

Società di Cartolarizzazione dei Crediti INPS - S.C.C.I. S.p.A. (Series 5 & 6) Italian Social Security Contributions in arrears

ITALY

CLOSING DATE :

July 2002

AUTHORS:**Milan**

Alex Cataldo
Analyst
39 02 5821 5601
Alex.Cataldo@moodys.com

Benedicte Pfister
VP/Senior Credit Officer
SFG Team Leader
39 02 5821 5585
Benedicte.pfister@moodys.com

CONTACTS :**Paris**

Paul Mazataud
Managing Director
33 1 53 30 10 37
Paul.Mazataud@moodys.com

Oliver Toutain
Assistant Vice President
Analyst
33 1 53 30 10 42
Oliver.Toutain@moodys.com

Milan

Michael Buneman
General Manager
39 02 86 337 644
Michael.Buneman@moodys.com

Investor Liaison

Vernessa Poole
All Asset Backed and
Residential Mortgage
Backed Securities
(212) 553-4796
Vernessa.Poole@moodys.com

WEBSITE:www.moodys.com

*This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of July 10, 2002. Investors should be aware that certain issues as well as the documents concerning this transaction have not been finalised yet. Upon conclusive review, Moody's will endeavour to assign definitive ratings to this transaction. The **definitive** ratings may differ from the **prospective ratings** set forth in this report, based on subsequent changes in information and review of the final version of all documents and legal opinions. Moody's will disseminate the definitive ratings through its Client Service Desk.*

TRANSACTION IN BRIEF

Issuer:	Società di Cartolarizzazione dei Crediti INPS - S.C.C.I. S.p.A. (Italian SPV benefiting from specific legal provisions)
Ratings:	Series 5: (P) Aaa Series 6: (P) Aaa
Total Nominal Amount:	€ 3 Billion
Originator:	Istituto Nazionale per la Previdenza Sociale ("INPS")
Servicer:	INPS and private collection companies (Concessionari)
Hedging Counterparties:	UBS AG (Aa2/P-1), London Branch, Morgan Stanley Capital Services, Inc., guaranteed by Morgan Stanley (Aa3/P-1) and UniCredito Italiano S.p.A. (Aa3/P-1)
Collection Bank:	Tesoreria Centrale dello Stato, acting through the Bank of Italy (Aa2/P-1 , implied from the Republic of Italy)
Transaction Bank:	JPMorgan Chase Bank (Aa3/P-1), Milan branch
Principal Paying Agent / Agent Bank:	JPMorgan Chase Bank (Aa3/P-1), Milan branch
Luxembourg Paying Agent:	The Chase Manhattan Bank Luxembourg
Report Auditor:	KPMG Audit S.r.l.
Representative of the Noteholders:	San Paolo Fiduciaria S.p.A.
Arrangers and Lead Managers:	Morgan Stanley & Co. International Limited, UBS Warburg and UniCredit Banca Mobiliare S.p.A.

GLOBAL PORTFOLIO:

Seller:	INPS
Assets:	A portfolio of social security contributions in arrears due by companies (aziende), self-employed individuals (autonomi) and agricultural sector companies and workers (agricoli).
Global amount (including Interest and Penalties):	Approximately € 51,006 billion (including guaranteed nominal of new portfolio)



NOTES ISSUED:

Series	Rating	Amount (M€)	Interest rate	Expected Maturity	Final Maturity
5	(P) Aaa	€ [1,850]	6M Euribor +(*)%	[July 2005]	July 2010
6	(P) Aaa	€ [1,150]	6M Euribor +(*)%	[July 2007]	July 2015

EXISTING NOTES:

Series	Rating	Amount (M€)	Interest rate	Expected Maturity	Final Maturity
3	Aaa	€ 536	6M Euribor + .11%	July 2002*	Jan. 2008
4	Aaa	€ 1,710	6M Euribor + .30%	July 2004	Jan. 2008

* The vehicle will repay the Series 3 one year ahead of the original expected maturity of July 2003

Payments: Semi-annually, on the last business day of January and July. Principal on the notes will be redeemed in strict sequential order, unless certain events triggering pro-rata amortisation occur.

Credit Support: Strong overcollateralisation
Approx. € 667,000,000 of Recoveries as of May 10, 2002
New Debt Service Reserve (€ 200,000,000)
Series 4 Debt Service Reserve (€ 516,457,000)

RATING OPINION

Moody's has assigned a (P)**Aaa** rating to both the € [1.85] billion Series 5 Asset Backed Floating Rates Notes and € [1.15] billion Series 6 Asset Backed Floating Rates Notes to be issued by Società di Cartolarizzazione dei Crediti INPS — S.C.C.I. S.p.A., a Special Purpose Vehicle incorporated in Italy. The proceeds of the new issuance will be used to fund the acquisition from Istituto Nazionale per la Previdenza Sociale (INPS) of a third portfolio of social security contributions in arrears, to establish new debt service reserve and to pay for the related transaction costs.

Simultaneously, Moody's has confirmed the outstanding **Aaa** rating of the Series 3 Asset Backed Floating Rates Notes issued by S.C.C.I. S.p.A. in November 1999 and the outstanding **Aaa** rating of the Series 4 Asset Backed Floating Rate Notes issued in May 2001.

The **Aaa** ratings of the Series 5 and 6 notes is based on:

- (1) The strong over-collateralisation in nominal value provided by the existing and new portfolio of contributions in arrears;
- (2) The € 200 million New Debt Service Reserve
- (3) The existing recoveries and Series 4 Debt Service reserve, which is intended to retire debt that is structurally senior to the Series 5 and 6;
- (4) An analysis of the past performance of the various cash flows (ie. condoni, dilazioni, administrative and legal) which includes 2.5 years of actual securitisation performance data provided since the launch of the first Series of S.C.C.I. notes in Nov. 1999;
- (5) The performance of the concessionari as servicer of the ruoli receivables;
- (6) The performance of INPS to monitor all the receivables and service the remaining receivables not covered by the concessionari;
- (7) The poor historical performance of the condoni receivables;
- (8) The subordination of the Series 5 to the Series 6
- (9) The particular attention by the Italian Treasury to monitor the servicing procedures and the transaction in general;
- (10) The obligations of the [London branch of UBS AG (**Aa2/P-1**), Morgan Stanley Capital Services Inc., guaranteed by Morgan Stanley (**Aa3/P-1**), and Unicredito Italiano (**Aa3/P-1**), all acting as hedging counterparties; and
- (11) The obligations of the Tesoreria Centrale dello Stato (The Italian Treasury, acting through the Bank of Italy) (**Aa2/P-1**, implied from the Republic of Italy), with which the Issuer opened the Collection Account.
- (12) The structural and legal integrity of the transaction.

Moody's emphasised that these ratings address its opinion regarding the timely payment of interest and the payment of principal on or before the final maturity date of the notes and not on their expected bullet maturity date. These final maturity dates are:

- Series 3 and Series 4: Jan. 2008
- Series 5: Jan. 2010
- Series 6: Jan. 2015

1. TRANSACTION SNAPSHOT

Società di cartolarizzazione dei crediti INPS - SCCI S.p.A. was established in 1999 for the purpose of securitising credits in arrears of the Istituto Nazionale per la Previdenza Sociale (INPS), the main Italian Social Security Institution. This transaction represented the largest securitisation transaction in Europe at the time. S.C.C.I. S.p.A. financed the acquisition of a € 46.865 billion (including penalties and interest) portfolio of social security contribution in arrears and related rights with the proceeds of the issuance of Series 1, 2 and 3 notes (€ 4.65 billion total at issuance). In May, 2001, S.C.C.I. S.p.A. purchased an additional portfolio of credits in arrears net of penalties and interest and issued an € 1.71 billion of Series 4 Notes.

On January 31st, 2001 and January 31st, 2002, S.C.C.I. reimbursed entirely the Series 1 and Series 2 notes respectively, which was the date of the soft bullets. The Series 3 Notes were partially reimbursed and now amount to € 536 million.

In this transaction, S.C.C.I. will issue additional notes, the Series 5 and 6 Notes, as permitted by Italian law. With the confirmation of the ratings of the Series 3 and 4, the Series 5 and 6 will be added to the present waterfall of S.C.C.I. and all classes will benefit from recoveries of the combined portfolio securitised in 1999 and in 2001. As a result of the further issuance of Series 5 and 6, another new portfolio of credits in arrears net of interest and penalties will be purchased from INPS (with a guaranteed minimum nominal amount of € 3.667 billion that consists of all the credits in arrears from 2001, which have not been recovered as of May 31st, 2002). Thus, the Series 5 and 6 issuance builds on the present structure and does not represent any major changes to the transaction, except for an additional debt service reserve of € 200 million funded at closing.

Strengths	Potential Risks
<ul style="list-style-type: none"> • Notes are backed by one of the largest portfolios securitised in history, in terms of nominal value. • The entire recovery process, envisioned in the 1999 reform, has more than 2 years of seasoning and seems to be consolidating to satisfaction. • Given the nature of the receivables, the recoveries in the portfolio present a good granularity and no real concentration issues, in terms of debtor, geography or industry. • INPS is the main Italian Social Security entity and, as a public entity, cannot be liquidated. • There are a number of cash flows coming from different sources and debtors which are not fully correlated. Hence, bad years in one type of cash flow can be counterbalanced by good years in others. • Concessionari and legal nature of recovery process on individual non-performing positions have been much quicker on average than other types of non-performing positions in Italy. • Anagrafe Tributaria (tax database) is now operational, which furthers the ability of concessionari to perform timely and efficient collections on the majority of the pool. • Additional data available on Dilazione Cash flows have tended to reduce the volatility of cash flows in the short term. • Higher than expected recoveries on older cohorts in the transaction. • Higher than expected recoveries on Sanctions and Interest cash flows demonstrated in recent years. • The attention demonstrated by the Italian treasury to monitor the performance of the recovery process. 	<ul style="list-style-type: none"> • The transaction is one part of the entire reform process which in practice begun with effective recoveries in late 2000. With a deal of this size encompassing many debtors and servicing units, cash flows may be subject to temporary interruption due to unpredictable one-off events. The "Operating risk" is one of the most prevalent credit risks in this transaction. • Reporting imprecisions have been recorded in the past. Although improvements have occurred to better the quality, transparency and timing of the transaction (appointment of KPMG Audit S.r.l. as report auditor), future lack of transparency and accountability could harm the transaction. • Condoni, which initially was believed to be one of the less volatile cash flows in the transaction, has continuously underperformed during the past years. • The co-operation and incentives of the Concessionari to perform recoveries after 2005. Although the concessionari are obliged by law to recover on the entire amount, including sanctions and interest, unless they have been discharged by INPS, there is a risk that recoveries will significantly decrease after 2005, due to contractual issues and the end of the 3-year time frame from when the majority of cartelle have been initially sent.
Rating Sensitivity/Monitoring tips	
<ul style="list-style-type: none"> • Monitoring of expected cash flows from 2 main Servicers (INPS and concessionari), debtors (aziende, autonomi and agricoli) and main type of collections (Administrative and Legal recoveries, Condoni, Sanctions and Interest) • Willingness of the Italian Treasury to monitor the Servicing procedures • Reporting imprecision that affect our ability to evaluate cash flows in the future • Concessionari reforms and servicing process • Negative future events that could slow down or block the operational flow of recoveries. 	

INPS and Rationale of Transaction

INPS is the main Italian Social Security in Italy. It provides a wide range of provisions and benefits to both contributors and non-contributors, including, but not limited to, retirement and invalidity pensions and unemployment benefits. The main source to fund such provisions and benefits are the contributions collected from companies on behalf of their employees and from self-employed individuals.

INPS was established in 1935 and, as a public entity, INPS cannot be declared bankrupt. The Italian State ensures INPS' financial stability.

The main purpose of this operation at the Italian governmental level is to provide increased transparency of the servicing and management of public receivables. Investors should note that on July 3rd, 2002 Eurostat released a report which may recharacterise both past and present INPS transactions

(as well as other State securitisations) as government borrowing. Although this may remove one of the reasons behind State securitisations, Moody's believes this is not a credit issue for the INPS transactions as the sale and pledge on the cash flows to these Investors have been legally assigned under Italian law.

The Series 5 and 6 issuance adds to a number of other transactions that are sponsored by the Italian government: In the past 3 years, the national Italian governmental agencies have been responsible for over 16.5 Billion in **Aaa** Issuance with the INPS transaction accounting for over half of the total issuance.

2. THE GLOBAL PORTFOLIO OF RECEIVABLES

2.1 GLOBAL OVERVIEW

The Majority of Contributions in Arrears owed to INPS, the Main Italian Social Security Institution

The collateral in the portfolio consists of Social Security contributions classified as "in arrears" by INPS (including sanctions, interest and additional sums). Contributions to Social Security in Italy are compulsory and are paid by companies on behalf of their employees (the company is liable for part of the relevant employee contribution, while the employee is liable for the remainder that is usually paid by means of a deduction from salary) and directly by self-employed individuals. In both cases, a declaration form has to be filled in, giving rise to the claims. Each of the receivables transferred to the Issuer by INPS has two components: (1) the nominal value on one side and (2) penalties, interest and other sums payable thereon on the other.

With this third issuance, the collateral backing all the outstanding Series of Notes issued by S.C.C.I. S.p.A. will consist of all INPS' social security contributions in arrears as of the end of 2001, for a total estimated nominal value (which excludes penalties and interest) of approx. € 33.6 billion. As for the issuance of the Series 5 and 6 Notes, S.C.C.I.'s global portfolio is estimated to have a total outstanding amount, which includes the nominal value, penalties and interest of approximately € 51 billion split in three major components:

- Current outstanding portfolio sold to S.C.C.I. pursuant to the Series 1, 2 and 3 Notes issuance and consisting of INPS credits in arrears accrued on or before December 31, 1999. The majority of the portfolio's current nominal and global value pertains to this initial transfer (approx. 80 and 85% respectively).
- Portfolio acquired by S.C.C.I. pursuant to the Series 4 issuance in April 2001, which consists of credits classified as in arrears during the year 2000 and not recovered at the end of April 2001.
- New portfolio to be acquired by S.C.C.I. pursuant to this Series 5 and 6 issuance, which consists of credits classified as in arrears during the year 2001 and not recovered at the end of May 2002. As was the case with past transactions, given the difficulty of precisely estimating this figure as of the closing date, INPS has guaranteed a minimum nominal amount (excluding interest and penalties) of € 3.667 billion, composed of Aziende (€ 1.962 billion), Autonomi (€ 1.085 billion), and Agricoli (€ 620 million).

Three Main Types of Debtors in Transaction located throughout all of Italy

The debtors in the portfolio are classified as companies (aziende), self-employed individuals and owner-managed businesses (autonomi) and agricultural sector companies and workers (agricoli). However, most of the portfolio (64% in total outstanding) pertains to aziende while autonomi consist of most of the remaining portion (28%), followed by agricoli (9%).

Given the national status of INPS, the receivables are well distributed across all the 20 regions of Italy and do not present any true concentrations. As could be expected, major percentages arise in the most populated regions: Lazio (the region around Rome), and Lombardia (the region around Milan). In addition, there are no single debtor concentrations or industry concentrations present in this portfolio.

Three Main types of Recovery Categories: Administrative, Legal and Amnesties

The credits in arrears are categorised according to the following recovery strategy:

- **Administrative:** Upon identification of an unpaid contribution, such claim enters in the administrative phase. Pursuant to the servicing reforms of 1999, the recovery of these credits features the use of concessionari to collect unpaid credits called Residui through the iscrizione a ruolo system. The concessionari are joint stock companies whose object is the collection of receivables through the ruolo system and related activities. The concessionari have experience in collecting other credits due to the other State bodies. These Residui can consist of credits from active debtors, debtors that are considered cessate (companies which have ceased or terminated their activity) or fallite (are subject to bankruptcy or reorganization).
- **Legal:** prior to the servicing reform law of 1999, if the debtor had not made any payment in respect of the amounts owed after notification by INPS, then the credit was transferred to the legal department of INPS, where legal proceedings were initiated (which eventually lead to the enforcement procedures). Credits for which enforcement procedures had begun against the debtor were not transferred to the concessionari and remain with INPS.
- **Condoni ("Amnesties") and Dilazioni:** in the past, the Italian Government has approved legislation reducing the level of interest and penalties (but not the nominal value) payable on certain types of credit. In order to benefit from such amnesties, the relevant debtors had to submit an application to INPS and formerly recognise that they owed the amount to INPS. If approved, the credit would be payable according to a repayment plan outlined in the relevant legislation. The last Condono was offered in 1998. The formalisation of the procedure allowing debtors to repay over a number of instalments is called dilazione.

2.2 EXISTING PORTFOLIO BEFORE NEW TRANSFER

As stated above, the current outstanding portfolio sold to S.C.C.I. pursuant to the previous issuance consisted of practically all the INPS credits in arrears accrued on or before December 31, 2000. *Table 1* below displays the current outstanding portfolio value according to debtor and recovery strategy. Although the total below has been reported to be € 48.967 billion, Moody's has been informed that there will be an adjustment in the next payment report to € 47.339 billion, which takes into account the final list of credits.

The majority of the receivables relate to Aziende (companies) debtors in the transaction (64% of total value), the main driver behind the total recovery assumptions. The recovery strategies are split between Administrative, Legal and Condoni (46%, 49% and 5% respectively). However, although the legal phase aziende category is by far the largest in terms of outstanding principal (46%), what is important is the underlying recovery potential in this portfolio, not the outstanding value. Please see the Current Performance and Quantitative Analysis sections for more details.

Table 1:
S.C.C.I. CURRENT PORTFOLIO AS OF 15.4.2002¹ (€ Million)

TYPE OF DEBTOR	Administrative Phase	Legal Phase	Dilazione and Amnesty	TOTAL
Aziende	8,024.8	22,292.4	1,204.0	31,521.2
Autonomi	11,561.3	1,761.3	268.1	13,590.8
Area Agricola	2,984.1	110.0	760.8	3,854.9
TOTAL	22,570.3	24,163.7	2,232.9	48,966.9

¹ As of the last available Payment report (May 2002)

Table 2:
S.C.C.I. PORTFOLIO AS OF 15.4.2002 (% Outstanding)

TYPE OF DEBTOR	Administrative Phase	Legal Phase	Dilazione and Amnesty	TOTAL
Aziende	16%	46%	2%	64%
Autonomi	24%	4%	1%	28%
Area Agricola	6%	0%	2%	8%
TOTAL	46%	49%	5%	100%

2.3 NEW PORTFOLIO OF ASSETS

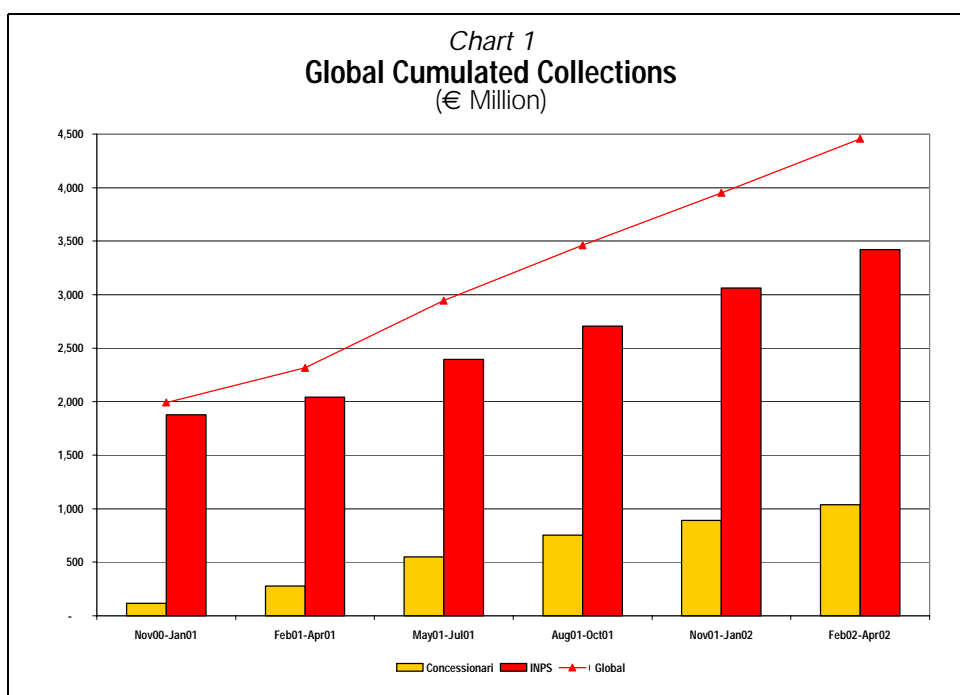
Pursuant to the Series 5 and 6 issuance, S.C.C.I. will purchase an additional portfolio of credits in arrears from INPS. The new portfolio will consist of all INPS credits in arrears for the year 2001 not yet recovered as of May 31st, 2002. However, as was the case in the previous transfers, that amount is an estimate and will only be confirmed months after the issuance of notes. As a result, INPS will guarantee a nominal minimum amount of € 3.667 billion, excluding all penalties and interest. The minimum nominal amount will be guaranteed by INPS separately for;

- Aziende € 1.962 billion,
- Autonomi € 1.084 billion, and
- Agricoli € 620 million

2.4 CURRENT PERFORMANCE

Series 5 and 6 investors benefit from entering into a transaction which has approximately two and a half years of performance statistics incorporated. Much of the information is available as of the last payment date. All of the above information relates to the last recorded date of April 15, 2002.

As shown in *Chart 1*, total gross recoveries have exceeded € 4.457 billion since the initial issuance in late 1999 and have averaged a little under € 2 billion for each of the calendar years 2000 and 2001. The concessionari have been responsible for nearly a quarter of cumulated recoveries, with INPS accounting for the remaining portion. In addition, recoveries over the last year and a half have been quite linear in growth and the concessionari now account for nearly 40% of current recoveries.



Charts 2 and 3 break down the recoveries performed by INPS and by the concessionari. Concessionari recoveries in practice began after November 2000, due mainly to the time it took to properly implement the concessionari reforms passed in 1999. Since then, concessionari seem to have peaked in the middle of 2001 and have come slightly down from those figures. However, performance seems to have stabilised, with about € 45-60 million in recoveries per month. INPS recoveries, which are categorised as all recoveries not handled by the concessionari (ie. condoni, dilazioni, legal) have continued to be quite strong since inception.

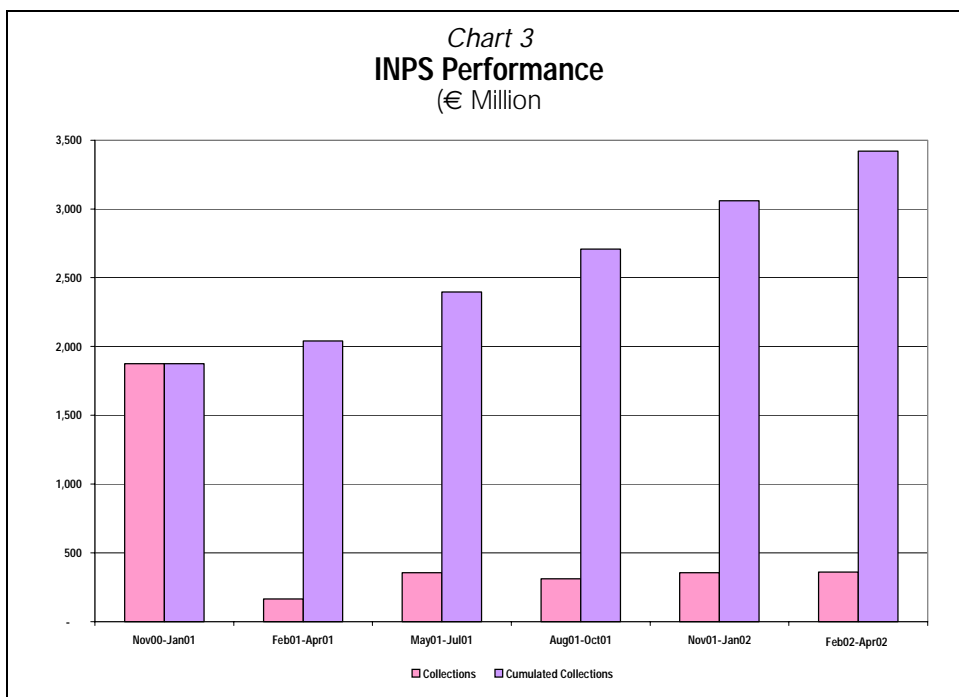
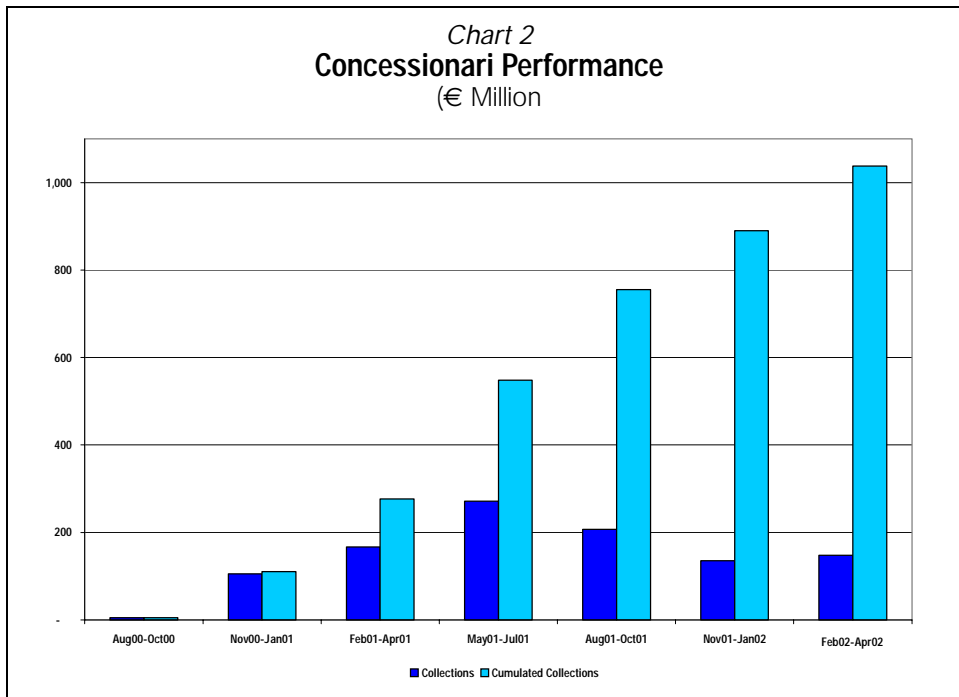
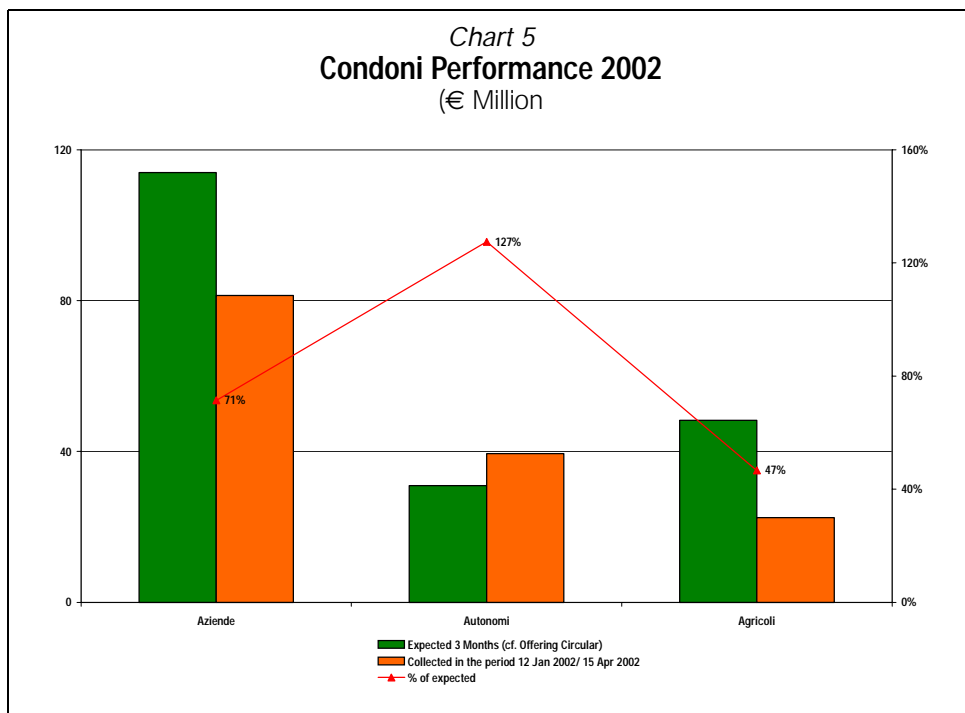
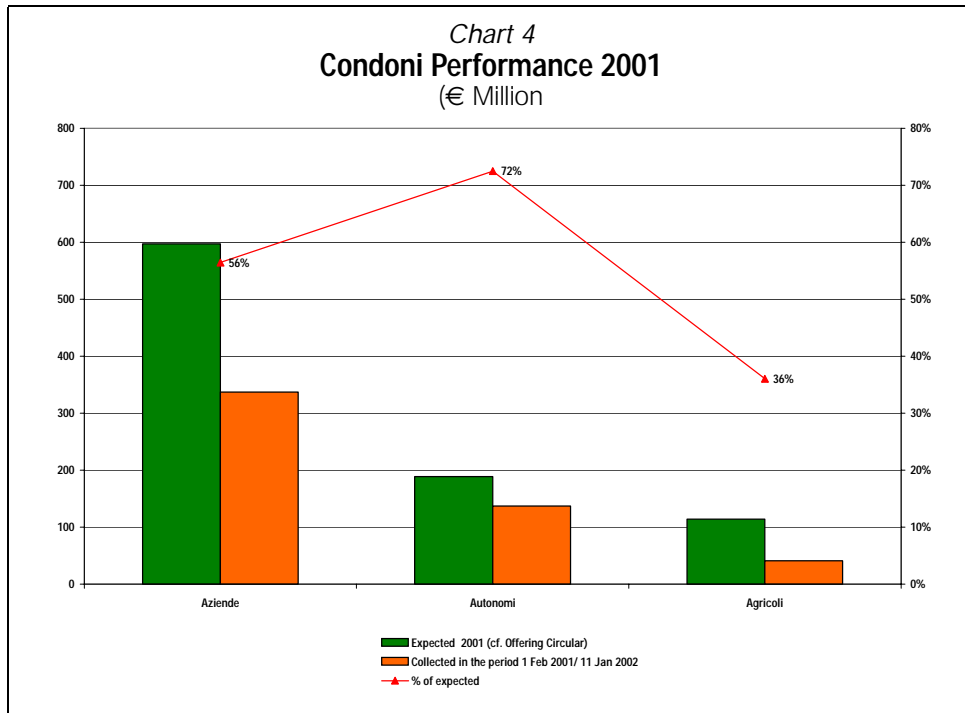
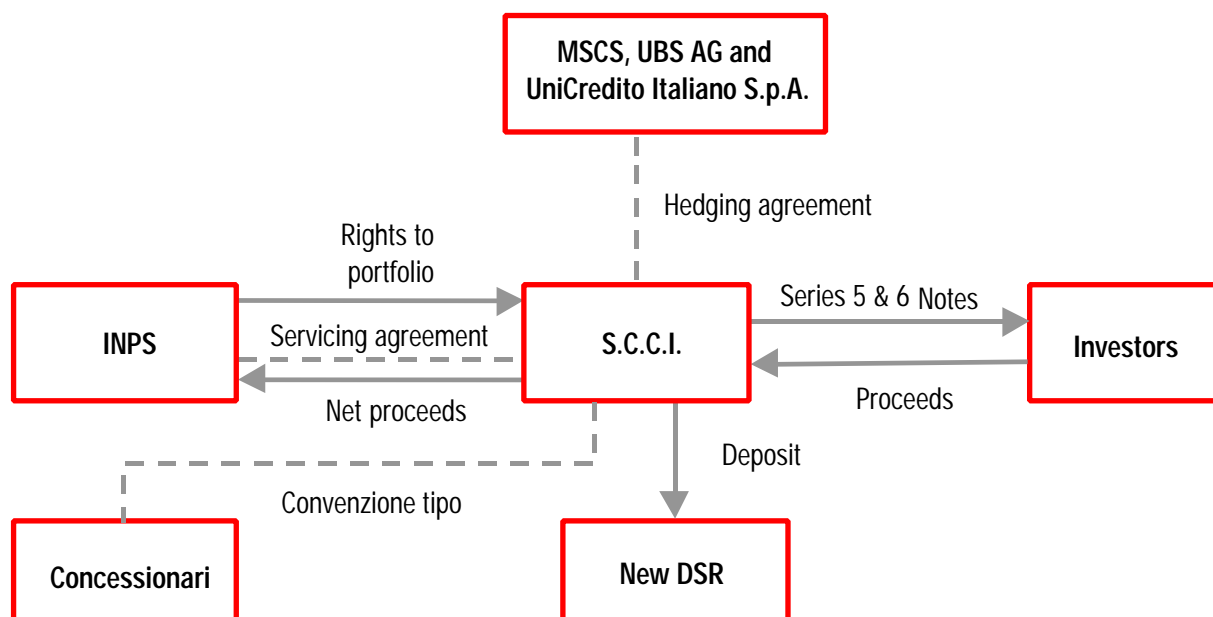


Chart 4 identifies the cumulated recoveries by type of debtor, which exclude the recoveries by means of condoni and Dilazioni. Aziende remains by far the most important source of cash flow in the transaction, contributing to over 77% of total recoveries, with autonomi following behind at 19% and agricoli at 4%.



Condoni performance has been significantly below expectations since the beginning of the transaction. On average, during the calendar year, we were below all debtor categories in terms of expectations. Initially, this was believed to be due more to a misclassification problem. It now appears that this results more from the poor performance of condoni debtors, which should then be transferred to the concessionari at the original amount since the condono benefit has not been honoured.

3. STRUCTURAL FEATURES



The Series 5 and 6 issuance does not represent any major changes to the initial structure of the transaction. As mentioned previously, the main difference pursuant to the further issuance relates to the introduction of another Debt Service Reserve of € 200 million funded at closing and dedicated solely for the benefit of Series 4, 5 and 6.

At the moment of issuance, the transaction will have Series 3, 4, 5 and 6 outstanding. Series 3 is expected to be entirely reimbursed on the payment date at the end of July 2002, based on the cash collections currently available in the vehicle. Indeed, as of May 10, 2002, the vehicle had € 667.6 million, net of the debt service reserves, available with a little more than 2 months of collections to go before the next calculation date.

Series 4 is structured as a soft bullet, repaid with available collections on July 2004 and thereafter until fully retired. However, the Series 4 benefits from a separate Debt Service Reserve of approx. € 516 million, which can only be used for Series 4 debtors, even after an enforcement event. Subtracting the Series 4 Debt Service Reserve from the Series 4 issuance, we obtain € 1.194, billion which is the true amount which needs to be reimbursed from recoveries on the Series 4. Although the Series 4 DSR can never be used to reimburse Series 5 or 6, indeed Investors of Series 5 and 6 receive almost the same benefit since there are € 516 million of payment to the Series 4 that will not come from the portfolio recoveries.

Series 5 and 6 are expected to have similar soft bullet payment dates on July 2005 and 2007 respectively. Unless an enforcement event has occurred, both the Series 4 DSR and the new Debt Service reserve will be fully disbursed on July 2004 to pay the Series 4. Given the structure of the transaction, principal repayments on the Series are in essence time subordinated. Hence, Series 6 is time subordinated to Series 5, whereas Series 5 is time subordinated to Series 4. The only exception to this is if an enforcement event should occur, thus rendering all the existing notes parri-passu. However, the probability of an enforcement event is quite low, due to the lack of effective Performance Triggers.

Specific Legislation Enacted for the Purposes of the Transaction

This transaction benefits from special legislation (Articles 13 and 15 of Italian Law 448/98, as amended), relating, among other things, to:

- The transfer of the receivables: no formal notice or consent from the debtors is needed.
- Judicial Proceedings: the Issuer can join INPS in any judicial proceedings initiated before the transfer of the receivables.
- Segregation of the receivables and other assets: by operation of law, amounts deriving from the

portfolio and other Issuers' rights will only be available for payment to Noteholders, the parties to the different transaction agreements and the Issuer's other creditors in relation to the securitisation. Aspects not expressly covered by law 448/98, as amended, are regulated by Italian securitisation law 130/99.

4. PAYMENT STRUCTURE AND ALLOCATION

On each interest payment date, provided no trigger notice has been delivered, the Issuer Available Funds should be applied in the following order of priorities:

1. Fees, expenses and taxes;
2. Amounts due to INPS under the Receivables Purchase Agreement;
3. Amounts payable to the hedging counterparties, other than termination payments;
4. Interest under all the Notes and termination payments in respect of the swap agreements;
5. Scheduled principal payments under the Notes for Series 3, 4, 5 and 6;
6. Replenishment of the debt service reserve; and
7. Once all notes have amortised, payment of the Deferred Purchase Price to INPS.

The Series 5 notes have a soft bullet date on July 2005 and the Series 6 notes have a soft bullet date in July 2007. The Series 4 has a soft bullet date in July 2004, whereas the Series 3 are expected to be fully reimbursed during the next payment date, with the present cash available through current recoveries.

Upon occurrence of a trigger event (non-payment, breach of obligations, insolvency, winding-up, unlawfulness or failure to attain certain recovery thresholds at each payment date), the then outstanding Series of Notes will be amortised pro-rata, and the debt service reserve will be entirely used up for repayment of the Series 5 and Series 6 Notes respectively.

5. NEW DEBT SERVICE RESERVE

A New Debt Service Reserve will be funded at closing to cover principal and interest payments. This debt service reserve will consist of approximately € 200 million (6.7% of Series 5 and 6 notes at issuance). This new DSR is scheduled to be entirely drawn down to repay the Series 4 notes in July 2004.

A portion of the New DSR will be gradually reduced if recoveries are proceeding extremely well and after rating confirmation by the rating agencies on the transaction. However, it is a condition precedent that the amount released from the New Debt reserve will not impact all the current ratings of the notes.

The Series 4 also benefits from a separate debt service reserve (€ 516 million). The Series 5 and 6 cannot receive funds from the Series 4 DSR. However given that these funds are fully released to the Series 4 when principal is paid, in essence this payment indirectly benefits the Series 5 and 6 which are amortised quicker and without using portfolio collections.

6. SERVICING

INPS and private collection companies (concessionari) will act as servicers in the transaction.

As outlined in the section describing the receivables, new legislation enacted in 1999 changed the legal framework for the collection of the receivables, delegating the collection to a series of private companies (concessionari) in charge of the collection of unpaid amounts owed to other Italian administrations. However, INPS is obliged to remain a party to all legal proceedings already initiated before the transfer of the receivables to the Issuer and to service all receivables in respect of which the debtors have been granted the right to pay in instalments or whose payments have been rescheduled pursuant to an amnesty. Moreover, INPS will be in charge of all receivables disputed before a civil judge.

According to this reform:

- INPS had to classify all the credits to be transferred to the concessionari by making lists (ruoli) in a procedure called *infasamento* or *iscrizione a ruolo* ("listing the credits"). The *ruolo* describes all the details of the outstanding claims (e.g. the amount, the name and the address of the debtor, which public body or securitisation SPV is the creditor, etc).

- The ruoli are transferred by INPS electronically to the CNC, the Consorzio Nazionale dei Concessionari, who is in charge of receiving the ruoli from the public bodies and of dispatching the relevant lists to every local concessionario.
- Once a ruolo is transmitted, cartelle ('notices') are printed by the CNC (system called cartellazione) and either sent to the debtors directly or sent to the local concessionario, who in turn forwards the cartelle to the debtors by mail or by delegated persons (Messi notificatori). There have been delays with this phase due to the implementation of IT support.
- The debtors have 60 days to pay after they have received the cartella. They can contest the amount with the local offices of INPS or ask for a rescheduled payment plan (dilazione). In order for the local INPS office to accept this offer, the debtor needs to (1) accept that he/she owes the entire amount written on the ruolo ; (2) pay at least 1/12th of the amount immediately , (3) accept the 10.5% interest and the repayment plan which typically lasts 12 months but can be extended to over 36 months provided there are special circumstances.
- Once the 60 day period has elapsed, the concessionari are entitled to start a forced recovery procedure (*esecuzione coattiva*) without further court authorisations (by operation of law, the cartelle already represent executive titles - titoli esecutivi).
- Once the concessionario has identified and seized an asset of the debtor, they will store the asset in a warehouse until the first auction. The concessionario has 10 days following the assets legal attachment to organise a first auction. If the first auction is not successful, the concessionario will set a second auction with a price equal to 80% of the original amount. If the second auction is unsuccessful too, the concessionario can either organise a third auction or enter into a private transaction: in both scenarios the price will be at least equal to 25% of the original valuation.
- If none of the auctions are successful, the concessionario will choose one of the following three options; (i) return; (ii) donate; or (iii) destroy the good. The debtor must still pay its obligation. The concessionario has three years to either (i) settle the outstanding claim or (ii) demonstrate the inability of the debtor to pay the debt (through insufficient funds etc.). If three years after the cartella has been sent, the concessionario can not justify why the credit or a portion of the credit has become unrecoverable, they will be liable to pay the amount outstanding of the credit to the creditor.
- Once the concessionario recovers the claim, within 10 days it will transmit the amount (net of servicing fees). Failure to pay the Bank of Italy (where INPS and the SPV holds its account) will cause a penalty fee equal to the legal interest times the amount times the number of days of missed payment. The concessionario, in any case, will have to transmit a monthly report to the CNC giving a detailed analysis of the activity, including the number of claims, the amounts outstanding and the amounts recovered. The CNC will then transmit the report to INPS (head office).
- The concessionari are paid a percentage of amounts collected as remuneration for their services. They are entitled to withhold the balance of its remuneration from the amounts collected from debtors. Under the Receivables Purchase Agreement, INPS will compensate the SPV to the extent that such remuneration exceeds 2% of the amount collected.

Transparency and Accountability must stand behind Transaction

Given the complex nature of servicing and reconciling the receivables of a transaction of this nature and size, the information flow and reconciliation with regards to the receivables has been difficult at times. For example, INPS has reported that delays in reconciling cash collections with current contributions due led to an overstatement of new "Autonomi" credits outstanding at year end 1999 (reported in final portfolio published in March 2000). This problem has been overcome for the "new portfolio" given the now decentralised reporting from the local INPS offices. The same problem led to an under-reporting of cash collections on 1999 credits due to SCCI. This amounts to approximately € 90 million.

Moody's believes that one of the key risk factors in this transaction is operational, in that many different variables need to come together for the success of the whole. Transparency and accountability remains a key in the success of transactions of this type. Although Moody's believes further reconciliation issues may occur in the future, we regard the reporting frequency (quarterly instead of

semi-annually) and the audit by KPMG Audit S.r.l. as a very positive inclusion to the transaction. This should increase the transparency and accountability of the various governmental agencies in their specific roles in the transaction and allow investors to get more accurate and timely information with regards to the complex recovery process.

7. HISTORICAL DATA ANALYSIS

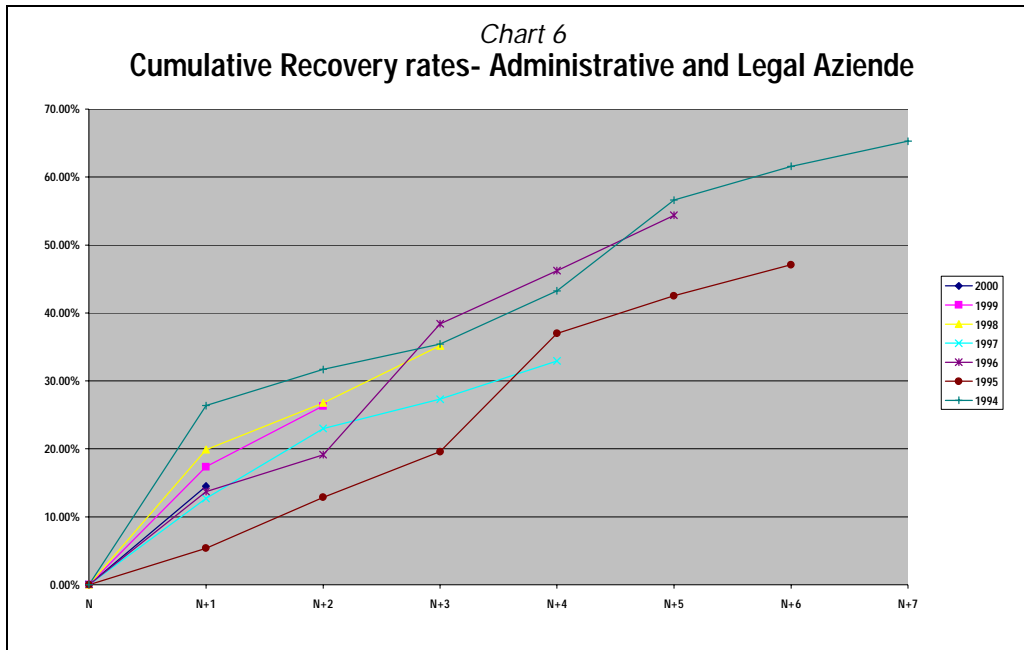
Similar to the past INPS transactions, the various sources of cash flows in the transaction can be split into 7 elements:

1. Administrative & Legal Aziende
2. Administrative & Legal Autonomi
3. Administrative & Legal Aziende
4. Condoni Aziende
5. Condoni Autonomi
6. Condoni Agricoli
7. Sanctions and Interest

The Administrative and legal category relates to Principal recoveries only and are subdivided into the three main types of Debtors. These recoveries are based on total principal amounts outstanding at the time per the age of the cohort (excluding sanctions and interests). *Chart 6*, for example, lists the recovery percentages based on the amount recovered for each cohort and year of recovery for Aziende debtors. For example, the 1999 n+2 cohort refers to the percentage of principal recoveries from 1999-2001 on the original principal balance recorded in 1999.

Fundamentally, Moody's views the Administrative and legal category as the most important cash flow in the transaction, both in terms of amount and stability. In the analysis of historical data, Moody's has taken a number of phenomenon into consideration:

- The recoveries for Aziende have been corrected to include the recoveries from concessionari, which had a positive effect on total recoveries on all cohorts for the last year.
- During any of the first seven years of any cohort, the mean annual recovery rate on the remaining balance available at the beginning of the year is approx. 12.4% with an absolute standard deviation of 5.6%. However, as indicated in *Chart 6*, the recovery rates could be slightly skewed in the transaction. Indeed, the 1999 calendar year on all the Aziende Cohorts proved to be a bizarre year where recoveries were much above average, due fundamentally to two main factors: (1) higher recoveries due to the publicity of the new reform and (2) a possible reconciliation issue by which recoveries from other (possibly older) cohorts may have been mistakenly thrown in with the numbers. Moody's analysed the risk in the transaction by both excluding and including the 1999 data.
- Investors should note that the Adm. & Legal Aziende category is fundamentally different from the Autonomi and Agricoli category in terms of recoveries: Recoveries on Aziende are typically spread over a longer period of time, and recover approximately 2-3 times more on average than Autonomi and Agricoli credits (for which recoveries are concentrated in the n+1 year).
- One of the most positive factors behind the Administrative and Legal category relates to the success of the Dilazioni requests and acceptance with their rescheduled payment plan. Approximately 1.3 billion Euro in Dilazioni have been accepted by INPS as of the 6th June, 2002. Although no additional data was available on the current performance of such dilazione, the short term nature of these receivables (1-3 years compared to Condoni receivables which spread recoveries longer through time) and the deposit required from each debtor requesting a Dilazione increase the certainty to receive the cash flow, hence reduce the volatility associated with such cash flow. Moody's has requested that Dilazioni performance remain separated in future performance monitoring.

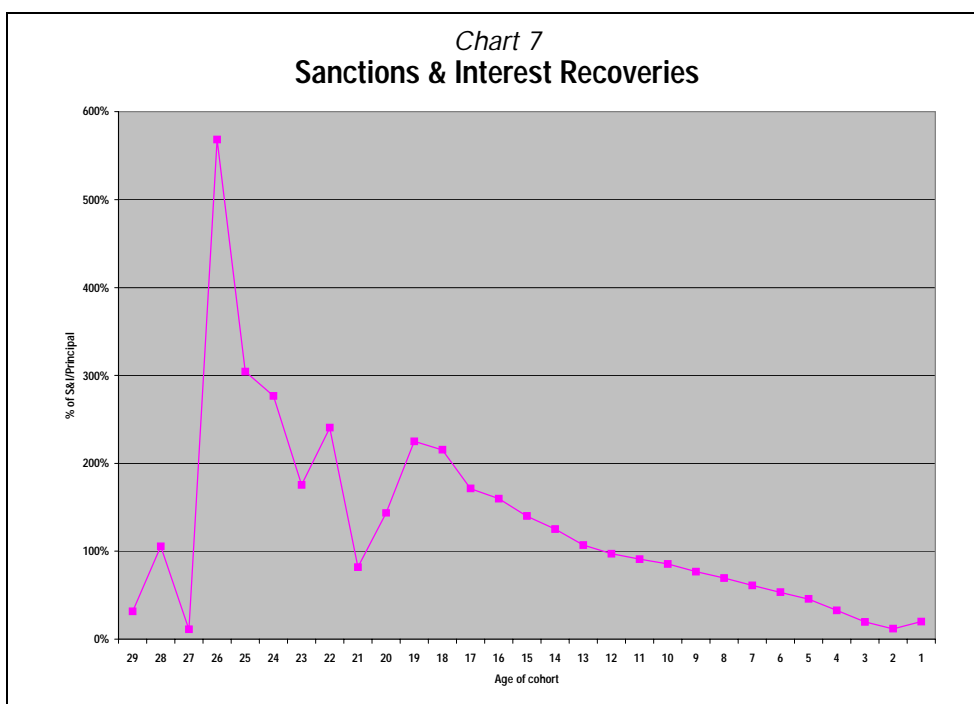


The Condoni table below relates to INPS expected future recoveries in the transaction. INPS has outlined an expected recovery value based on their expected recoveries through condoni from the three debtors. This table has been updated pursuant to the Series 4 issuance. In its analysis Moody's has not used the figures in the table below in order to encompass the bad performance of condoni in the transaction.

	2002	2003	2004	2005	2006	2007	2008	Total
Aziende €	224	150	150	150	150	25	-	849
Autonomi €	64	39	39	39	39	7	-	227
Agricoli €	100	100	101	102	103	85	86	677

One of the key changes compared to the past transactions is the additional information related to the recoveries on Sanctions and Interests for the Administrative and Legal category positions. A relevant sampling of 57 concessionari was performed (out of 100) showing recoveries on Sanctions and Interests in the transaction. The chart below lists the Sanctions and Interests collections over Principal recovered in the same time frame, split by age of cohort. From this graph, we can see that Sanctions and Interests have averaged 33% of Principal recovered. It also appears that younger cohorts receive on average much more in penalties and interests as a percentage of principal than older cohorts. This could be due to a number of factors, such as:

- Sanctions and interests increase every year and present a much higher percentage of the total outstanding amount for the older cohorts than for the younger ones.
- Recoveries allocated to Sanctions and Interests can only occur when 100% of the Principal has been paid. Since the new concessionari servicing may have instigated many dormant debtors to pay off their relative positions, the older positions will benefit significantly more from this factor.
- Newer generations have much larger principal recoveries.
- Large effort over the last two years from the concessionari as part of the reform may explain good recoveries. However, given the short time frame, it is uncertain whether this will continue in same manner in the future.



8. QUANTITATIVE MODELLING

On the seven categories of receivables identified in this transaction, Moody's updated each cumulative recovery curve and conducted a statistical analysis in order to determine the expected levels of recoveries, their timing and their volatility. For example, for the Aziende debtors in the administrative and legal category, Moody's determined the expected recovery amount, timing and volatility for each cohort from 1994-2002 based on the historical data available. Although Moody's received data pertaining to seven years, an additional year of recoveries was assumed on all cohorts and used in the analysis, due to the fact that the recoveries from the older cohorts have been quite substantial in the transaction and the evolution of the transaction has shown us that the overall reforms should bring us higher recoveries on average for the younger cohorts than for the older cohorts. Positive correlations between cohort were then inserted for each future calendar year but assumed independence from year to year. (i.e. possible bad recoveries in cohort in 2003 would affect all other cohorts for 2003 but would however not affect the recoveries for 2004).

A Monte Carlo based simulation was then developed to stress the recovery rates on the respective categories. As part of its sensitivity analysis, Moody's also tested a number of different statistical curves, utilising a lognormal, normal and inverted lognormal.

Given the above, a set of recovery scenarios and assumptions as well as their respective probability was established. A loss under the Notes until the final maturity (Jan. 2008 for the Series 4, July 2010 for the Series 5 and July 2015 for the Series 6) was determined under each collection scenario. The expected loss on all the Series was derived by "weighting" the loss under each scenario by its corresponding probability of occurrence. The size of the Notes was determined so as to match the **Aaa** expected loss target over the expected average life of the respective series.

9. HEDGING STRUCTURE

Similar to the hedging structure of existing Series, in order to hedge the SPV against the potential variations of the 6 month Euribor which is paid on the notes, the Issuer will enter into swap agreements at market rates with UBS AG (**Aa2/P-1**), London Branch and Morgan Stanley Capital Services, Inc., guaranteed by Morgan Stanley Dean Witter & Co. (**Aa3/P-1**) and with UniCredito Italiano S.p.A. (**Aa3/P-1**)

In addition, the swap counterparties will provide a series of swaptions until the legal maturity of the Series 5 and 6 Notes in order to protect noteholders against interest rate risk, should the notes

extend after their respective expected maturity date. The notional of these swaptions was determined under extreme scenarios of amortisation profile on both the Series 5 and 6 Notes.

In addition, if the long term rating of any swap counterparty falls below **Aa3** or if the short term rating falls below **P1**, or if the swap counterparties fail to perform their obligations under the hedging agreements, the respective hedging agreements would have to be cash collateralised or the swap counterparty would have to be replaced/guaranteed. Given the fact that the same swap is evenly shared by three counterparties which are not highly correlated, the transaction should benefit from not having to wait a long time before finding a replacement or guarantee for the respective swap.

Moody's believes these mechanisms combined with the current ratings of the hedging counterparties are consistent with the **Aaa** rating assigned to the Series 5 and 6 Notes.

10 - MONITORING

It will be KPMG's duty as report auditor to prepare quarterly monitoring reports, detailing the amounts collected by the concessionari and by INPS during each collection period and providing performance data. Such information is also available on the INPS web-site.

A quarterly payment report will also be prepared by the Calculation Agent to highlight relevant payment and allocation at each Payment Date, which will include details on the performance of the transaction.

Moody's has and will monitor this transaction on an on-going basis. For past and updated monitoring information on this transaction, please contact monitor.milan@moodys.com or visit our web site at www.moodys.com or www.moodyseurope.com.

SF15156isf

© Copyright 2002 by Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007. All rights reserved. **ALL INFORMATION CONTAINED HEREIN IS COPYRIGHTED IN THE NAME OF MOODY'S INVESTORS SERVICE, INC. ("MOODY'S"), AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.** All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. **NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.** Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling. Pursuant to Section 17(b) of the Securities Act of 1933, MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,000 to \$1,500,000.