full, the amounts outstanding in respect of the Class B Bonds will at final maturity of the Class B Bonds be reduced by the amount of the shortfall and the Issuer's obligations to the Class B Bondholders will cease and the Class B Bondholders will cease to have any entitlement thereto.

LIQUIDITY RISK

The possibility exists of a delay arising between receipt by the Issuer of income generated by the Mortgage Participations and the Issuer's obligations to make payments in respect of its liabilities, including its payment obligations in respect of the Swaps and principal and interest on the Bonds. If such a delay occurs, the Issuer will be exposed to the liquidity risk of having to fund payments due in respect of the Swaps, the Bonds and its other liabilities. This risk is addressed by the factors described below.

Swaps and Interest Payments

The Priority of Payments

Amounts standing to the credit of the Collection Account, being primarily the payments of interest and principal on the Mortgage Participations received during the immediately preceding Determination Period along with reinvestment interest earned in such period thereon and in respect of the Principal Reserve Fund and the Secondary Reserve Fund, along with the amounts standing to the credit of the Principal Reserve Fund (to the extent these funds are not held in the Collection Account) but excluding the amounts standing to the credit of the Secondary Reserve Fund, as of the immediately preceding Determination Date will be used by the Gestora (on behalf of the Issuer), along with any receipts under the Class A Swap and (but only with respect to items (7) through (13) below) any net receipts under the Class B Swap, in making the following payments and provisions on each Payment Date (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (1) Payment of the Administration Fee and any ordinary or extraordinary expenses reimbursable to the Gestora, including any commission payable to General Re Financial Products Corporation for entering into the Swap Replacement Agreement in relation to the Class A Swap;
- (2) Payment of amounts routinely due from the Issuer under the Class A Swap, using the proceeds thereof to pay interest on the Class A Bonds, and payment of any amounts due from the Issuer under the terms of the Class A Swap due to the Issuer's default in payment thereunder and the corresponding termination thereof;
- (3) Payment of interest on the Class A Bonds;
- (4) Replenishing the Principal Reserve Fund to its required balance;
- (5) Provision for an amount (the "Available Principal Funds") equal to the Principal Amount Outstanding of the Bonds less the Outstanding Principal Balance of the Mortgage Participations, both calculated as of the business day after the immediately preceding Determination Date, to be used to redeem the Bonds in accordance with the provisions of Clause 12.9, b), (6) of the Deed of Constitution;
- (6) Payment of amounts due from the Issuer under the Class B Swap;
- (7) Payment of interest on the Class B Bonds;
- (8) Replenishing the Secondary Reserve Fund to its required balance;
- (9) Payment of interest due in respect of the Subordinated Loan;
- (10) Repayment of the Subordinated Loan in an amount equal to the periodic amortisation of the initial expenses of the constitution of the Issuer and the issuance of the Bonds;
- (11) Repayment of the Subordinated Loan in an amount equal to the reduction in the aggregate of the required balances of the Principal Reserve Fund and the Secondary Reserve Fund from the immediately preceding Payment Date (or, in the case of the payments due on the first Payment Date, the Closing Date) to the current Payment Date plus all amounts similarly required to be paid on previous Payment Dates but unpaid;
- (12) Payment to the Originator of any quarterly fixed fee due to it for the administration of the Mortgage Loans in the amounts of ptas. 2.500.000 (inclusive of VAT); and
- (13) Payment to the Originator of variable amounts in respect of its financial intermediation.

To the extent necessary, amounts standing to the credit of the Secondary Reserve Fund may be used on any Payment Date to meet the obligations listed in (6) and (7) above and, on the Final Maturity Date of the Class B

Bonds, such amounts may be used to help redeem in full the Class B Bonds to the extent that there are insufficient Available Principal Funds to do so.

In the event that the Originator is substituted as administrator of the Mortgage Loans by another entity other than Banco Santander, the administration fee in favour of the new administrator, described in item (12) above, will be paid as point n° 6 of the above Priority of Payments, the numbering of the current n° 6 and successive payments indicated in the remaining following points being modified as a consequence.

The effect of the above Priority of Payments is to address the Issuer's liquidity risk with respect to its payment obligations under the Class A Swap and in respect of interest on the Class A Bonds through the excess interest coverage provided by the Issuer's Margin, through the availability on each Payment Date of the balance in the Principal Reserve Fund, through the subordination of the Issuer's payment obligations under the Class B Swap in respect of interest on the Class B Bonds, and through the use of all receipts from the Mortgage Participations, including scheduled and unscheduled principal receipts, to meet these obligations.

The Priority of Payments addresses also the Issuer's liquidity risk with respect to its payment obligations under the Class B Swap and in respect of interest on the Class B Bonds through the amounts available in the Secondary Reserve Fund and, to the extent that these are not used in paying or providing for higher ranking items, by the amounts periodically released from the Principal Reserve Fund and by the Issuer's Margin.

Principal Payment

The Issuer will not be obliged to make any payments of principal on the Bonds until their Final Maturity Date (which is beyond the maturity date of the longest maturity Mortgage Loan and which, due to the amortising nature of the Mortgage Loans, corresponds to a date when even delayed receipts of principal are unlikely to have an effect on the Issuer's ability to redeem the Bonds in full) except to the extent of the Available Principal Funds. In accordance with the Priority of Payments, Available Principal Funds consist entirely of funds available to the Issuer for the purpose of redeeming principal and, consequently, the Issuer's exposure to liquidity risk in respect of partial payments of principal on the Bonds is minimal, assuming no difficulty on the part of the Gestora (on behalf of the Issuer) in realising the amounts standing to the credit of the Collection Account.

BASIS RISK

This is the risk on an adverse differential existing between the average interest rate receivable on the Mortgage Loans at any time and the average interest rate payable in respect of the Bonds at such time.

This risk is addressed by the factors described below.

The Class A Swap

The Class A Swap Counterparty (which will initially be Banco Santander) will, under the terms of the Class A Swap, pay to the Gestora (on behalf of the Issuer) on or before each Payment Date an amount calculated by applying the rate of interest applicable to the Class A Bonds during the Interest Accrual Period then ending, to the Class A Swap Notional Principal Balance (as defined below) and the Gestora (on behalf of the Issuer) will pay an amount calculated by applying a rate equal to the weighted average floating interest rate applicable to the Mortgage Participations during the quarterly period then ending, less the Issuer's Margin, to the Class A Swap Notional Principal Balance. The "**Class A Swap Notional Principal Balance**" will equal, with respect to each Payment Date, the Principal Amount Outstanding of the Class A Bonds, (prior to any partial redemption to be effected on such Payment Date). All payments will be made on a net basis.

A failure by the Gestora (on behalf of the Issuer) to make timely payments of amounts due under the Class A Swap will constitute a default thereunder. Any such default will result in the termination of the Class A Swap and may result in the Class A Swap Counterparty having a liability for a termination payment under the terms of the Class A Swap. Accordingly the Issuer will allocate an amount on a priority basis for the purpose of making payments due under the Class A Swap.

In respect of the Class A Swap, the Issuer will enter into the Swap Replacement Agreement with Banco Santander and GRFPC. The Swap Replacement Agreement will provide, *inter alia*, that if the rating of Banco Santander by Standard & Poor's falls below A, then the benefits and obligations of Banco Santander under the Class A Swap shall be novated on substantially the same terms to GRFPC. The obligations of GRFPC and the Issuer under the novated Class A Swap will be governed by a separate master agreement which will be entered into by, *inter alia*, GRFPC and the Issuer on or about the closing date. The obligations of GRFPC under the

novated Class A Swap agreement will be guaranteed by its parent company, General Re Corporation, a Delaware Corporation, which is rated AAA by Standard & Poofs.

The Swap Replacement Agreement also provides that in the event that the rating of General Re Corporation by Standard & Poor's falls below AA, then GRFPC will either find a replacement swap counterparty rated AA or higher or will provide collateral to the Issuer.

The Class B Swap

Banco Santander will, under the terms of the Class B Swap, pay to the Gestora (on behalf of the Issuer) on or before each Payment Date an amount calculated by applying the rate of interest applicable to the Class B Bonds during the Interest Accrual Period then ending to the Principal Amount Outstanding of the Class B Bonds (prior to any partial redemption to be effected on such Payment Date) and the Gestora (on behalf of the Issuer) will pay an amount calculated by applying a rate equal to the weighted average fixed interest rate applicable to the Mortgage Loans during the quarterly period then ending, less the Issuer's Margin, to the Principal Amount Outstanding of the Class B Bonds (prior to any partial redemption to be effected on each Payment Date). All payments will be made on a net basis.

Any failure or partial failure to meet its payment obligations under the Class B Swap will not result in a default thereunder but will result in such amounts falling due for payment, along with interest thereon at the rate used from time to time to establish the Issuer's payment obligations under the Class B Swap, on the next Payment Date.

REVENUE RISK

Reinvestment Risk

To the extent that cashflows in respect of the Mortgage Participations are received on dates which do not correspond to the due dates for payment of the Issuer's liabilities, the Issuer's assets will comprise liquid funds which will be standing to the credit of the Collection Account.

There is a risk that the rate of return on such liquid funds will be less than the rate of interest payable under the Swaps. This risk is addressed by the Guaranteed Investment Contract entered into by the Gestora (on behalf of the Issuer) with Banco Santander pursuant to which Banco Santander provides a guaranteed rate of interest equal to the rate applicable from time to time to the Issuer's payment obligations under the Swaps on amounts standing to the credit of the Collection Account, including amounts standing to the credit of the Principal Reserve Fund (for so long as the short term unsecured and unguaranteed peseta debt obligations of Banco Santander are rated A-1+ by Standard & Poor's) and amounts standing to the credit of the Secondary Reserve Fund. Reinvestment interest will be credited to the Collection Account monthly.

In the event that the short term unsecured and unguaranteed peseta debt of Banco Santander fails to be rated at least A-1 by Standard & Poor's then the Collection Account will be moved to another institution the short term unsecured and unguaranteed peseta debt obligations of which are so rated and the amounts standing to the credit of the Collection Account will cease to benefit from the Guaranteed Investment Contract. In this event, the Gestora (on behalf of the Issuer) will be obliged to establish the Collection Account with an appropriate entity under the most favourable terms available.

SUBSCRIPTION AND SALE

This offering is part of a simultaneous domestic Spanish and international offering co-lead managed and coordinated by Banco Santander and Paribas (together the "Managers").

Banco Santander and Paribas, as co-lead managers, have, pursuant to a subscription agreement (the "**Class A Subscription Agreement**") entered into with the Gestora (on behalf of the Issuer), and the Originator, agreed to subscribe for certain of the Class A Bonds at a price of 100 per cent of their aggregate principal amount. The Gestora (on behalf of the Issuer) has agreed to pay to the Managers a management and underwriting commission of 0.275% of the aggregate principal amount of such Class A Bonds.

Banco Santander and Paribas, as co-lead managers, have, pursuant to a separate subscription agreement (the "**Class B Subscription Agreement**") entered into with the Gestora (on behalf of the Issuer), and the Originator agreed to subscribe for the Class B Bonds at a price of 100 per cent of their aggregate principal amount. The Gestora (on behalf of the Issuer) has agreed to pay to the Managers a management and underwriting commission of 0.65 per cent of the aggregate principal amount of such Class B Bonds.

The Class A Subscription Agreement and the Class B Subscription Agreement shall together be hereinafter referred to as the "**Subscription Agreements**".

This document is issued by the Gestora (on behalf of the Issuer) and is intended to be distributed in the United Kingdom only to those persons who are of a kind described in Article 9 (3) the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1988 (as amended) or to whom it may otherwise lawfully be issued or passed on.

Each of the Managers and the Gestora (on behalf of the Issuer) has agreed that it has not offered or sold, and will not offer or sell, in the United Kingdom any Bonds other than to persons to whose ordinary business it is to buy or sell shares or debentures (whether as principal or agent) or in circumstances which do not constitute an offer to the public within the meaning of the Companies Act 1985 and that it has complied with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

The Bonds have not been and will not be registered under the United States 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 pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each of Banco Santander, the Managers and the Gestora (on behalf of the Issuer) has agreed that it has not offered or sold Bonds, and will not offer or sell bonds, within the United States except in accordance with Rule 903 of Regulation S under the securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each of the Managers and the Gestora (on behalf of the Issuer) has acknowledged that the Bonds may not be offered or sold in Spain by means of an offer (as defined and construed by Spanish Law) and has represented and agreed that it will not offer, promote (whether through information or dissemination in media directed at the public in general or thorough individual promotions) or sell in Spain any Bond save in compliance with the requirements of the Spanish Securities Market Law of 28 July, 1988, Royal Decree 291/1992 dated 27 March and the Order of 12 July 1993 relating to issues and public offers for the sale of securities.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Bonds or the possession, circulation or distribution of this Offering Circular or any other material relating to the Bonds in any jurisdiction where action for the purpose is required. Accordingly, the Bonds may not be offered or sold, directly or indirectly, and this Offering Circular nor any other offering material or advertisements in connection with the Bonds may be distributed or published, in or form any country or jurisdiction except in compliance with any applicable rules and regulations of any such country or jurisdiction.

GENERAL INFORMATION

1. The issue of the Mortgage Participations has been authorised by a resolution of the Universal General Extraordinary Shareholders Meeting of the Originator passed on 15th June, 1998.
2. The constitution of the Issuer has been authorised by a resolution of the Board of Directors of the Gestora passed on 12th June, 1998.
3. The Mortgage Participations, the Deed of Constitution, the contracts relating to Banco Santander, the Swaps, the Guaranteed Investment Contract and the Subordinated Loan, and the underwriting agreement relating to the domestic Spanish offering will be governed by Spanish law. The Class A Swap Guarantee and the Subscription Agreements will be governed by English Law.
4. The Gestora will apply for the Bonds to be admitted to *the AIAF, Mercado de Renta Fija*, an unofficial organised secondary market for securities created by the *Asociación de Intermediarios de Activos Financieros*. It is expected that admission to trading on such market will take place within ninety (90) days from execution of the Deed of Constitution.
5. The Bonds have been accepted for clearance through ESPACLEAR under the numbers of 11,103 for the Class A Bonds and 11,104 for the Class B Bonds. The Bonds have been accepted for clearance through Euroclear as follows:

	<i>Class A Bonds</i>	<i>Class B Bonds</i>
<i>Common code</i>	8871558	8871582
<i>ISIN number</i>	ES0322069008	ES0322069016

THE GESTORA

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