

# **EUROS 455,000,000 ASSETS-BACKED SECURITISATION BONDS**

## **FONDO DE TITULIZACIÓN DE ACTIVOS UCI 7**

*(an assets-backed securitisation fund established under the laws of Spain in accordance with Royal Decree 926/1998 of 14th May and Law 19/1992 of 7th July)*

**Euro 438,600,000**

**Class A Floating Rate Assets-Backed Securitisation Bonds**  
**Due March, 2033**

**Euro 16,400,000**

**Class B Floating Rate Assets-Backed Securitisation Bonds**  
**Due March, 2033**

Issue Price 100 per cent

The issue price of the Euros 438,600,000 Class A Floating Rate Securitisation Bonds due March, 2033 (the "Class A Bonds") and the Euros 16,400,000 Class B Floating Rate Securitisation Bonds due March, 2033 (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 October, 2001 (the "Closing Date").

Application will be made for admission of the Bonds to the AIAF, Mercado de Renta Fija, an official 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 fifty (50) days from the date of constitution of the Fondo de Titulización de Activos UCI 7 (the "Issuer") (being 25<sup>th</sup> October, 2001) and in any case before the first Payment Date (being 17<sup>th</sup> December, 2001).

It is a condition to issuance that the Class A Bonds be assigned an "AAA" rating by Standard & Poor's España, SA. ("S&P España") and an "Aaa" rating by Moody's Investor Services España, S.A. ("Moody's") and that the Class B Bonds be assigned an "A" rating by S&P España and an "A2" rating by Moody'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 arrears on the 17th of March, June, September and December 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 in December, 2001. 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 EURIBOR rate (or in the case of the first Interest Accrual Period two month EURIBOR) and (ii) 0.250% per annum (in the case of the Class A Bonds) or 0.700% per annum (in the case of the Class B Bonds).

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). Prior to the first Payment Date on which the aggregate Principal Amount Outstanding (as defined herein) of the Class B Bonds is seven percent (7%) of the aggregate Principal Amount Outstanding of the Class A Bonds, all Available Principal Funds will be used to redeem Class A Bonds. On such Payment Date and on each Payment Date thereafter, 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 3,412,500 Euros. 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 Central Hispano 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, as amended.

The Bonds will not be obligations of the Gestora, Banco Santander Central Hispano, S.A. (the "Bank"), Unión de Créditos Inmobiliarios, S.A., Establecimiento Financiero de Crédito, Sociedad Unipersonal (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, the Bank, or the Originator. None of the Gestora, the Bank, 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 ("SCLV") 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 SCLV 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 SCLV 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 (on behalf of the Issuer and itself) is responsible for the information contained in this document (other than that relating to the Originator and the Mortgage Loans (as defined herein)) which is material in the context of the issue of the Bonds. To the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case) such information contained in this document is in accordance with the facts and does not omit anything likely to materially affect the import of such information. The Gestora accepts responsibility accordingly.*

*The Originator is responsible for the information contained in this document relating to itself and the Mortgage Loans which is material in the context of the issue of the Bonds. To the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case), such information contained in this document is in accordance with the facts and does not omit anything likely to materially affect the import of such information. The Originator 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) (the "CNMV") in accordance with the terms of Royal Decree 926/1998 of 14th May and Law 19/1992 of 7th July, on 24<sup>th</sup> October, 2001. 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 "Euro" and "€" refer to the currency introduced at the start of the third stage of economic and monetary union pursuant to the Treaty establishing the European Community, as amended by the Treaty on European Union and by the Treaty of Amsterdam and those to "Pesetas" and "Ptas." are to the sub-denomination of the Euro that is legal tender in the Kingdom of Spain.*

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## SUMMARY INFORMATION

The information on pages ( ) to ( ) 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 the Bank.

### 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 (*Cajas de Ahorros*) and the *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, 1998 total mortgage assets in Spain equalled approximately Ptas. 29,940 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 25<sup>th</sup> March ("**Law 2/1981**") and its subsequent regulations.

Eligible lenders in the Spanish mortgage market include banks, savings and loans associations, the *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

Royal Decree 926/1998 of 14<sup>th</sup> May ("**Royal Decree 926/1998**") governs Assets-Backed Securitisation Funds and Securitisation Fund Management Companies. It allows for the creation of *Fondos de Titulización de Activos* (assets-backed securitisation funds) which will be managed by a *Sociedad Gestora* (management company). In all matters with respect to which Royal Decree 926/1998 is silent, each assets-backed securitisation fund is governed by 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 7<sup>th</sup> July ("**Law 19/1992**") which has facilitated the development in Spain of a securitisation market in which mortgage lenders can refinance their mortgage loan portfolios.

The assets-backed securitisation fund will subscribe *Participaciones Hipotecarias* (mortgage participations), mortgage loans repacked as negotiable instruments as provided by Law 2/1981. 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. Royal Decree 926/1998 and Law 19/1992 provide for a pool of homogeneous mortgage participations to be transferred to and grouped in a securitisation fund, which will finance their acquisition by issuing securities known as *Bonos de Titulización de Activos* (assets-backed securitisation bonds).

An assets-backed 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 assets-backed securitisation fund;
- the terms of the assets-backed securitisation bonds to be issued by the fund;
- the duties of the management company and the depository; 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 assets-backed 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 the Bank (as the “**Depository**” and guarantor of certain obligations of the Originator) in accordance with Law 19/1992 and Royal Decree 926/1998. 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 (as defined below) 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 10<sup>th</sup> 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 [\_\_\_\_\_] 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% of the shares in the Originator, is owned by the Bank as to 50% and BNPPARIBAS as to 50%.

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% 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 June 2001, the Originator managed mortgage assets with an aggregate principal value of approximately Euro 2,587.9 million.

The Santander Central Hispano 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 June 2001, the Santander Central Hispano Group serviced mortgage assets (including securitized mortgages) with an aggregate principal value of approximately Euro 21,906,8 million.

As at the end of June 2001, the Santander Central Hispano Group had a mortgage market share in Spain of approximately 7.64%. In addition, members of the Santander Central Hispano Group are some of the most experienced issuers in the Spanish mortgage securitisation market, holding as at the end of June 2001, a market share of 33.48 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 Euros 455.000.000 (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, acting on behalf of the Issuer, of each Mortgage Participation results in the assignment by the Originator of the credit rights (the “**Credit Rights**”) to the related mortgage loans (the “**Mortgage Loan**”). This 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, (b) to receive interest from the Closing Date 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 [\_\_\_\_] below.

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**

The Bonds consist of Euros 438,600,000 Class A Floating Rate Securitisation Bonds Due March, 2033 and Euros 16,400,000 Class B Floating Rate Securitisation Bonds Due March, 2033.

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, the Bank, 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, the Bank, or the Originator. None of the Gestora, the Bank, 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 (3) month EURIBOR (or, in the case of the first Interest Accrual Period two (2) month EURIBOR) and a margin equal to 0.250% per annum.

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 (3) month EURIBOR (or, in the case of the first Interest Accrual Period two (2) month EURIBOR) plus a margin equal to 0.700% per annum.

### **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. Prior to the first Payment Date on which the aggregate Principal Amount Outstanding of the Class B Bonds is 7% of the aggregate Principal Amount Outstanding of the Class A Bonds all Available Principal Funds will be applied in redeeming 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% 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 3,412,500 Euros. 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 [\_\_\_\_]) as at the fifth 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**" on page [ ]), 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 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 Euros 45,500,000, the Gestora (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 Condition 12.10 of the Deed of Constitution, (see “**Summary English Translation of the Terms and Conditions of the Bonds**” on page [ ]) redeem the Bonds at their Principal Amount Outstanding (see below) 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 (ii) due to the Gestora’s bankruptcy or insolvency or the revocation of its authority to manage the Issuer by the CNMV, 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 March, 2033 (the “**Final Maturity Date**”).

#### **Principal Amount Outstanding**

The Principal Amount Outstanding of each Bond will be its initial principal amount of 100,000 Euros less the aggregate amount of principal repayments that have been made on the Bond.

#### **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 Euros and in an amount of 100,000 Euros. Title to the Bonds will be established and evidenced by registration in the registers maintained by the SCLV. Where interests in the Bonds are held in Euroclear, Euroclear will open an account with SCLV 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 accordance with the Ministerial Order dated 13th April 2001 on own funds and supervision on consolidated bases of brokers, dealers and that groups, the Class A Bonds will have a risk weighting equal to the highest risk weighting of the assets which can be included in the assets-backed securitisation fund.

#### **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 (see below) unless and until all amounts of interest then due to the Class A Bondholders have been paid in full.

Furthermore, no partial redemption of the Class B Bonds may take place prior to the first Payment Date on which the aggregate Principal Amount Outstanding of the Class B Bonds is 7% of the aggregate Principal Amount Outstanding of the Class A Bonds and all Available Principal Funds will be applied in redeeming 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% 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 3,412,500 Euros and will not recommence until the Class A Bonds have been redeemed in full.

## Ratings

It is a condition to issuance that the Class A Bonds be rated “Aaa” and “AAA” by Moody’s España and S&P España respectively and the Class B Bonds be rated “A2” and “A” by Moody’s España and S&P España respectively. 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 rating organisation.

## CREDIT RIGHTS DERIVED FROM MORTGAGE LOANS

The Issuer’s portfolio (the “**Pool**”) will be composed of the Mortgage Participations issued by the Originator in respect of Credit Rights derived from 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 13<sup>th</sup> September 1994 and 31<sup>st</sup> August 2000 and will have the characteristics described in the section entitled “**The Mortgage Loans**” on pages [ ] to [ ] below.

The Provisional Pool consists of floating interest rate mortgage loans, 85¼% of which are indexed to 12 month MIBOR or EURIBOR plus an average margin of 1.40%. Approximately 78% of these 12 month indexed loans have their interest rates revised in March, June, September and December by reference to, in the case of MIBOR indexed loans, the MIBOR rate published by *Banco de España* (Bank of Spain) two months earlier. The rest of the mortgage loans are indexed to other indices as follows: IRPH combined Financial Entities (6¼%), EURIBOR 6 months (8%) and finally EURIBOR 3 months (½%).

In approximately 89% of the mortgage loans, the borrower has the right during the first three (3) years to limit the increase of his instalment to a maximum of 200% the inflation rate and, in approximately 18% of the mortgage loans, the borrower has such a right during the whole life of the loan (less than 2% of the UCI’s clients have exercised this option in the past). During the first three years all of the borrowers may use the *quota comodin* (joker payment) which is the option to defer payment on their mortgages once a year (less than 10% of the UCI’s clients have exercised this option in the past). The sums thus deferred are then fully capitalised, and the original term of each loan could be extended by 7 years in order to absorb the sums then capitalised.

In the case that, on a Payment Date, more than 15% of the borrowers exercise their right to limit the increase of their instalments up to 200% the inflation rate, or more than 7% of the borrowers use the *quota comodin*, the payment of the variable amount to be paid to UCI for its financial brokerage tasks (described on Section IV.2.a).13 of the Folleto ) will be suspended. This payment to UCI will be restored only with the previous approval of the Rating Agencies.

### Key Data on the Provisional Pool as at 20<sup>th</sup> September, 2001

Outstanding Principal Balance	474,958.69 millions Euros
Number of Loans	8,249
Average Loan Amount	57,577.72 Euros
Weighted Average Current Loan to Value Ratio	64.15 per cent
Shortest Maturity Date	5 <sup>th</sup> March 2002
Longest Maturity Date	5 <sup>th</sup> September 2030
Weighted Average Maturity Date	14 <sup>th</sup> April 2025
Maximum Interest Rate	7.96 per cent
Minimum Interest Rate	4.04 per cent
Weighted Average Interest Rate	6.14 per cent

## Key Features of the Mortgage Loans

All of the Mortgage Loans:

- will be guaranteed by 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 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 [\_\_\_\_\_] to [\_\_\_\_\_] below.

### Credit Risk

#### *The Quality of the Credit Rights*

The risk of loss arising on the Mortgage Loans as a result of default by Mortgage Debtors is dependent upon the quality of the Credit Rights (as defined below) of the related 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 [\_\_\_\_\_] to [\_\_\_\_\_] below.

#### *The Reserve Fund*

The Gestora (on behalf of the Issuer) shall establish on the Closing Date a Reserve Fund (the “**Reserve Fund**”) which will be funded initially by part of the proceeds of a subordinated loan provided to the Issuer by the Bank and Union de Crédit pour le Batiment, SA (UCB) (society owned by BNPPARIBAS in 99,93%) (the “**Subordinated Loan**”). The Reserve Fund will initially be in the amount of 9,100,000 Euros and will be allowed to decline once it reaches 4.25% of the aggregate Outstanding Principal Balance of the Mortgage Participations remaining thereafter at such percentage, until it equals 0.75% of the Initial Principal Balance of the Mortgage Participations.

Notwithstanding the above, it is a condition to decline the Reserve Fund that none of the following circumstances arise:

- a) that there is a Principal Deficiency,
- b) that the total amount of Mortgage Participations in arrears for 90 days or more is equal to or more than 2.75% of the total Outstanding Principal Balance of Mortgage Participations,
- c) that the Outstanding Principal Balance of defaulted Mortgage Participations is above 0.025% of the initial Outstanding Principal Balance of Mortgage Participations multiplied by the number of Payments Dates elapsed since the Closing Date,
- d) that the weighted average interest rate of the Mortgage Participations is below the weighted average interest rate of the Class A Bonds and Class B Bonds plus a margin of 0.40%.

The Reserve Fund will be used to assure timely interest payments on the Class A Bonds and the Class B Bonds and will be retained in each Payment Date according to the Priority of Payments.

### *The Issuer's Margin*

The terms of the Mortgage Participations provide for the Issuer to receive interest at the rate of the Mortgage Loans which is indexed mainly to 12 month MIBOR or EURIBOR plus an average margin of 1.45% while the interest to be paid on the Class A Bonds and Class B Bonds is indexed to three (3) month EURIBOR (or in the case of the first Interest Accrual Period two month EURIBOR) plus a margin of 0.250 and 0.700, respectively. 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 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 under the Bonds and its other liabilities.

This risk is addressed, with respect to the payment interest payment obligations on the Class A Bonds, by making available therefor the amounts available in the Reserve Fund, the Issuer's Margin, the subordination of 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 interest payment obligations on the Class B Bonds, this risk is addressed by the amounts available in the 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 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 using the Issuer's Margin and the Reserve Fund.

### **Revenue and 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 interest to be paid on the Bonds is addressed by a guaranteed rate agreement (the "**Guaranteed**

**Investment Contract**”) entered into by the Gestora (on behalf of the Issuer) with the Bank which will, subject to certain conditions, provide a guaranteed rate of interest equal to the then existing 3 months EURIBOR (or in the case of the first Interest Accrual Period 2 month EURIBOR) 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, the Bank, 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 four hundred and fifty five million (455,000,000) Euros and shall be made up of four thousand five hundred and fifty (4,550) Bonds.

The nominal value of the issue shall be divided down into two classes of Bonds.

- (i) **Class A:** made up of four thousand three hundred and eighty six (4,386) Bonds, with a total nominal value of four hundred and thirty eight million six hundred thousand (438,600,000) Euros.
- (ii) **Class B:** made up of one hundred and sixty four (164) Bonds, with a total nominal value of sixteen million four hundred thousand (16,400,000) Euros.

Payments of principal under the Class B Bonds will be subordinated to such payment obligations under the Class A Bonds and payments of interest under Class B Bonds will be subordinated to such payment obligation under Class A Bonds as set out in the Priority of Payments (“*Orden de Prelación de Pagos*”) contained in Clause 19 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 Royal Decree 926/1998 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 resulting 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 less 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 360 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 EURIBOR rate applicable to three (3) month (or in the case of the first Interest Accrual Period, two (2) month) deposits, described in paragraph (c) below, and (ii) one of the following two margins:

1. 0.250% for the Class A Bonds.
2. 0.700% for the Class B Bonds.

rounded off to one ten thousandth of a percentage point.

c) *EURIBOR Determination*

(i) Such EURIBOR rate, (*Euro Interbank Borrowing Offered Rate*), is the rate relating to the money market in Euros for three (3) month (or in the case of the first Interest Accrual Period, two (2) month) deposits in Euros as will appear on the REUTERS screen, EURIBOR01 page (or such other page as may be substituted for it in this service or that may provide such information), on or about 11:00 a.m. (Brussels time, C.E.T., Central European Time) on the Fixing Date (“*Momento de Fijación de Tipo*”), as described below.

(ii) In the absence of the reference interest rates set out in section (i) above, 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, two (2) month) deposits in Euros on the Fixing Date by the financial institutions listed below:

- Santander Central Hispano, London branch
- BNPPARIBAS, London branch
- J.P. Morgan Chase, London branch

In the event that it is impossible to apply the aforesaid reference interest rate, because one of said entities does not supply quotation reports on an ongoing basis, then the applicable interest rate shall be the resulting from the simple arithmetical averaging of the interest rates reported by the remaining two entities.

If one of the aforementioned two entities should cease providing quotation reports on an ongoing basis, then the last nominal interest rate applicable to the last Interest Accrual Period shall apply, and so forth for successive Interest Accrual Periods while said impossibility continues to exist.

Should two of the aforementioned Banks resume the reporting of quotations, then the substitute reference rate shall once again apply, as per the foregoing rules.

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 according to the TARGET calendar (Trans European Automated Real - Time Gross Settlement Express Transfer System) prior to each Payment Date, (defined in Clause 12.5 below), at 11:00 a.m. (C.E.T) 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 (EURIBOR for two (2) month) at 11:00 a.m. (C.E.T), on the date of the granting of the Deed of Constitution, or if such day is not a business day according to the TARGET calendar, 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.

For the purposes of this issue, "non-business days" shall be considered as all those days falling on:

- (i) Saturdays,
- (ii) Sundays,
- (iii) days the TARGET calendar (for the sole purpose of determining the interest rate applicable to each subsequent Interest Accrual Period), considers as "non-business days", such days being the above mentioned (i), (ii), together with December 25<sup>th</sup> and January 1<sup>st</sup>, and
- (iv) days which are holidays in Madrid (for the remaining conditions of the issue).

#### **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 19 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 19 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 17<sup>th</sup> March, 17<sup>th</sup> June, 17<sup>th</sup> September and 17<sup>th</sup> December 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, in accordance with the procedure set out below.

In the event that any such day is a non-business day (as defined in Clause 12.3, d) above), payment of interest shall be made on the first business day immediately thereafter in Madrid in respect of the Interest Accrual Period as described in Clause 12.3, a) but not including any further interest in respect of the period to such business day.

The first interest payment for the Bonds of both Series will take place on the Payment Date falling in December 2001, such interest having been accrued at the relevant nominal rate since the Closing Date up to (but excluding) such Payment Date.

#### **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:

$$I = N \times C \times d/360$$

**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, pursuant to Clause 12.3.

**d=** Number of days elapsed during the relevant class 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 reported to said 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 on any Class (in accordance with the order of priority of payments set out in Clause 19 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 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 one hundred thousand (100,000) Euros 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 one hundred thousand (100,000) Euros 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 17<sup>th</sup> March 2033, 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, 17<sup>th</sup> March, 17<sup>th</sup> June, 17<sup>th</sup> September and 17<sup>th</sup> December 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 the Payment Date falling in December 2001.

The first repayment of Class B Bonds shall take place on the first Payment Date on which the Principal Amount Outstanding (described in point 3 below) of the Class B Bonds is equal to or higher than 7 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 19 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 19 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 point 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 19 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 existing 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 19 of the Deed of Constitution, will constitute the Available Principal Funds (*Fondos Disponibles para Amortización*).

On the other hand, 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 Classes in accordance with the following rules:

- (a) Until (but excluding) the first Payment Date on which the Principal Amount Outstanding of the Class B Bonds is equal to or higher than 7 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) After the Payment Date on which the above mentioned relationship is equal to or higher than 7%, 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 7%.
- (c) At the time when the Principal Amount Outstanding of the Class B Bonds reaches three million four hundred and twelve thousand five hundred (3,412,500) Euros, 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) that the total amount in respect of the Mortgage Participations in arrears of ninety (90) days or more on the Determination Date preceding the current Payment Date is equal to or more than 6.50 per cent of the Outstanding Principal Balance of the Mortgage Participations on that date; or
- (ii) that there is a Principal Deficiency.

In either case (i) or (ii) 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 19 of the Deed of Constitution, the Issuer did 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 12.13, (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, 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.

#### **12.10 Early redemption**

Without prejudice to the obligation of the Issuer, through the Gestora, to repay the Bonds on their Final Maturity Date and in accordance with the provisions of the preceding paragraphs, the Issuer, through the Gestora, may repay all the Bonds on any given Payment Date, if 10% or less of the initial amount of the PH,s portfolio remains outstanding in accordance with Law 19/1992. The Deed of Constitution sets out the procedures which would apply in such a case, including notice to Bondholders and the sale of the PH's or the granting of a loan used to redeem the Bonds.

Any such early redemption will be made in respect of Principal Amounts Outstanding of each Class of Bonds, plus interest accrued and not paid from the last Payment Date to the Payment Date on which such early redemption occurs.

#### **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 19 of the Deed of Constitution, will take place the repayment of principal of the Class A and Class B Bonds, is listed (5) in the order of priority of payments set out in Clause 19.

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

The Bank 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 (*Sociedad de Compensación y Liquidación de Valores*) identified in Clause 16 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 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 Mortgage Participations, the prepayments and the financial situation of the Issuer, as well as informing it of all Ordinary and Extraordinary Notices, contained 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 19 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 under the assumption of maintenance of the mentioned prepayment rates.

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

Balance sheet, Profit and Loss 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

*(a')* 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, 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., 100,000 Euros.

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 19 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 *Sociedad de Compensación y Liquidación de Valores*, to the clearing system operated by Morgan Guaranty Trust Company of New York, "EUROCLEAR OPERATIONS CENTER" ("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 Deed of Constitution 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 (30th October 2001) and 17<sup>th</sup> December 2001, 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 repayment of the Bonds early for any of the reasons set out in the *Folleto Informativo* ("Spanish Offering Circular").

(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 and whatever other information is required.

## 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 474.958.685,99 Euros as at 20<sup>th</sup> September 2001.

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* (Public Deed) 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 will be included in one of the two types of Mortgage Loans: Mortgage Loans (a), 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*”), private accommodation whose selling price is government-controlled) of the relevant property(ies) or Mortgage Loans (b), the loan to value ratio will exceed 80% but always below 100% of the appraised value of the pertinent mortgaged real properties.
- 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. 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 the Bank.

### **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 default 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 six years, from the date of the latest 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 (24,000 Euros).

### **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 lien 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 by a unique valuer and 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 the Bank 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 the Bank;
- 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 Euros 6,000 payable on each Payment Date and until the final Amortisation Date of the Bonds.

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 and its payment could be suspended under certain circumstances described in “Credit Rights Derived from Mortgage Loans” (on page 7).

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 the Bank, 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 seven 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 department at staff.

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

Late repayments are dealt with by the debt-recovery department, through to an outsourcing call centre in the Bank, 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 (outsourcing call centre in the Bank) 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 next 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 3.7% of the Originator’s mortgages which are currently being dealt with by the debt-recovery department, the 60% 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.

Under the Spanish law and UCI’s work flow, the delay of the litigation is less than 10 months to end a procedure that repossession aims at the mortgaged good, at an average cost of approximately 5% of the value of the repossessed property.

In the last 3 years, 40% of the procedures are repossessed in auctions at approximately 80% LTV, the rest being sold in UCI’s sales department, which will take another 10 month average to sale at approximately 85% LTV with an average cost of 4%.

Under Bank of Spain accounting rules, a mortgage is regarded as non-performing if payments in arrears exceed six monthly instalments. As at 30<sup>th</sup> September, Euros 15,2 Millions were non-performing assets amounted to 0.56% 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:

<b>Date</b>	<b>Total n° of Loans</b>	<b>Outstanding Principal Balance (Euros millions)</b>	<b>Arrears % (1)</b>	<b>Average interest rate %</b>
31/12/97	30,315	1,217.18	0.55%	7.75%
30/06/98	32,812	1,332.12	0.47%	6.25%

31/12/98	36,234	1,496.87	0.52%	6.18%
30/06/99	40,148	1,693.03	0.43%	5.35%
31/12/99	44,425	1,891.20	0.43%	4.80%
30/06/00	49,323	2,114.27	0.51%	5.10%
31/12/00	53,178	2,316.31	0.55%	6.05%
30/06/01	57,236	2,587.89	0.54%	6.35%

<sup>(1)</sup> Following B. Spain's new classification of NPL's after 6 month arrears

## 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 20<sup>th</sup> September 2001.

TABLE A SIZE OF MORTGAGE LOANS IN THE PROVISIONAL POOL					
Range of Outstanding Principal Amount (Euros)	Outstanding Principal Balance			Number of Loans	
	Within Range (Euros thousands)	Within Range (Ptas. thousands)	Proportion of Total (%)	Within Range	Proportion of Total (%)
1,094.76 - 30,050.60	22,636.58	3,766,410.00	4.76	1,019	12.35
30,050.61 - 60,101.21	185,838.54	30,920,931.32	39.12	4,092	49.60
60,101.22 - 90,151.82	157,569.11	26,217,293.94	33.17	2,154	26.11
90,151.83 - 120,202.43	73,593.21	12,244,879.84	15.49	718	8.70
120,202.44 - 150,179.26	35,321.24	5,876,959.84	7.46	266	3.24
<b>TOTALS</b>	<b>474,958.68</b>	<b>79,026,474.93</b>	<b>100.00</b>	<b>8,249</b>	<b>100.00</b>

The average principal balance of the Mortgage Loans as at 20<sup>th</sup> September 2001 was Euros 57,577.72.

## Loan Interest Rates

The Mortgage Loans in the Provisional Pool consists of floating interest rate mortgage loans indexed mainly (85¼%) to 12 month ptas. MIBOR or EURIBOR plus an average margin of 1.40%. The rest of the mortgage loans are indexed to IRPH combined Financial Entities (6¼%), EURIBOR 6 months (8%) and finally EURIBOR 3 months (0½%). **The global average margin is 1.45%**

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 20<sup>th</sup> September 2001.

TABLE B INTEREST RATES APPLICABLE TO MORTGAGE LOANS IN THE PROVISIONAL POOL					
Range of Interest Rates (%)	Outstanding Principal Balance			Number of Loans	
	Within Range (Euros thousands)	Within Range (Ptas. thousands)	Proportion of Total (%)	Within Range	Proportion of Total (%)
4.04 - 4.49	75.68	12,592.09	0.01	1	0.01
4.50 - 4.99	239.28	39,812.84	0.05	6	0.07
5.00 - 5.49	5,531.30	920,330.88	1.16	80	0.96
5.50 - 5.99	149,113.80	24,810,448.73	31.39	2,452	29.72
6.00 - 6.49	161,519.00	26,874,500.33	34.00	2,857	34.63
6.50 - 6.99	138,105.57	22,978,833.37	29.07	2,440	29.57
7.00 - 7.49	18,422.68	3,065,276.03	3.87	364	4.41
7.50 - 7.96	1,951.37	324,680.65	0.45	49	0.63
<b>TOTALS</b>	<b>474,958.68</b>	<b>79,026,474.93</b>	<b>100.00</b>	<b>8,249</b>	<b>100.00</b>

The weighted average rate of interest applicable to the Mortgage Loans as at 20<sup>th</sup> September 2001 was 6.14 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 20<sup>th</sup> September 2001.

TABLE C					
MATURITY OF THE MORTGAGE LOANS IN THE PROVISIONAL POOL					
Range of Maturities	Outstanding Principal Balance			Number of Loans	
	Within Range (Euros thousands)	Within Range (Ptas. thousands)	Proportion of Total (%)	Within Range	Proportion of Total (%)
5/03/2002 - 31/12/2002	31.70	5,274.44	0.00	5	0.06
1/01/2003 - 31/12/2003	195.68	32,558.41	0.04	19	0.23
1/01/2004 - 31/12/2004	230.69	38,383.59	0.04	17	0.20
1/01/2005 - 31/12/2005	746.32	124,177.20	0.15	36	0.43
1/01/2006 - 31/12/2006	858.67	142,870.67	0.18	38	0.46
1/01/2007 - 31/12/2007	1,851.54	308,070.33	0.38	78	0.94
1/01/2008 - 31/12/2008	2,616.10	435,282.41	0.55	84	1.01
1/01/2009 - 31/12/2009	3,358.98	558,887.25	0.70	108	1.30
1/01/2010 - 31/12/2010	3,566.23	593,370.74	0.75	87	1.05
1/01/2011 - 31/12/2011	4,288.01	713,464.83	0.90	103	1.24
1/01/2012 - 31/12/2012	5,022.61	835,691.99	1.05	120	1.45
1/01/2013 - 31/12/2013	3,986.24	663,254.53	0.83	88	1.06
1/01/2014 - 31/12/2014	7,673.89	1,276,827.86	1.61	182	2.20
1/01/2015 - 31/12/2015	11,168.93	1,858,353.59	2.35	257	3.11
1/01/2016 - 31/12/2016	13,946.21	2,320,454.10	2.93	278	3.37
1/01/2017 - 31/12/2017	6,901.28	1,148,276.37	1.45	137	1.66
1/01/2018 - 31/12/2018	6,406.79	1,066,000.16	1.34	122	1.47
1/01/2019 - 31/12/2019	21,926.38	3,648,242.66	4.61	411	4.98
1/01/2020 - 31/12/2020	20,963.35	3,488,007.95	4.41	393	4.76
1/01/2021 - 31/12/2021	9,879.46	1,643,803.83	2.08	183	2.21
1/01/2022 - 31/12/2022	11,615.44	1,932,646.60	2.44	206	2.49
1/01/2023 - 31/12/2023	8,481.65	1,411,227.82	1.78	126	1.52
1/01/2024 - 31/12/2024	36,945.37	6,147,192.33	7.77	629	7.62
1/01/2025 - 31/12/2025	29,122.09	4,845,508.07	6.13	513	6.21
1/01/2026 - 31/12/2026	9,823.31	1,634,461.26	2.06	177	2.14
1/01/2027 - 31/12/2027	17,580.80	2,925,198.99	3.70	297	3.60
1/01/2028 - 31/12/2028	21,775.07	3,623,066.80	4.58	378	4.58
1/01/2029 - 31/12/2029	83,391.68	13,875,208.07	17.55	1,272	15.42
1/01/2030 - 5/09/2030	130,604.21	21,730,712.09	27.64	1,905	23.23
<b>TOTALS</b>	<b>474,958.68</b>	<b>79,026,474.93</b>	<b>100.00</b>	<b>8,249</b>	<b>100.00</b>

The weighted average maturity date of the Mortgage Loans as to 20<sup>th</sup> September 2001 was 29<sup>th</sup> March 2025, being 23.4 years from the Closing Date.

## Loan to Value Ratios

The distribution of Mortgage Loans in the Provisional Pool by loan to value ratio (both by Outstanding Principal Balance and number of Mortgage Loans) is set out in TABLE D. The loan to value ratios 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 20<sup>th</sup> September 2001.

TABLE D LOAN TO VALUE RATIOS MORTGAGE LOANS IN THE PROVISIONAL POOL					
Range of Loan to Value Ratios (%)	Outstanding Principal Balance			Number of Loans	
	Within Range (Euros thousands)	Within Range (Ptas. thousands)	Proportion of Total (%)	Within Range	Proportion of Total (%)
1.15 - 9.99	135.14	22,485.40	0.02	24	0.29
10.00 - 19.99	2,198.54	365,806.28	0.46	115	1.39
20.00 - 29.99	9,163.80	1,524,728.03	1.92	272	3.29
30.00 - 39.99	23,203.86	3,860,797.45	4.88	495	6.00
40.00 - 49.99	54,783.70	9,115,240.71	11.53	958	11.61
50.00 - 59.99	80,550.24	13,402,432.23	16.95	1,298	15.73
60.00 - 69.99	83,298.65	13,859,729.18	17.53	1,322	16.02
70.00 - 79.99	193,946.52	32,269,985.68	40.83	3,264	39.56
80.00 - 99.67	27,678.23	4,605,269.98	5.88	501	6.11
<b>TOTALS</b>	<b>474,958.68</b>	<b>79,026,474.93</b>	<b>100.00</b>	<b>8,249</b>	<b>100.00</b>

The weighted average loan to value ratio of the Mortgage Loans as at 20<sup>th</sup> September 2001 was 64.15 per cent. **This same ratio could be lowered to 55% considering the property price increase in each provinces in the last 5 years (considering official data provided the Ministry of Construction).**

## 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 20<sup>th</sup> September 2001 are set out in TABLE E. The concentration by Outstanding Principal Balance in each of the other 37 provinces was less than 1.94 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 (Euros thousands)	Within Range (Ptas. thousands)	Proportion of Total (%)	Within Range	Proportion of Total (%)
28 MADRID	124,766.92	20,759,468.75	26.26	1,973	23.91
08 BARCELONA	60,842.11	10,123,275.31	12.80	886	10.74
41 SEVILLA	34,238.14	5,696,747.16	7.20	690	8.36
29 MALAGA	27,812.32	4,627,580.68	5.85	554	6.71
11 CADIZ	23,509.85	3,911,709.90	4.94	519	6.29
35 LAS PALMAS	22,300.77	3,710,535.92	4.69	352	4.26
33 ASTURIAS	17,846.74	2,969,447.68	3.75	333	4.03
15 LA CORUÑA	15,748.05	2,620,255.05	3.31	267	3.23
38 TENERIFE	13,015.61	2,165,615.29	2.74	220	2.66
14 CORDOBA	11,673.58	1,942,320.28	2.45	236	2.86
46 VALENCIA	10,520.32	1,750,433.96	2.21	202	2.44
39 CANTABRIA	7,734.95	1,286,987.39	1.62	133	1.61
18 GRANADA	7,442.00	1,238,244.61	1.56	138	1.67
Others	97,507.32	16,223,852.95	20.62	1,746	21.23
<b>TOTALS</b>	<b>474,958.68</b>	<b>79,026,474.93</b>	<b>100.00</b>	<b>8,249</b>	<b>100.00</b>

## 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 20<sup>th</sup> September 2001.

TABLE F ORIGINATION DATE OF MORTGAGE LOANS IN THE PROVISIONAL POOL					
Range of Origination Date	Outstanding Principal Balance			Number of Loans	
	Within Range (Euros thousands)	Within Range (Ptas. thousands)	Proportion of Total (%)	Within Range	Proportion of Total (%)
13/09/1994 - 1/12/1994	5,023.18	835,786.83	1.05	111	1.34
1/01/1995 - 31/12/1995	17,459.03	2,904,938.17	3.67	399	4.83
1/01/1996 - 31/12/1996	38,188.32	6,354,001.81	8.04	758	9.18
1/01/1997 - 31/12/1997	44,213.68	7,356,537.36	9.30	882	10.69
1/01/1998 - 31/12/1998	38,972.69	6,484,510.00	8.20	699	8.47
1/01/1999 - 31/12/1999	156,463.16	26,033,279.34	32.94	2,626	31.83
1/01/2000 - 31/08/2000	174,638.62	29,057,421.43	36.80	2,774	33.66
<b>TOTALS</b>	<b>474,958.68</b>	<b>79,026,474.93</b>	<b>100.00</b>	<b>8,249</b>	<b>100.00</b>

The weighted average origination date is 1<sup>st</sup> March 1999, 32 months from closing date.

## THE MORTGAGE PARTICIPATIONS

The assignment from the Originator to the Issuer, of the Credit Rights derived from Mortgage Loans will be made by the issue of Mortgage Participations (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. The Bank has been appointed by the Gestora as the Depository 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 Closing Date 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 the Bank. In the event that the short term unsecured and unguaranteed debt obligations of the Bank cease to be rated at least A-1 by S&P España or P-1 by Moody’s, the Collection Account will be moved within 30 business days to an institution whose short term unsecured and unguaranteed debt obligations are so rated, until the Bank gets again the rating A-1 by S&P España and P-1 by Moody’s.

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 to fund the Reserve Fund and to finance the 10 days gap between interest to be collected in the Mortgage Participations in respect to the interest to be paid in the Bonds.

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. 150,000,000 represented by fifteen thousand shares, each with a nominal value of Ptas. 15,000.

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 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 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;
- 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 Moody’s or S&P España.
- 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;
- 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 100,000 Euros 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 EURIBOR 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 0.030 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 one lump sum, in the amount of 120,202.42 Euros (20,000,000 Ptas.).

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 Bank on a temporary basis, so long as it is legally possible to do so. Without prejudice to the foregoing, the provisions of Royal Decree 926/1998, Articles 18 and 19, in relation to the replacement of the Gestora, shall be complied with under all circumstances.

Should the 4 month time period legally established by Article 19,2) of the Royal Decree, running as from the time if the event triggering the replacement elapse with no new Gestora having been found, this shall constitute an event of accelerated dissolution of the Fund and amortisation of the Bonds.

The replacement of the Gestora and the appointment of the new one, both of which will be authorized in the CNMV, shall be likewise reported to Moody’s España and S&P España.

## 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 20<sup>th</sup> September 2001, 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 Euros 3,412,500.
- (e) no Mortgage Debtor exercises either the quota comodin (*joker payment*) which is the option to defer payment on his mortgage once a year or the right during the first three (3) years to limit the increase of his instalment to a maximum of 200% the inflation rate (both described on “Credit Right derived from Mortgage Loans” on page 7).

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

<i>Constant prepayment rate</i> (% per annum)	<i>Average Lives</i> (years)	
	<i>Class A Bonds</i>	<i>Class B Bonds</i>
0	14.6	20.7
4	10.1	15.4
8	7.3	11.4
10	6.3	10.0
12	5.5	8.7
16	4.4	7.0
20	3.6	5.7

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.

Assumption (e) reflects the anticipated actual situation based on the low percentage of borrowers exercising either option or the other.

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.

## CERTAIN TAX MATTERS

### *1. Taxation of income deriving from the Bonds*

#### *a) Spanish residents*

Interest as well as income arising on the disposal, redemption or reimbursement of the Bonds obtained by individuals that are resident in Spain for tax purposes will be deemed income from the movable property, and therefore will be taxed at the marginal rates included in the Law 40/1998, of December 9<sup>th</sup>, on Personal Income Tax. If such income was generated after a two-year holding period, the individual taxpayer will benefit from a 30% reduction of the taxable income. Additionally, a 18% withholding tax on account of the individual's final tax liability will be due upon payment of interest on the Bonds. On the contrary, due to the fact that the Bonds will be listed in book-entry form in a Spanish official secondary market, income arising on the disposal or reimbursement of the Bonds will not be subject to tax withholding at source. The above notwithstanding, a 18% withholding tax shall be applied on the part of the transfer price that corresponds to the accrued interest when the transfer of the Bonds takes place within the 30-days period prior to the moment in which such interest is distributed, provided that (i) the acquiror is a person or entity that is not resident in Spain for tax purposes or is a taxpayer under the Spanish Corporate Income Tax, and (ii) the acquiror is not subject to any tax withholding at source on the income derived from the Bonds acquired.

Income obtained by entities that are resident in Spain for tax purposes deriving from the Bonds will be taxed under the rules contained in Law 43/1995, of December 27<sup>th</sup>, on Corporate Income Tax. Due to the fact that the Bonds will be listed in book-entry form in a Spanish official secondary market, said income will not be subject to any tax withholding at source.

#### *b) Spanish non-residents*

Income deriving from the Bonds obtained through a permanent establishment located in Spain by individuals and entities not residing in Spain for tax purposes will be taxed under the rules provided by chapter III of Law 41/1998, of December 9<sup>th</sup>, on Non Residents Income Tax. Such income will not be subject to any tax withholding at source to the extent that the Bonds will be listed in book-entry form in a Spanish official secondary market.

As a general rule, individuals and entities not resident in Spain for tax purposes and not acting in Spain through a permanent establishment, will be taxed in Spain at the tax rate of 18% on interest obtained from the Bonds, including income arising from the disposal, redemption or reimbursement of the Bonds, which is deemed interest by Law 41/1998. However, income deriving from the Bonds will be exempt from taxation in Spain when obtained by residents in a EU Member State, provided that such income is not obtained through a Tax Haven as defined in Royal Decree 1080/1991, of July 5<sup>th</sup>. Finally, individuals and entities who are residents of a State which has entered with Spain into a Treaty for the Avoidance of Double Taxation ("DTC") will be taxed on interest obtained from the Bonds at the reduced tax rates provided by the relevant DTC; with regard to income arising on the transfer of the Bonds, there is a specific rule in Law 41/1998 providing that individuals and entities who are residents of a State which has entered into a DTC with Spain that includes an "exchange of information" clause (all but Switzerland) will benefit from a tax exemption on said income, provided that such transfer is carried out in a Spanish official secondary market.

As for withholding tax duties, any Spanish resident paying income to a non resident in Spain for tax purposes who is not acting in Spain through a permanent establishment must withhold an amount equal to the tax due according to the provisions of the Law or the applicable DTC, unless the payment of the tax or the applicability of exemption is evidenced. However, no withholding tax will be due on income deriving from the disposal or reimbursement of the Bonds to the extent that they will be traded in a Spanish official stock market and registered in book-entry form.

With regard to withholdings applicable on interest derived from the Bonds, the Order of April 13 2000 establishes a special procedure for those cases in which a DTC-reduced rate or an exemption provided by the Spanish legislation is applicable.

Under such procedure, the non-Spanish resident investor will be entitled to obtain a quick refund of the amount withheld in excess of the DTC-reduced rate or the amount withheld if an exemption was applicable, provided that a tax certificate of residence is furnished to the Spanish resident entity acting as depositary of the Bonds, before the 10<sup>th</sup> day following the end of the month in which the interest were distributed. Otherwise, the investor may afterwards obtain a refund of the relevant amount withheld from the Spanish tax authorities following the standard refund procedure set forth by the Spanish regulations.

**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, of 27<sup>th</sup> December, the Issuer will be subject to Corporate Income Tax at the general tax 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 upon issue and transfer of the Bonds. The Issuer will also be exempt from any obligation to pay VAT on the Administration Fee.

## ***3. Tax on the Mortgage Participations***

Article 57(k) of the Royal Decree 537/1997, of 14<sup>th</sup> April, states that 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, the Bank, 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, the Bank, the Managers or any person other than the Issuer.**

**None of the Originator, the Gestora, the Bank, 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 S&P España and Moody's. It is a condition to issuance that the Class A Bonds be rated "AAA" and "Aaa" and the Class B Bonds be rated "A" and "A2" by S&P España and Moody's, respectively. 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.

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 Issuer's Margin;
- the Reserve Fund;
- the Guaranteed Investment Contract; and
- 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 Credit Rights**

The risk of loss arising on the Mortgage Loans as a result of default by Mortgage Debtors is dependent upon the quality of the Credit Rights of the related 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 [\_\_\_\_] to [\_\_\_\_]. To the extent that any Mortgage Loan does not correspond to the characteristics stated during the term of the Bonds, the Originator will be obliged to substitute or repurchase such Mortgage Loan. This obligation of the Originator is guaranteed by the Bank.

#### **The Issuer's Margin**

The terms of the Mortgage Participations provide for the Issuer to receive interest at the rate of the Mortgage Loans which is indexed mainly to 12 month MIBOR or EURIBOR plus an average margin of 1.45% while the interest to be paid on the Class A Bonds and Class B Bonds is indexed to three month EURIBOR (or in the case of the first Interest Accrual Period two month EURIBOR) plus a margin of 0.250 and 0.700, respectively. The Issuer's Margin may be available to offset losses incurred upon the enforcement and liquidation of the 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.**

### **The Reserve Fund**

Amounts standing to the credit of the Reserve Fund, although available primarily to guarantee the ability of the Issuer to make interest payments on the Class A Bonds and Class B Bonds, may also be available, when released from the Reserve Fund, to cover losses incurred upon the enforcement of Mortgaged Properties. The Reserve Fund will have an initial balance of 9,100,000 Euros which will be allowed to decline once it reaches 4.25% of the Outstanding Balance of the Mortgage Participations. The required balance of the Reserve Fund in respect of each Payment Date will thereafter remain at such percentage of the Outstanding Balance of the Mortgage Participations as of the business day after the immediately preceding Determination Date and will consequently reduce proportionately until the aggregate balance equals 0.75% of the initial Outstanding Principal Balance of the Mortgage Participations. This decline in the required balance of the 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.

Notwithstanding the above, it is a condition to decline the Reserve Fund that none of the following circumstances arise:

- a) that there is a Principal Deficiency,
- b) that the total amount of Mortgage Participations in arrears for 90 days or more is equal to or more than 2.75% of the total Outstanding Principal Balance of Mortgage Participations,
- c) that the Outstanding Principal Balance of defaulted Mortgage Participations is above 0.025% of the initial Outstanding Principal Balance of Mortgage Participations multiplied by the number of Payments Dates elapsed since the Closing Date,
- d) that the weighted average interest rate of the Mortgage Participations is below the weighted average interest rate of the Class A Bonds and Class B Bonds plus a margin of 0.40%.

Funds comprising the Reserve Fund will be held in the Collection Account, initially opened in the the Bank where, for so long as the short term unsecured and unguaranteed debt obligations of the Bank are rated P-1 by Moody's and A-1 by S&P España they will be invested in accordance with the terms and subject to the conditions of the Guaranteed Investment Contract.

### **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 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 the Bonds and its other liabilities. This risk is addressed by the factors described below.

### **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 Reserve Fund as of the immediately preceding Determination Date will be used by the Gestora (on behalf of the Issuer), 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;
- (2) Payment of interest on the Class A Bonds;
- (3) Payment of interest on the Class B Bonds;
- (4) Replenishing the 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 interest in respect of the Subordinated Loan;
- (7) 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 issue of the Bonds and the amount by which interest to be collected on the Mortgage Participations exceeds the interest to be paid on the Bonds in the relevant Period;
- (8) Repayment of the Subordinated Loan in an amount equal to the difference between the required balance of the Reserve Fund on the immediately preceding Payment Date (or, in the case of the payments due on the first Payment Date, the Closing Date) and the balance of the Reserve Fund on the relevant Determination Date;
- (9) Payment to the Originator of any quarterly fixed fee due to it for the administration of the Mortgage Loans in the amounts of Euros 6,000 (inclusive of VAT); and
- (10) Payment to the Originator of variable amounts in respect of its financial intermediation.

The effect of the above Priority of Payments is to address the Issuer's liquidity risk with respect to its payment obligations of interest on the Class A Bonds and the Class B Bonds through the excess interest coverage provided by the Issuer's Margin, through the availability on each Payment Date of the balance in the Reserve Fund, through the subordination of the Issuer's payment obligations 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.

## **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 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 using the Issuer's Margin and the Reserve Fund.

## **REVENUE 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.

This risk is addressed by the Guaranteed Investment Contract entered into by the Gestora (on behalf of the Issuer) with the Bank pursuant to which the Bank provides a guaranteed rate of interest equal to the then existing 3 months EURIBOR (or in the case of the first Interest Accrual Period 2 month EURIBOR) on amounts standing to the credit of the Collection Account, including amounts standing to the credit of the 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 the Bank fails to be rated at least A-1 by S&P España or P-1 by Moody'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 the Bank and BNPPARIBAS (together the “**Managers**”).

The 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 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 0.160% of the aggregate principal amount of such Class A Bonds.

The 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 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 0.450% 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**”.

Each of the Managers has represented and agreed that it has not offered or sold and prior to the date six months after the date of issue of the Bonds will not offer or sell any Bonds to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; it has complied and will comply with all applicable provisions of the Financial Services Act 1986, as amended with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom; and it has only issued or passed on, and will only issue or pass on, in the United Kingdom any document received by it in connection with the issue of the Bonds to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996, as amended or is a person to whom such document may otherwise lawfully be issued or passed on.

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 the Bank, 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 has represented and agreed that the Bonds are being issued outside the Republic of France and that each of them has not offered or sold and will not offer or sell, directly or indirectly, any Bonds to the public in the Republic of France and that none of them has distributed or caused to be distributed and will not distribute or cause to be distributed to the public in the Republic of France this document or any other material relating to the Bonds and that such offers, sales and distributions have been and will only be made in France to (i) qualified investors (*investisseurs qualifiés*) and/or to (ii) a restricted group of investors (*cercle restreint d'investisseurs*), all as defined in article 6 of *ordonnance* no. 67-833 dated 28<sup>th</sup> September, 1967 (as amended) and *décret* no. 98-880 dated 1<sup>st</sup> October, 1998.

Each of the Managers 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) except in compliance with the requirements of Law 24/1998 of 28<sup>th</sup> July (as amended by Law 37/1998 of 16<sup>th</sup> November), on the Spanish Securities Market and the Royal Decree 291/1992, of 27<sup>th</sup> March (as amended by the Royal Decree 2590/1998, 7<sup>th</sup> December), on issues and public offers for the sale of securities.

Each of the Managers has represented and agreed that it has not taken, and will not take, any steps which would constitute or result in a public offering or distribution of the Bonds in the Kingdom of Belgium, as such terms are defined under Belgian law and, in particular, that it has not contacted and will no contact, and has not concluded and will not conclude any business with, any person in connection with the issue of the Bonds other than to persons who subscribe to a minimum of Euro 250,000 each or to institutional investors for their own account and listed in article 3.2 of the Royal Decree of 7<sup>th</sup> July, 1999

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 5th October, 2001.
2. The constitution of the Issuer has been authorised by a resolution of the Board of Directors of the Gestora passed on 5th October, 2001.
3. The Mortgage Participations, the Deed of Constitution, the contracts relating to the Bank, the Guaranteed Investment Contract, the Subordinated Loan, and the underwriting agreement relating to the domestic Spanish offering will be governed by Spanish law. 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 official 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 fifty (50) days from execution of the Deed of Constitution (being 25<sup>th</sup> October, 2001) and in any case before the first Payment Date (being 17<sup>th</sup> December, 2001).
5. The Bonds have been accepted for clearance through SCLV. The Bonds have been accepted for clearance through Euroclear as follows:

	<i>Class A Bonds</i>	<i>Class B Bonds</i>
<i>ISIN numbers</i>	<i>ES0338355003</i>	<i>ES0338355011</i>

**THE GESTORA**

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