Tiziano Finance S.p.A.

Investment Loans Securitisation

ABS - Italy

EXPECTED CLOSING DATE:
April 2001

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TRANSACTION IN BRIEF

Issuer:	Tiziano Finance S.p.A.
Rating:	Class A: **Aaa**; Class B: **Aa2**
Nominal Face Value:	€348 M
Servicer:	Banca Monte Dei Paschi di Siena SpA ("MPS" - **A1**/**P-1**/**C+**)
Liquidity Line Provider:	MPS
Swap Counterparty:	The London Branch of BNP Paribas (**Aa3**/**P-1**)
Cash Manager:	The Milan Branch of BNP Paribas (**Aa3**/**P-1**)
Arrangers:	Finanziaria Internazionale/MPS Finance Banca Mobiliare S.p.A.
Representative of the Noteholders:	Securitisation Services S.p.A.
Computation Agent:	Securitisation Services S.p.A.
Collection Account Bank:	MPS
Account Bank:	The Milan Branch of BNP Paribas
Paying Agent:	The Milan Branch of BNP Paribas
Luxembourg Paying Agent:	BNP Paribas Luxembourg S.A.

The Receivables (as of Dec 29, 2000)

Types:	Bullet fixed-rate personal investment loans, part of the Visione Europa financial plan whereby loans proceeds were invested for approx. 50% in Zero Coupon bonds issued by MPS and for approx. 50% in quotas of an Italian mutual fund, Ducato Azionario Europa, managed by MPS Asset Management S.p.A.
Originator:	MPS
Number of loans:	5136
Weighted Average Interest Rate:	7.2875%
Maturity:	October 2015 for 25% of the Receivables and November 2015 for 75%
Average Principal Balance:	EUR 68,059
Total Outstanding Amount:	EUR 347,849,264

The Notes

	Class A	Class B
Rating:	**Aaa**	**Aa2**
Type of Notes:	Senior	Subordinated
Placement:	Public	Public
Denomination:	EUR	EUR
Total Nominal Value (MEUR):	306.1	41.7
Coupon Payments:	Quarterly	Quarterly
Coupon:	3 m Euribor + 35 bps	3 m Euribor + 52 bps
Step Up Date:	April 2005	April 2005

TRANSACTION IN BRIEF (CONT'D)

Step Up Margin:	3 m Euribor+80 bps	3 m Euribor + 120bps
Issue Price:	100%	100%
Expected Maturity (*):	April 2005	April 2005
Final Legal Maturity:	Oct 2018	Oct 2018
Listing:	Luxembourg	Luxembourg

Credit Support

Excess spread, and 12% subordination of the Class B notes for the Class A notes.

(*) Resulting from expected call on the Notes by the SPV on April 2005

RATING OPINION

Moody's assigned a rating of **Aaa** and of **Aa2** respectively to the Class A Notes and the Class B Notes issued by Tiziano Finance S.p.A., an Italian special purpose vehicle formed under the Italian Securitisation Law 130/99.

The **Aaa** rating of the Class A Notes is based upon:

1. The high credit quality of the underlying obligors;
2. The pledges of zero coupon bonds issued by MPS and of quotas of an Italian mutual fund — Ducato Azionario Europa, managed by MPS Asset Management S.p.A.;
3. The subordination of 12% of Class B Notes;
4. The protection provided by excess spread;
5. The obligations of BNP Paribas (**Aa3**/**P-1**) as a Swap Provider;
6. The EUR 13 mio liquidity facility provided by MPS;
7. The capacity and experience of MPS as servicer of the loans; and
8. The legal and structural integrity of the transaction.

The **Aa2** rating of the Class B Notes is based on the above mentioned points, except (3).

The ratings address the timely payment of interest and repayment of principal on or before the final maturity date of the notes (October 2018). Even if Moody's ratings also account for the very likely exercise of the optional redemption of the Notes on the Step Up Date (April 2005), the ratings do not address the repayment of principal on or before the expected maturity date of the Notes (April 2005).

RATING SENSITIVITY

Among the main factors that could negatively affect the ratings assigned to the Class A and Class B Notes, Moody's has identified the followings:

- Downgrading of MPS,
- Higher than expected defaults or disputes on the loan portfolio,
- Poor performance of the European stock markets in the medium/long term or persistent high volatility.

Moody's will closely monitor this transaction. We will welcome any related question sent to the following e-mail address: *monitor.milan@moodys.com.*

THE ASSETS

The pool of credits to be securitised consists of 15 years bullet fixed rate personal loans granted to the highest category of clients of MPS. The loans are part of the Visione Europa financial plan whereby the loan proceeds are invested in approx. equal parts in 15 years zero coupon bonds issued by MPS and in an Italian mutual fund invested in European stocks.

The portfolio principal outstanding is about EUR 348 mio disbursed in two tranches. The fixed interest rate on the loans is 7.28% and 7.29% depending on the tranch. Interest is paid quarterly by debtors while the last instalment payment includes the reimbursement of the whole loan.

The zero coupon bonds are to be used to reimburse the loans at their maturity date. Therefore, the borrowers should normally only pay interests on a quarterly basis. Borrowers may, however, choose to prepay the loans and exit the Visione Europa financial plan before the 15 years maturity without any penalty. In this case, the bond would be sold on the market or purchased back by MPS at its theoritical market value and at the same time, the quotas of the mutual fund would be liquidated. The borrower remains liable for any shortfall after the netting of these sums.

The same liquidation mechanism applies in case of death or invalidity due to an accident of the borrower, except that liquidation is compulsory in that case and that the creditor is covered against any potential shortfall by an insurance policy subscribed with Ticino Assicurazioni S.p.A. (unrated), an insurance company belonging to the Monte Paschi Group. The benefit of this insurance policy will be transfered to Tiziano Finance S.p.A. by operation of the Italian Securitisation Law. For modelisation purposes, Moody's considered potential death and invalidity of the borrowers as a default.

At the time of origination, both zero coupon bonds and quotas were pledged in favor of MPS, using the Italian legal mechanism of *pegno*, which prevails for pledging moveable assets. By operation of the Italian Securitisation Law and after due registration of the pledges in the name of the SPV, these pledges will automatically benefit to the SPV.

The Loans and the Borrowers

The securitized portfolio includes almost all the loans originated in relation with the Visione Europa financial plan. The securized portfolio comprises only loans granted to individuals. Loans granted to MPS relatives and to companies were excluded.

The Visione Europa obligors are mainly middle-aged professionals who are self-employed managers or work independently (*see Table 1*).

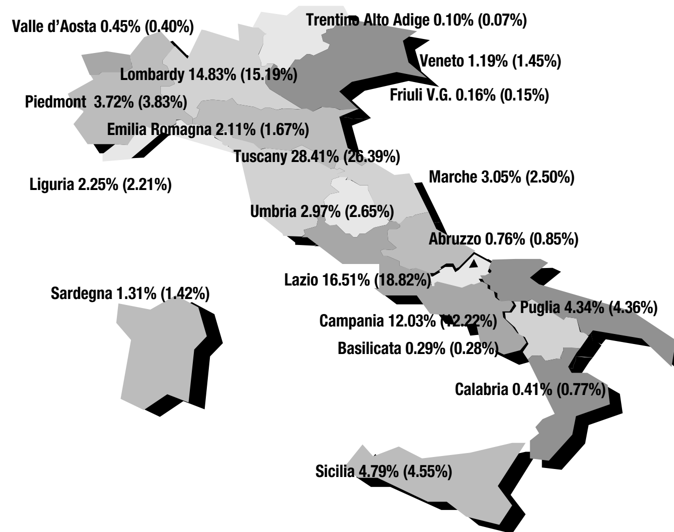
Table 1

Breakdown by Profession

Professions	Clients with current accounts	Not classified	Self-employed	Traders & Craftsmen	Farmers	Independent professionals & managers	Students	Pensioners	Employees & workers	Housewives	Others	MPS relatives
Visione Europa	**5,111**	**7.4**	**23.3**	**11.1**	**1.1**	**13.5**	**3.8**	**4.2**	**17.7**	**4.4**	**12.9**	**0.8**

The geographical breakdown of the obligors reflects the geographical coverage of MPS in Italy. Obligors are concentrated in Central Italy although about one half of the portfolio is located in Northern and in Southern Italy. An exact breakdown as of the end of 2000 can be seen on *Chart 1* where concentration in terms of number of borrowers is indicated while the numbers in brackets refer to concentrations in terms of loan sizes.

Chart 1
Debtor and Loan Concentration in Italy

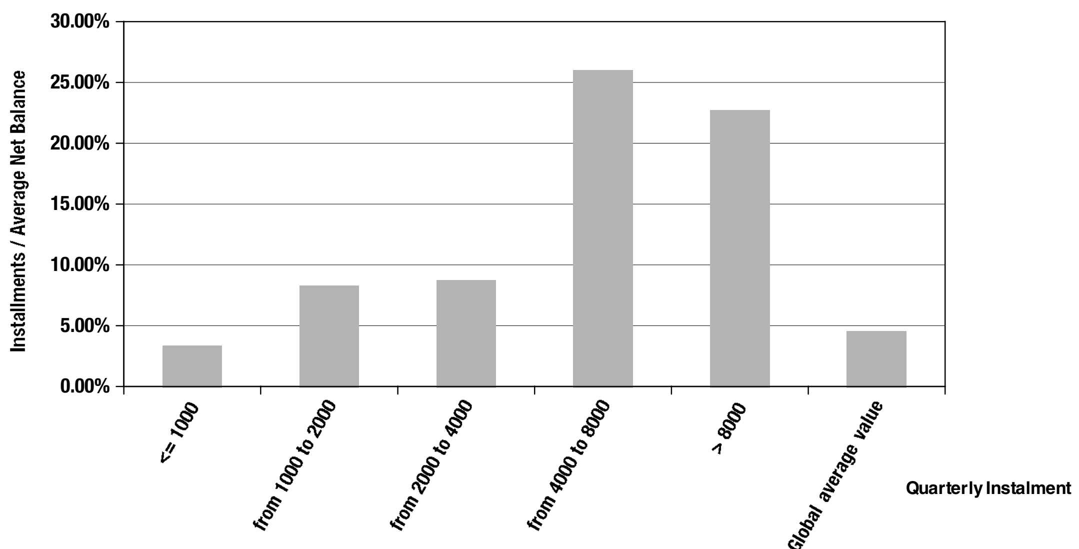


Given the novelty of the product, no historical default data was avalaible. However, MPS provided Moody's with fair information regarding debt to service and leverage ratios of the borrowers.

Debtors' ability to service quarterly instalments was evaluated by comparing disbursements to be made with borrowers' quarterly average net balance. *Chart 2* demonstrates, for quarterly euro instalment buckets, that quarterly instalments on the loans represent a marginal portion of the borrowers' average net balance at MPS calculated as one fourth of the difference between yearly credit and debit movements of each borrower (on average less than 5%), which Moody's views as a positive element.

As mentioned previously, the Visione Europa financial plan comprises zero coupon bonds issued by MPS. These bonds are to be used to redeem the bullet loans after 15 years. However, the borrowers remain the ultimate obligors if MPS were to fail on redeeming these zero coupon bonds. Although the sale of the pledged quotas would reduce significantly the amounts to be reimbursed by the borrowers, it is critical to understand how leveraged the borrowers are. *Chart 3* indicates current leverage ratios, ie the ratios between estimated current net wealth at MPS, not including the Visione Europa product, and loan amounts for

Chart 2
Debtors' Ability to Service Loans



different loan amount buckets. Results show that on average, the net worth of the clients fairly covers the amount of the Visione Europa loans. Loans categorized in the highest amount bracket exceed the net worth of the relevent borrowers, but these loans amount only to a minor portion (0.2%) of the total portfolio principal outstanding.

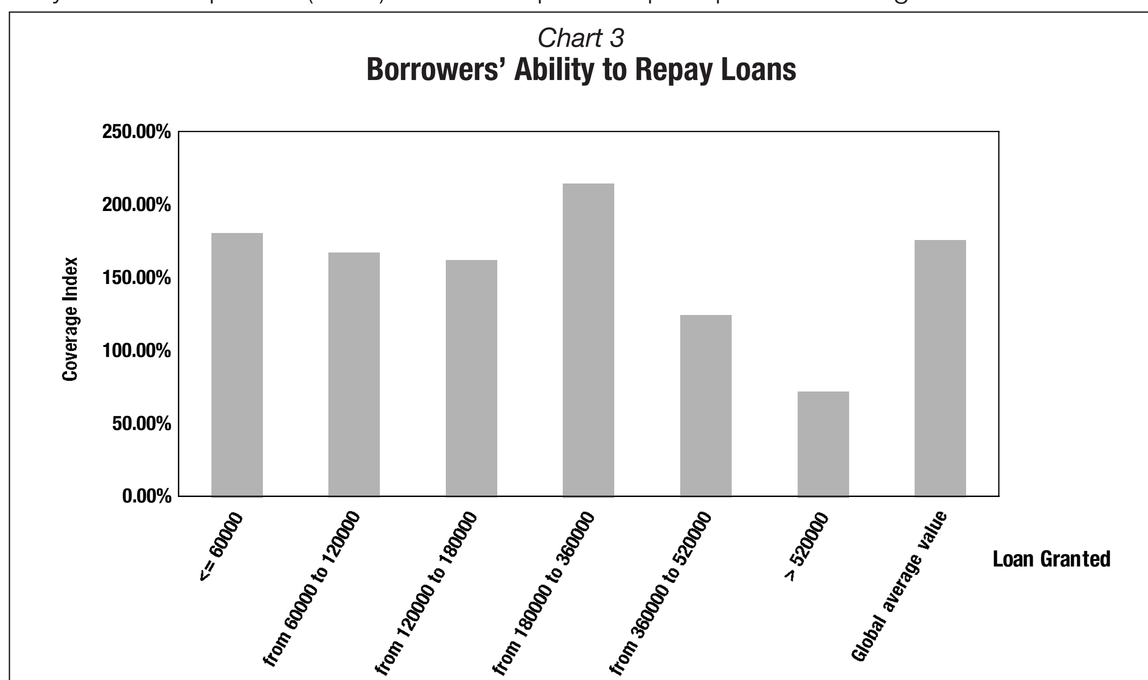


Chart 3
Borrowers' Ability to Repay Loans

Given the previous data, Moody's views the credit quality of the borrowers as above average. However, given their "entrepreneurial" profile, we tend to think that these debtors are more likely to present delinquencies than employees: incomes arising from the debors' activities tend to be less regular than for employees. Morever, this kind of customers often tends to "forget" to pay or provision their accounts in a timely manner. However, we view these potential delinquencies more like a liquidity issue rather than a pure credit risk issue and we believe it is addressed by the availability of excess spread and a liquidity line in a sufficient size (approx. two instalment payments).

Zero Coupon Bonds

Two zero coupon bonds were issued by MPS with a maturity corresponding to the maturity of the loans: 31 October 2015 for 25% of them and 10 November 2015 for the remaining 75%, in terms of principal outstanding. They were purchased by the borrowers at about 50% of their net redemption value which is equal to the outstanding principal of the granted loan. According to Moody's calculations, the gross redemption value should amount to approx. 107% from which a 12.5% accrued interest taxation would apply so to bring the net redemption value to 100%.

This taxation level results from Law Decree no. 461 of 1997. Although there are currently general tax principles that seem to guarantee that this taxation level will be maintained for these zero coupon bonds at their maturity date (non retroactivity of new tax rules), no absolute certainty can be derived from these principles and therefore Moody's also tested the impact of new taxation levels in his simulations.

A Zero Coupon Manager — initially MPS — will be in charge of selling the zero coupon bonds in case of prepayment of the loans or in case of default, death or invalidity of the debtors. Because of the illiquidity of the market for this kind of privately placed bonds and also because of the small amounts that would need to be sold by the Zero Coupon Manager on an on-going basis, Moody's views very positively the obligation of MPS to always make an offer to the Zero Coupon Manager to buy back these bonds. Regardless of the size of the bonds to be sold, the offer price by MPS will be determined by discounting the final redemption payment under the zero coupon bonds with the relevant current market rate plus a spread derived from the interpolated MPS's credit spread curve. Should MPS fail to make an offer — especially in case of default, the Zero Coupon Manager will endeavour to find the best offer in the market place.

Mutual Fund Ducato Azionario Europa

The Ducato Azionario Europa fund is an accumulation stock open-ended mutual fund established in June 1997 under Italian law. It was created by Ducato Gestioni S.p.A. and it is managed by MPS Asset Management S.p.A. Both belong to the MPS Group. Ducato Gestioni S.p.A. markets and sells investment products, while MPS Asset Management manages them. However, this work organisation is likely to change in the near future and all the activities of marketing and management should be concentrated with the latter.

The total managed amount was of approx. EUR 3.2 bn as of the end of 2000. The net equity is invested in companies quoted on European stock exchanges. The performance of the fund is related to a benchmark that is made up of 90% of the MSCI Europe index and of 10% of the Merrill Lynch Libid 3 Months Average Index. The evolution of the fund quotas as compared to the benchmark between the creation of the fund and the end of January 2001 is displayed on *Chart 4*.

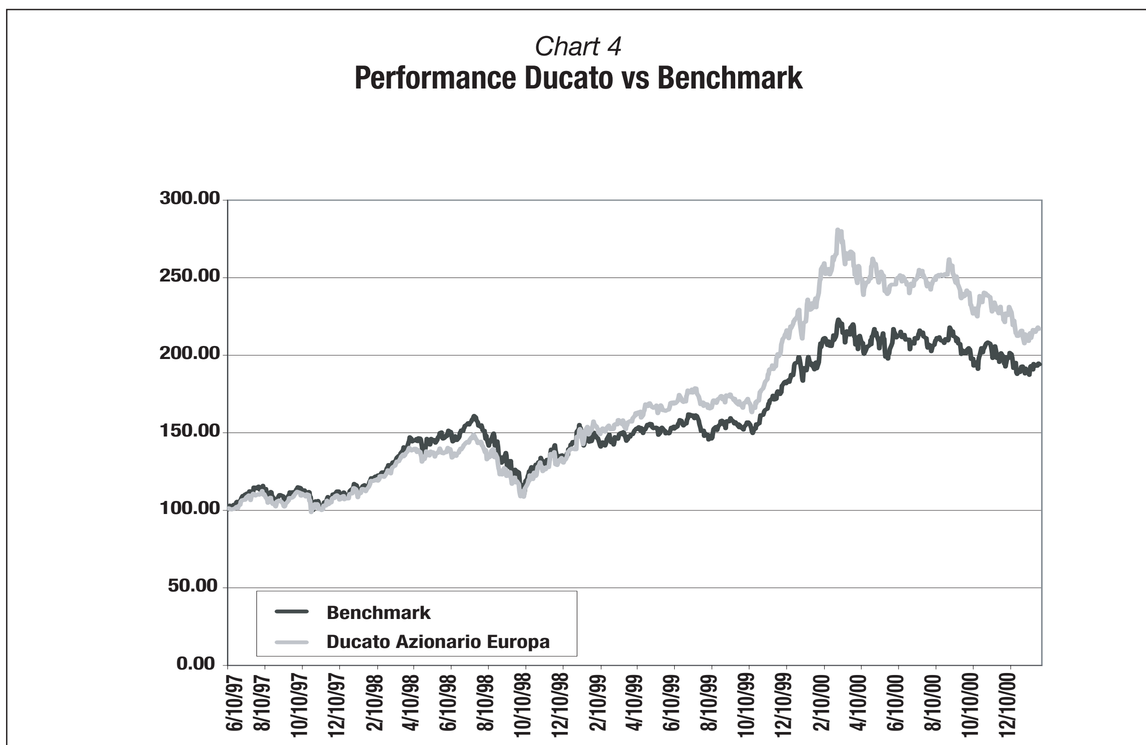


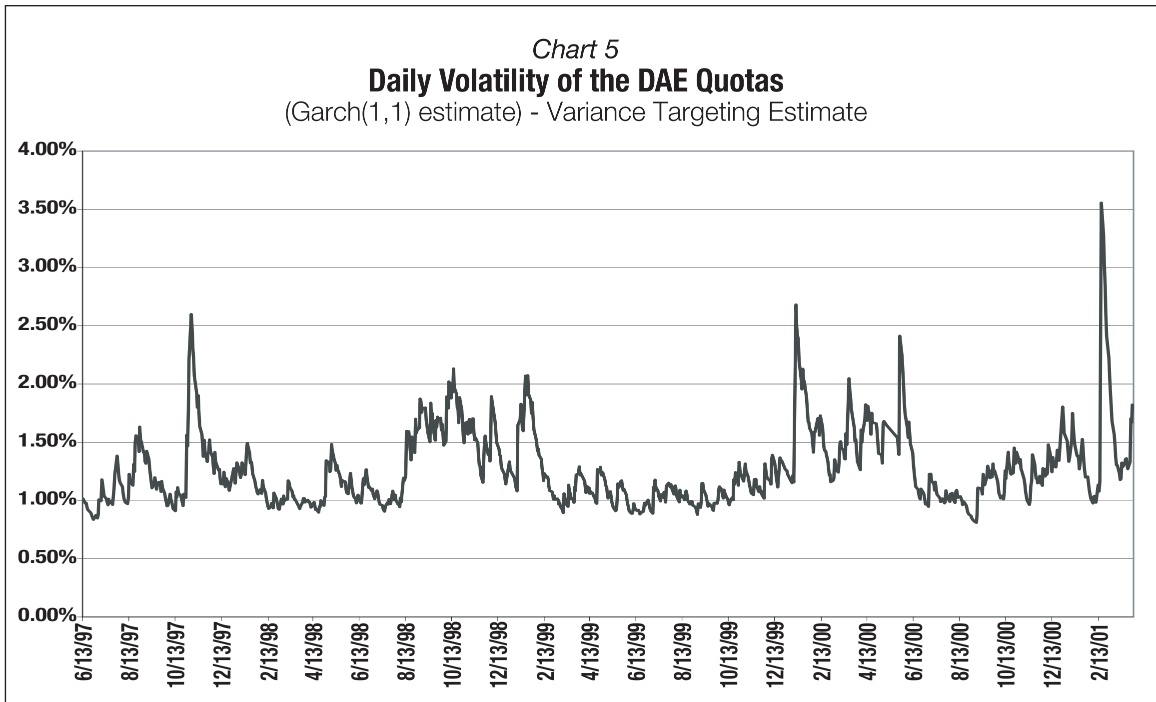
Chart 4
Performance Ducato vs Benchmark

Italian mutual funds are submitted to a particular tax regime. Taxation on dividends or gain on sales is made at the fund level, with a current 12.5% rate. No taxes apply at the investors' level (provided they qualify as Italian tax residents). This particular tax regime has an impact in our credit analysis: as opposed to the zero coupon bonds, the proceeds resulting from the sale of the quotas are net of any further taxes.

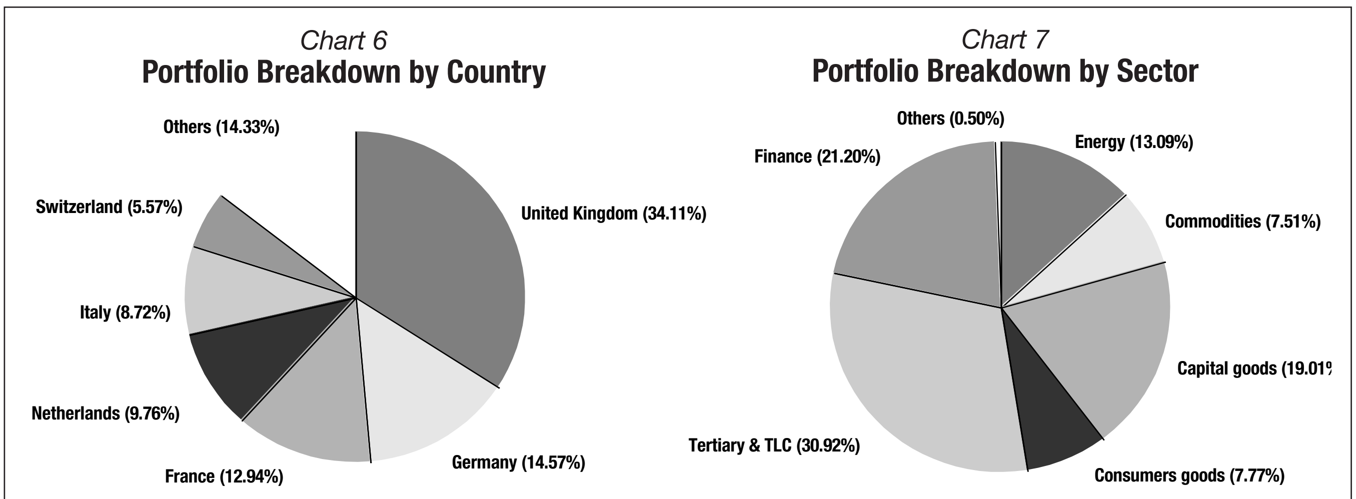
Investors in the DAE mutual fund have to pay some fees for the fund management. No exit fees are accounted for, while entrance fees, which consist of a minor fixed and a percentage part, can be negotiated. The Visione Europa debtors did not pay any entrance fees. Additional fees include a 1.50% management fee, paid quarterly and an incentive fee consisting in 30% of the outperformance of the fund compared to its benchmark.

Not surprisingly for a stock investment, the fund demonstrates a high volatility but it has outperformed its benchmark so far. Moody's carried out a daily volatility analysis using the Garch(1,1)[1] statistical framework, which can be seen on *Chart 5.* The long term component of the daily volatility was estimated at 1.37% between the date of the fund's creation and the end of March 2001. Persitent spikes arose up to 2%/2.5%. A spike at 3.5% reflects the recent stock market turmoil (mid February 2001).

1 For more detailed information on the GARCH (1,1) analysis, please refer for instance to John C.Hull. *Options, Futures, and Other Derivatives. Prentice Hall, 2000*. Chapter 15.

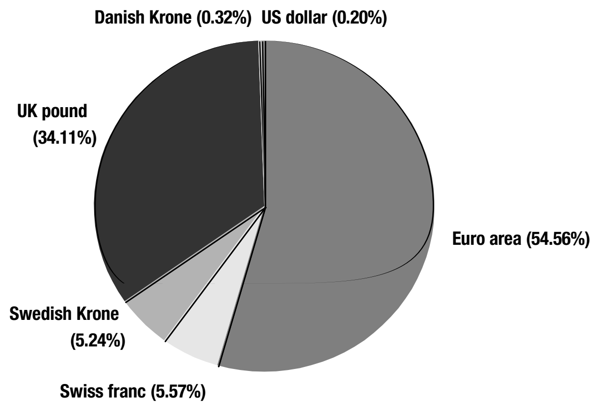


Part of the volatility of the quotas can also be attributed to the fund's investment strategy. For example, the overponderation in the technological sectors compared to the benchmark has been quite rewarding during the past years but recently resulted in an amplified downside compared to the benchmark. Sectorial, country and currency breakdowns, as of the end of 2000, can be seen on *Chart 6, 7* and *8*.



Moody's met with the fund managers who reported their intention to carry out some minor modifications as regards management strategies. For instance, Moody's was told that the current procedures for tracking errors against the benchmark should be strengthened in the future. Fund managers also anticipated that the portfolio allocation will continue to target geographical and sectorial diversity. Among other similar Italian mutual funds, *Ducato Azionario Europa* ranked among those with the best performance on the long term.

Chart 8
Portfolio Breakdown by Currency



ORIGINATION AND SERVICING

Origination

For MPS, the scope of the Visione Europa operation was to capture the future income capacity of its best customers. Clients who could be interested in the product were selected directly by branch managers who usually maintain a strong personal relationship with them. The Visione Europa debtors are mainly professionals, enterpreneurs, free lances with substantial amounts of cash accumulated on their accounts or invested in various financial products at MPS.

When evaluating the credit worthiness of these customers, their income producing capacity was taken into consideration rather than their present assets. Although potential subscribers of the product were evaluated through a traditional underwriting process, relationship lending seems to have played an important role in choosing borrowers and in determining the amount of the loan to be granted.

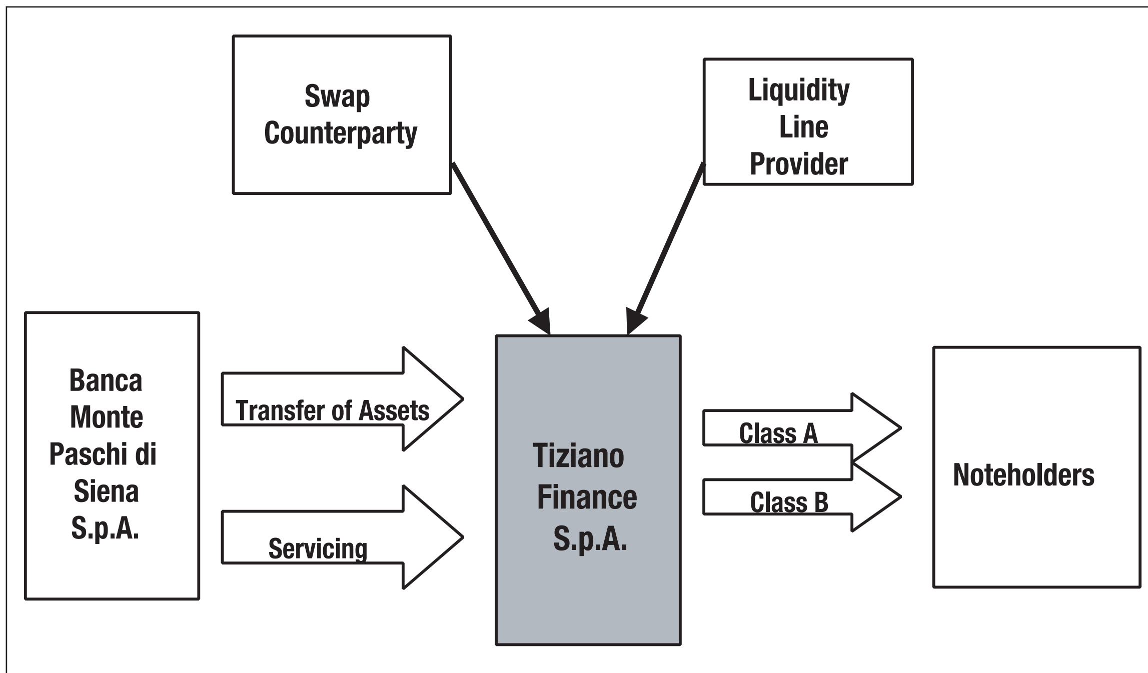
SERVICING

Clients' performances are monitored on an on-going basis and all files are reviewed at least once a year. The monitoring system consists of three levels including the Branches, the parent companies and the group headquarters.

Payments are ensured by the automatic direct debit on the client's account at the end of each trimester. Moody's views rather positively the strong relationship between the branch managers and the debtors since it should help settling quicker the customers' difficulties in case of missing payments.

Loans are considered to be in default if three payments are missed, even if not consecutively. Declaration of default triggers the normal recovery procedures which eventually terminate in the liquidation of the pledged investment instruments, the zero coupon bonds and the quotas. In most cases, the liquidation of the investments can be done very quickly, typically within one week. The servicer can seek for the eventual shortfall after liquidation of the investments through the traditional legal proceedings (most commonly by seeking a judicial mortgage security) or through out of court settlements.

STRUCTURE



WATERFALL

The priority of payment is different before and after an amortisation or an enforcement event takes place.

An enforcement event is defined as a non-payment of interest, breach of obligations, insolvency, winding up, unlawfulness, or non performance of the servicer.

An amortisation event will be triggered if the call on the Notes is not exercised in April 2005 or if the cumulated prepayments under the loans are higher than 30% of the initial portfolio principal outstanding, provided that this does not happen in the first 18 months of the transaction. In case of an amortisation event, the structure would go pass-through.

Two accounts, the Interest Transaction Account and the Principal Transaction Account, are opened with the Milan Branch of BNP Paribas or any subsequent **P-1** rated bank. Quarterly instalments will be credited to the Interest Transaction accounts as well as payments received under the swap, the liquidity facility and interest paid under the eligible investments. Principal resulting from the early redemption of the loans will be credited to the Principal Transaction Account.

Order of Priority Before an Enforcement Event

There are two distinct payment waterfalls, one out of the Interest Transaction Account and one out of the Principal Transaction Account.

Interest (Simplified Waterfall)

1. Issuer's expenses;
2. Interest to the Liquidity Facility Provider and payments to the Swap Counterparty;
3. Servicer's fee;
4. Interest A;
5. Interest B;
6. Principal to the Liquidity Facility Provider;
7. Principal Deficiency Ledger, until reduced to zero;
8. Differred Purchase Price (no Differred Purchase Price will be released to MPS after the Step Up date); and

Principal

A. Before the Step Up date, principal is retained within the Principal Transaction Account;
B. After the Step Up date, to redeem the Notes on a sequential basis.

Order of Priority After an Enforcement Event (Simplified Waterfall)

1. Issuer's expenses;
2. Interest and principal to the Liquidity Facility Provider and payments to the Swap Counterparty;
3. Servicer's fee;
4. Interest A;
5. Interest B;
6. Principal A; and
7. Principal B (once Class A Notes are fully redeemed).

CREDIT RISK ANALYSIS

Quantitative Analysis

The risk profile of the securitised assets is peculiar. Broadly speaking, Moody's considers that the default risk on the assets is closely related to the default risk of MPS; however the severity of losses on the assets is mitigated by the presence of European stocks and by the payments expected under the loans, since the debtors remain the ultimate obligors. Therefore the risk profile of the transaction presents some similarities to the risk profile of a collateralised bond issued by MPS. The quantitative analysis was therefore mostly severity-driven.

Moody's built a cash flow model replicating the waterfall of the cash flows. The call on the Notes as of the step up date (April 2005) was assumed to be exercised if MPS had not defaulted before that date. This cash flow model was run under a range of scenarios taking into account the default date of MPS (or not) and the possible values of the quotas over time. Probabilities associated with the default time of MPS were derived from the marginal default probabilities associated with the rating of MPS (**A1**). Probabilities associated with the possible values for the quotas over time were derived from a Black and Scholes modelisation. Both phenomena were assumed to have independent probability distributions: we tend to think it is a fair assumption given that the quotas are invested in diversified European stocks.

Defaults on the underlying investment loans were modelled so to reflect the likely impact of a default by MPS. Under normal circumstances, defaults on the underlying assets are believed to be low. We however stressed these levels to capture a deterioration of the credit quality of the debtors. Timing of the defaults were assumed to be similar to the timing of defaults Moody's could observe in Italy on residential mortgage loans.

However, we believed defaults should be adjusted so to take account of the impact of a default by MPS. Firstly, we think there is a certain correlation between the financial solidity of MPS and the credit profile of the debtors, especially in Tuscany, the historical market of MPS over the last 500 years: an economic stress that would negatively influences MPS's creditworthiness is likely to have similar effects on the debtors. Secondly, a default by MPS may translate in financial difficulties for the customers, since their investments and deposits with MPS may decline in value or may no longer be easily avalaible. Indeed a bankruptcy or an insolvency procedure for MPS may prevent the customers from having full access to their assets deposited with the bank. Moreover, and certainly more importantly, in such a case, debtors are likely to realize that they would be liable to repay the principal of the loan at its 15 year maturity, since MPS would be likely not to redeem the zero coupon bonds at their maturity. Therefore, after a default by MPS, disputes between debtors and the servicer may be significant. Moody's accounted for these potential disputes, spreading them between the time of default of MPS and the maturity of the zero coupon bonds.

Like we usually do when analysing European CDO transactions, the value of the zero coupon bonds given a default of MPS was modelled according to a bimodal recovery rates distribution taking account of the possible outcomes for an Italian defaulted bank. Moody's got some partial data indicating that liquidations of banks in Italy are not very likely. Restructurings — under the Bank of Italy's supervision — are much more likely. However in the few historical cases of liquidation, recoveries were minimal. In the case of restructuring of a bank, recoveries are believed to be much higher. We think this kind of recovery rates analysis can be applied in analysing the severity of the losses on the zero coupon bonds

because a Zero Coupon Manager will be designated for the particular task of selling these bonds (either performing or defaulted) in the market. The Zero Coupon Manager will initially be MPS, but it will be replaced by another experienced party at the loss of **P-2** for MPS.

Another peculiarity with the zero coupon bonds lies with the market risk attached to them in the case the Zero Coupon manager needs to sell them before their maturity along with a default, a prepayment, death or invalidity of a debtor. As described before, MPS will commit to buy back these bonds at their “market value”. Moody’s accounted for the market risk attached to the sale of these bonds in this case by testing different discount rates. We also accounted for the taxes that would need to be paid in this case, and for a possible change — although unlikely — in taxation levels.

Regarding the second aspect of the severity-driven analysis, Moody’s modeled the possible scenarios regarding the value of the quotas using a Black and Scholes model. Two major inputs of this model are the volatility and the interest rate on the long term. The volatility was estimated with historical data using a Garch(1,1) model. The interest rate trend was assumed to be close to current long term interest rate levels. We stressed these inputs to mitigate somehow the well-known limits of the Black and Scholes model (it does not capture spikes in volatility, stocks returns are not exactly normally distributed…) and the potential changes in the mutual fund investment policy (change of management guidelines, change of benchmark…).

Moody’s determined the expected losses on the Notes by weighting the Notes’ losses under the possible scenarios by their corresponding probability. Additionaly a sensitivity analysis was conducted to test the most sensitive inputs (cf Rating Sensitivity). The quantitative analysis resulted in quantitative ratings that were further qualitatively adjusted to account for phenomena that can no be modeled easily.

Main Legal Issues

Enforceability, Validity and Legality of the Claims

Because of the particular features of the receivables that arise from a financial package consisting of a loan and investments, Moody’s requested and was provided with a specific legal opinion on the enforceability, legality and validity of the claims, which gave us sufficient comfort. The enforceability of the claims was an essential point of Moody’s credit analysis, since it allows to somehow “delink” the ratings of the Notes from the rating of MPS. Indeed, in case MPS defaults, the payments expected from enforceable claims should permit to greatly reduce the severity of losses under the Notes.

Change of Custodian of the Zero Coupon Bonds and the Quotas

The zero coupon bonds and the quotas that are pledged in favour of the SPV are deposited with MPS. As Custodian, MPS committed to keep these assets segregated from its own assets by identifying their individual owners (ie the borrowers) in appropriate registers. According to the Italian legislation, such formalities permit the restitution of these assets to their owners in case of insolvency or bankruptcy of the Custodian. The receiver or the liquidator — in charge of the restitution process — have to respect a time schedule set out in the Italian banking law. Although it is supposed to last a few months, this restitution procedure was never tested and could rise liquidity concerns for the SPV.

Moody’s believes these potential liquidity concerns would be addressed by substituting the Custodian in case of a loss of its **P-2** rating. However a legal issue arises when changing of Custodian. According to Italian law, each individual borrower would need to consent to the change. In other words, the SPV can not force the borrowers to change of Custodian. To address this issue, MPS — or the subsequent Custodian — will commit to use its best efforts in obtaining the borrowers’ consent. The SPV would still have a potential exposure for the remaining debtors refusing to consent. However, Moody’s believes the issue with the remaining debtors is mitigated by the fact that the restitution process by the receiver or the liquidator would be very likely finished before the final legal maturity date of the transaction (October 2018), even in the worst case scenario (ie insolvency or bankruptcy of the Custodian in 2015).

Commingling

Direct debit payments will be made directly to the Collection Accounts opened initially with MPS. Although these amounts will be swept daily to the Transaction Accounts opened with the Milan branch of BNP Paribas (or any subsequent **P-1** rated bank), there could be liquidity concerns with the Collection Account bank in October and November 2015. Indeed, on these two dates, substantial principal payment are expected from the debtors, that the Collection Account bank should be able to immediately sweep to the Account Bank accounts. In order to avoid this potential liquidity issue, the Collection Account Bank should be substitued at the loss of its **P-2** rating.

Validity of the Pledges of the Zero Coupon Bonds and the Quotas in Favour of the SPV

Theoretically, by operation of Law 130, the pledge of the zero coupon bonds and the quotas benefit to the SPV without any further formalities. However, from a practical standpoint and for the avoidance of doubt, should the SPV have to prove it is the new beneficiary of the pledges in front of a court or to a receiver, the registration of the change of the beneficiary of the pledges will be recorded in the *registro vincoli* of the Custodian (MPS). MPS committed to fulfil these registration formalities before the end of May 2001 and to inform the Representative of the Noteholders.

Set Off

MPS as Servicer is believed to be legally entitled to refuse any request of set off by a debtor given the fact that the publication of the assignment of the loans in the *Gazzetta Ufficiale* makes this assignment enforceable against the assigned debtors. Moreover, MPS as servicer committed to refuse any set off request in its collection policy.

Debtors Who are at the Same Time Shareholders of a Full Recourse Company

For these debtors, bankruptcy or insolvency procedures affecting their company could block the possiblity for the SPV to sell the pledged instruments in the case the receiver or the judge would seek support from the debtors. However, these cases would not jeopardize the validity of the pledges.

This issue is mitigated by the:

- Superior credit quality of the debtors;
- The small proportions of debtors who are at the same time shareholders of a full recourse company (MPS indicated that it should concern approx. 20% of the principal outstanding of the portfolio although this includes small enterpreneurs that might not be subject to liquidation procedures);
- The condition that the judge or the receiver of the company would have to seek the support of the debtors;
- The fact that legally, the pledged instruments will be avalaible to the SPV (it is only a question of timing); and
- The presence of a liquidity line in the structure.

INTEREST RATE RISK

The Interest Rate Swap Counterparty is the London Branch of BNP Paribas (**Aa3**/**P-1**). Should the Swap Counterparty be downgraded below **Aa3**, it will either (a) be substituted with an appropriately rated entity or (b) arrange for an appropriately rated entity to guarantee its obligations or (c) post mark-to-market collateral. The swap rate is at 3 m Euribor + 200 bps before and +173 bps after the Step Up Date. Moody's believes that the ratings of the Swap Counterparty and these mechanisms are consistent with the ratings assigned to the Notes.

LIQUIDITY LINE

A 364-day renewable liquidity facility is provided by MPS for up to Euro 13 million. The Liquidity Facility Provider shall be replaced within 30 days in case of loss of **P-1** or post the undrawn amount in an account opened with a **P-1** rated bank.

Doc ID# SF10783isf

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