

**VELA HOME S.r.l.**

(incorporated with limited liability under the laws of the Republic of Italy)

- euro 507,150,000 Class A1-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028**  
(issue price: 100 per cent.)
- euro 706,800,000 Class A2-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028**  
(issue price: 100 per cent.)
- euro 15,850,000 Class B-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028**  
(issue price: 100 per cent.)
- euro 31,700,000 Class C-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028**  
(issue price: 100 per cent.)

Application has been made to the Luxembourg Stock Exchange (the “**Stock Exchange**”) to list euro 507,150,000 Class A1-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028 (the “**Class A1 Notes**”), euro 706,800,000 Class A2-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028 (the “**Class A2 Notes**”) and together with the Class A1 Notes, the “**Class A Notes**”), euro 15,850,000 Class B-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028 (the “**Class B Notes**”) and euro 31,700,000 Class C-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028 (the “**Class C Notes**”) and, together with the Class A Notes and the Class B Notes, the “**Senior Notes**”) of Vela Home S.r.l., a limited liability company (*società a responsabilità limitata*) organised under the laws of the Republic of Italy (the “**Issuer**”). In connection with the issue of the Senior Notes, the Issuer will also issue euro 7,250,000 Class D-Series 2 Residential Mortgage Backed Variable Return Notes due 2028 (the “**Class D Notes**”) and, together with the Senior Notes, the “**Notes**”). No application has been made to list the Class D Notes on any stock exchange. This document constitutes a “*Prospetto Informativo*” for the purposes of Article 2.3 of Italian Law No. 130 of 30 April 1999 (the “**Securitisation Law**”) in respect of the Notes.

The denomination of the Senior Notes will be euro 50,000. The Notes will be issued in bearer and dematerialised form on behalf of the ultimate owners, until redemption or cancellation thereof, through Monte Titoli S.p.A. (“**Monte Titoli**”) for the account of the relevant Monte Titoli Account Holders. “**Monte Titoli Account Holders**” are any authorised financial intermediary entitled to hold accounts on behalf of their customers with Monte Titoli and include Clearstream Banking S.A. (“**Clearstream, Luxembourg**”) and Euroclear Bank S.A./N.V., as operator of the Euroclear System (“**Euroclear**”). Monte Titoli shall act as depository for Clearstream, Luxembourg and Euroclear. Title to the Notes will at all times be evidenced by book-entries in accordance with the provisions of Article 28 of Italian Legislative Decree No. 213 of 24 June 1998 and with Resolution No. 11768 of 23 December 1998 of the *Commissione Nazionale per le Società e la Borsa* (“**CONSOB**”) as amended by CONSOB Resolutions No. 12497 of 20 April 2000, No. 13085 of 18 April 2001, No. 13659 of 10 July 2002, No. 13858 of 4 December 2002, No. 14003 of 27 March 2003, No. 14146 of 25 June 2003 and No. 14339 of 5 December 2003. No physical document of title will be issued in respect of the Notes.

Each Senior Note will bear interest on its Principal Amount Outstanding (as defined in the terms and conditions of the Senior Notes (the “**Senior Conditions**”)) from and including the date falling on or about 19 April 2004 (the “**Issue Date**”) until final redemption as provided in Condition 7 of the Senior Conditions.

Interest on the Senior Notes will be payable by reference to successive interest periods (each an “**Interest Period**”) in arrear in euro on 27 July 2004 and thereafter quarterly on 27 October, 27 January, 27 April and 27 July in each year, provided that, if such day is not a day on which banks in London, Rome and Luxembourg are generally open for business and on which the Trans-European Automated Real Time Gross Settlement Express Transfer (TARGET) System (or any successor thereto) is open for business (each a “**Business Day**”), interest on the Senior Notes will be payable on the next succeeding Business Day (each such day being a “**Payment Date**”), subject to the Senior Conditions, including the interest deferral and limited recourse provisions thereof. Each Interest Period will commence on (and include) a Payment Date (or in the case of the first Interest Period, the Issue Date) and end on (but exclude) the next succeeding Payment Date (or in the case of the first Interest Period, the Payment Date falling in July 2004).

Interest will accrue on the Principal Amount Outstanding of each Class of Senior Notes at an annual rate (the “**Rate of Interest**”) equal to the sum of the rate offered in the euro-zone inter-bank market (“**Euribor**”) for three month euro deposits (or, in the case of the first Interest Period, a linear interpolation of Euribor for three month euro deposits and for four month euro deposits) plus: (i) a margin of 0.12 per cent. per annum in respect of the Class A1 Notes; (ii) a margin of 0.18 per cent. per annum in respect of the Class A2 Notes; (iii) a margin of 0.36 per cent. per annum in respect of the Class B Notes and (iv) a margin of 1.10 per cent. per annum in respect of the Class C Notes up to and including the Clean-up Option Date and thereafter at a margin that is double to the corresponding margin set out at (i) to (iv) above. The “**Clean-Up Option Date**” is the Payment Date immediately following the Collection Date in which the Outstanding Principal (as defined in the “*Glossary of Terms*”) of the Portfolio is equal to or less than 10% of the Initial Principal Amount of the Mortgage Loans (each as defined in the “*Glossary of Terms*”).

Payments under the Notes may or may not be subject to withholding for or on account of tax, in accordance with Italian Law No. 239 of 1 April 1996, as amended and supplemented. Upon the occurrence of any withholding for or on account of tax from any payments under the Notes, neither the Issuer nor any other person shall have any obligation to pay any additional amount(s) to any holder of the Notes of any Class.

The Class A1 Notes will start to amortise on the Payment Date falling in October 2005. The Class A2 Notes will start to amortise on each Payment Date on or following the Payment Date of full repayment of the Class A1 Notes, provided that the Class A1 Notes and the Class A2 Notes shall instead amortise *pari passu* from the Payment Date falling on or after October 2005 and succeeding the Collection Date on which the Unpaid Principal Deficiency (as defined in the “*Glossary of Terms*”) has exceeded a certain level as specified in Senior Condition 5.2(a). The Class B Notes will start to amortise on each Payment Date on or following the Payment Date of full repayment of the Class A Notes. The Class C Notes will start to amortise on each Payment Date on or following the Payment Date of full repayment of the Class A Notes and the Class B Notes. Repayments will be effected subject to there being Principal Available Funds and in accordance with the Principal Priority of Payments (each as defined in the “*Glossary of Terms*”). In certain other circumstances all (but not some only) of the Senior Notes may be redeemed at the option of the Issuer at their Principal Amount Outstanding together with accrued interest. Unless previously redeemed in full, the Notes will mature on the Payment Date falling in July 2028.

The principal source of payment of interest and repayment of principal on the Notes will be from collections made in respect of a portfolio of claims and connected rights (the “**Portfolio**”) arising from residential mortgage loans classified as performing by Banca Nazionale del Lavoro S.p.A. (the “**Originator**”) purchased by the Issuer from the Originator pursuant to the terms of a transfer agreement entered into on 23 March 2004 between the Originator and the Issuer (the “**Transfer Agreement**”).

The Notes will be direct and limited recourse obligations of the Issuer secured over certain assets of the Issuer as described in the section entitled “*Description of the Security and Priority Arrangements*”. Security will not be granted over the Portfolio or the Collections deriving from the Portfolio. By operation of Italian law, the Issuer’s right, title and interest in and to the Portfolio and any Collections collected from the Portfolio will be segregated from all other assets of the Issuer and amounts deriving therefrom will only be available to satisfy the obligations of the Issuer to the holders of the Notes (the “**Noteholders**”), the other Issuer Secured Creditors and the Connected Third Party Creditors (each as defined in the “*Glossary of Terms*”). The Issuer will grant security over certain rights and claims arising out of the Transaction Documents (as defined in the “*Glossary of Terms*”) pursuant to a Pledge Agreement, a Luxembourg Pledge Agreement and a Deed of Charge (the “**Issuer Security**”) (see section entitled “*Description of the Security and Priority Arrangements*”). Upon enforcement, recourse under the Notes will be limited to the proceeds of the Portfolio and the Issuer Security. The Issuer Secured Creditors will agree or, in the case of the Noteholders, the Conditions will provide and the Noteholders will be deemed to have agreed that amounts deriving from the Portfolio will be applied by the Issuer in accordance with the applicable Priority of Payments (each as defined in the “*Glossary of Terms*”). (See section entitled “*Description of the Security and Priority Arrangements*”)

**For a discussion of certain risk and other factors that should be considered in connection with an investment in the Senior Notes, see section entitled “Special Factors”.**

The Class A1 Notes and the Class A2 Notes are expected, on issue, to be rated AAA by Standard and Poor’s Rating Services, a division of the McGraw-Hill Companies, Inc. (“**S&P**”) and Aaa by Moody’s Investors Service Inc. (“**Moody’s**”) and, together with S&P, the “**Rating Agencies**”). The Class B Notes are expected, on issue, to be rated AA by S&P and Aa2 by Moody’s. The Class C Notes are expected, on issue, to be rated BBB by S&P and Baa2 by Moody’s. The Class D Notes will not be assigned a credit rating. **A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal by the assigning rating organisation.**

**Sole Arranger**  
BANCA NAZIONALE DEL LAVORO S.P.A.

**Sole Bookrunner**  
THE ROYAL BANK OF SCOTLAND PLC

**Joint Lead Manager**  
BANCA NAZIONALE DEL LAVORO S.P.A.

**Co-Manager**  
Banco Bilbao Vizcaya Argentaria S.A.

**Joint Lead Manager**  
THE ROYAL BANK OF SCOTLAND PLC

**Co-Manager**  
Dexia Capital Markets

dated 15 April 2004

## **Responsibility for Information**

The Issuer accepts responsibility for the information contained in this document other than the information referred to in the following paragraphs for which Banca Nazionale del Lavoro S.p.A. (“**BNL**”) and The Royal Bank of Scotland plc (“**RBS**”) accept responsibility. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case) such information is in accordance with the facts and does not omit anything which may affect the import of such information.

BNL accepts responsibility for the information included in this document in the sections entitled “*The Portfolio*”, “*Banca Nazionale del Lavoro S.p.A and its Group.*”, “*Loan Servicing and Collection Procedures*”, “*Mortgage Products, Origination and Underwriting Process*”, “*Subscription and Sale*”, “*Average Life of the Senior Notes*” and any other information contained in this document relating to itself, the Loan Servicing and Collection Procedures, the Mortgage Loan Receivables, the Mortgages, the Mortgage Loans and the Collateral Security (each as defined in the “*Glossary of Terms*”). To the best of the knowledge and belief of BNL (which has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything which may affect the import of such information.

RBS accepts responsibility for the information contained in this document in the section entitled “*The Royal Bank of Scotland plc*”. To the best of the knowledge and belief of RBS (which has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything which may affect the import of such information.

No person has been authorised to give any information or to make any representation not contained in this document and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer, the shareholders of the Issuer, the Representative of the Noteholders, the Principal Paying Agent, the Luxembourg Agent, the Calculation Agent, the Bank Account Guarantee Provider, the Swap Counterparty, the Operating Banks, the Originator, the Servicer, the Liquidity Facility Provider, the Swap Calculation Agent, BNL (in any capacity) or the Managers (each as defined in the “*Glossary of Terms*”). Neither the delivery of this document nor any sale or allotment made in connection with the offering of any of the Notes shall, under any circumstances, constitute a representation or create any implication that there has been any change in the affairs of the Issuer or the Originator or in any of the other information contained herein since the date hereof or that the information contained herein is correct as at any time subsequent to the date hereof. None of the Representative of the Noteholders, the Sole Arranger, the Managers or any other person (other than the Issuer, BNL and RBS and solely to the extent described above) makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Offering Circular.

## **Selling Restrictions**

The distribution of this document and the offering of the Senior Notes in certain jurisdictions may be restricted by law and by the Transaction Documents (as defined in the “*Glossary of Terms*”), in particular by the Senior Notes Subscription Agreement. Persons who come into possession of this document (or any part of it) are required by the Issuer and the Managers to inform themselves about, and to observe, any such restrictions. Neither this document nor any part of it constitutes an offer, and may not be used for the purpose of an offer, to sell any of the Senior Notes, or a solicitation of an offer to buy any of the Senior Notes, by anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

The Senior Notes may not be offered or sold directly or indirectly, and neither this document nor any other offering circular or any prospectus, form of application, advertisement, other offering material or other information relating to the Issuer or the Senior Notes may be issued, distributed or published in any country or jurisdiction (including the Republic of Italy, the United Kingdom and the United States), except under circumstances that will result in compliance with all applicable laws, orders, rules and regulations. For a further description of certain restrictions on offers and sales of the Senior Notes and the distribution of this document see “*Subscription and Sale*”.

No action has been or will be taken by the Issuer which would allow a “*sollecitazione all’investimento*” (offer to the public) of the Senior Notes in the Republic of Italy unless in compliance with the relevant Italian securities, tax and other applicable laws and regulations. Accordingly, the Senior Notes may not be offered and neither this document nor any other offering material relating to the Senior Notes may be distributed or made available to the public in the Republic of Italy. However, this document may be issued or passed on in Italy to a person who is an “*investitore professionale*” (professional investor) as defined in Article 31, paragraph 2 of CONSOB Regulation No. 11522 of 1 July 1998 (as amended). Individual sales of the Senior Notes to any persons in the Republic of Italy may only be made in accordance with Italian securities, tax and other applicable laws and regulations.

The Issuer has not authorised any offer of the Senior Notes to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended) (the “**Regulations**”). The Senior Notes may not lawfully be offered or sold to persons in the United Kingdom except in circumstances which do not result in an offer to the public in the United Kingdom within the meaning of the Regulations. Prior to the expiry of six months from the Issue Date, the Senior Notes may not lawfully be offered or sold 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 within the meaning of the Regulations. This document and any other document in connection with the issue of the Senior Notes may only be communicated or caused to be communicated (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “**FSMA**”)) in circumstances in which section 21(1) of the FSMA does not apply to the Issuer. No action may be taken in connection with the Senior Notes or this document in, from or otherwise involving the United Kingdom otherwise than in compliance with all applicable provisions of the FSMA.

The Senior Notes have not been and will not be registered under the United States Securities Act 1933, as amended (the “**Securities Act**”) and subject to certain exceptions, may not be offered, sold or delivered within the United States or to U.S. persons (as defined in Regulation S under the Securities Act). The Senior Notes are in bearer and dematerialised form and are subject to U.S. tax law requirements. The Senior Notes are being offered for sale outside the United States in accordance with Regulation S under the Securities Act. (See section entitled “*Subscription and Sale*”).

### **Stabilisation**

In connection with the issue of the Senior Notes, RBS or its agent may over-allot or effect transactions with a view to supporting the market price of the Senior Notes at a higher level than that which might otherwise prevail for a limited period after the Issue Date. However, there may be no obligation on RBS or its agent to do this.. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period.

### **Definitions**

Words and expressions in this document shall, except so far as the context otherwise requires, have the same meanings as those set out in the “*Glossary of Terms*”. These and other terms used in this document are subject to, and in some cases are summaries of, the definitions of such terms set out in the Transaction Documents, as they may be amended from time to time.

Copies of the Transaction Documents in their form as at the Issue Date will be available for inspection at the offices of the Issuer and the Luxembourg Agent.

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## TRANSACTION SUMMARY INFORMATION

The following information is a summary of the transactions and assets underlying the Senior Notes and is qualified in its entirety by reference to the detailed information presented elsewhere in this document.

### 1. THE PRINCIPAL PARTIES

<b>Issuer</b>	Vela Home S.r.l. is a limited liability company ( <i>società a responsabilità limitata</i> ) incorporated in the Republic of Italy under Article 3 of the Italian Law No. 130 of 30 April 1999 (the “ <b>Securitisation Law</b> ”) whose registered office is at Via V. Alfieri 1, Conegliano (Treviso), Italy. The Issuer is registered (i) in the Register held by the <i>Ufficio Italiano Cambi</i> pursuant to Article 106 of Italian Legislative Decree No. 385 of 1 September 1993, as amended (the “ <b>Italian Banking Act</b> ”) under number 33750; (ii) in the Special Register of financial intermediaries held by the Bank of Italy pursuant to Article 107 of the Italian Banking Act; and (iii) in the register of enterprises held in Treviso, under number 03678290267. The Issuer has done one other securitisation transaction as described in the sections entitled “ <i>Special Factors – Prior Securitisation</i> ” and “ <i>The Issuer – Principal Activities</i> ”.
<b>Originator</b>	Banca Nazionale del Lavoro S.p.A. is a bank organised as a <i>società per azioni</i> under the laws of the Republic of Italy and enrolled in the register of banks held by the Bank of Italy pursuant to Article 13 of the Italian Banking Act with number 7860.
<b>Servicer</b>	Banca Nazionale del Lavoro S.p.A.
<b>Sole Arranger and Joint Lead Manager</b>	Banca Nazionale del Lavoro S.p.A.
<b>Sole Bookrunner and Joint Lead Manager</b>	The Royal Bank of Scotland plc
<b>Swap Counterparty</b>	The Royal Bank of Scotland plc
<b>Liquidity Facility Provider</b>	The Royal Bank of Scotland plc, Milan Branch
<b>Representative of the Noteholders</b>	Finanziaria Internazionale Securitisation Group S.p.A.
<b>Calculation Agent</b>	Securitisation Services S.p.A.
<b>Swap Calculation Agent</b>	Banca Nazionale del Lavoro S.p.A.
<b>Italian Operating Bank</b>	Banca Nazionale del Lavoro S.p.A.
<b>Main Operating Bank</b>	BNP Paribas, Luxembourg Branch
<b>Bank Account Guarantee Provider</b>	The Royal Bank of Scotland plc, Milan Branch
<b>Principal Paying Agent</b>	BNP Paribas Securities Services, Milan Branch
<b>Luxembourg Agent</b>	BNP Paribas Securities Services, Luxembourg Branch
<b>Corporate Servicer</b>	Securitisation Services S.p.A.

## 2. THE NOTES

### The Issue

On the Issue Date, the Issuer will issue euro 507,150,000 Class A1-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028 (the “**Class A1 Notes**”), euro 706,800,000 Class A2-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028 (the “**Class A2 Notes**” and together with the Class A1 Notes, the “**Class A Notes**”), euro 15,850,000 Class B-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028 (the “**Class B Notes**”) and euro 31,700,000 Class C-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028 (the “**Class C Notes**” and, together with the Class A Notes and the Class B Notes, the “**Senior Notes**”) each at 100 per cent. of their initial principal amount. The Issuer will also issue euro 7,250,000 Class D-Series 2 Residential Mortgage Backed Variable Return Notes due 2028 at 100 per cent. of their initial principal amount (the “**Class D Notes**” and, together with the Senior Notes, the “**Notes**”).

### Status

The Notes will constitute direct and limited recourse obligations solely of the Issuer secured over certain assets of the Issuer as described in the section entitled “*Description of the Security and Priority Arrangements*”.

In particular, the Notes will not be obligations or responsibilities of, or guaranteed by, any of the shareholders of the Issuer, the Representative of the Noteholders, the Principal Paying Agent, the Bank Account Guarantee Provider, the Liquidity Facility Provider, the Luxembourg Agent, the Calculation Agent, the Swap Calculation Agent, the Main Operating Bank, the Italian Operating Bank, the Originator, the Servicer, the Swap Counterparty, the Sole Arranger, Banca Nazionale del Lavoro S.p.A. and The Royal Bank of Scotland plc (the “**Managers**”) or any other person. Furthermore, none of such persons accepts any liability whatsoever in respect of any failure by the Issuer to make payment of any amount due on the Notes.

### Issue Price

On the Issue Date the Notes will be issued at an issue price of 100 per cent. of their Principal Amount Outstanding.

### Credit Rating

The Class A1 Notes and the Class A2 Notes are expected, on issue, to be rated AAA by S&P and Aaa by Moody’s. The Class B Notes are expected, on issue, to be rated AA by S&P and Aa2 by Moody’s. The Class C Notes are expected, on issue, to be rated BBB by S&P and Baa2 by Moody’s. The Class D Notes will not be assigned a credit rating.

**A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal by the assigning rating organisation.**

### Form and denomination

The denomination of the Senior Notes will be euro 50,000 and the denomination of the Class D Notes will be euro 1,000. The Notes will be issued in bearer and dematerialised form on behalf of the ultimate owners, until redemption or cancellation thereof, through Monte Titoli for the account of the relevant Monte Titoli Account Holders. Monte Titoli shall act as depository for Clearstream, Luxembourg and Euroclear. Title to the Notes will at all times be evidenced by book-entries in accordance with the provisions of Article 28 of Italian Legislative Decree No. 213 of 24 June 1998 and CONSOB Resolution No. 11768 of 23 December 1998 as amended by CONSOB Resolutions No. 12497 of 20 April 2000, No. 13085 of 18 April 2001, No. 13659 of 10 July 2002, No. 13858 of 4 December 2002, No. 14003 of 27 March 2003, No. 14146 of 25 June 2003 and No. 14339 of 5 December 2003. No physical document of title will be issued in respect of the Notes.

## Interest

Each Note will bear interest on its Principal Amount Outstanding (as defined in the “*Glossary of Terms*”) from and including the Issue Date until final redemption as provided in Senior Condition 6 of the Senior Conditions. Interest on the Notes will be payable by reference to successive interest periods in arrear in euro on 27 July 2004 and thereafter quarterly on 27 October, 27 January, 27 April and 27 July in each year (and if any such day is not a Business Day, interest shall be so payable on the immediately succeeding Business Day) subject to the Senior Conditions, including the interest deferral and limited recourse provisions thereof.

The annual rate of interest payable from time to time in respect of the Senior Notes will be the aggregate of the rate offered in the Euro-zone inter-bank market (“**Euribor**”) for three month euro deposits (or, in the case of the first Interest Period, a linear interpolation of Euribor for three and four month euro deposits) plus a margin of:

- (i) 0.12 per cent., per annum up to and including the Clean-Up Option Date and thereafter 0.24 per cent., per annum, in each case in respect of the Class A1 Notes;
- (ii) 0.18 per cent., per annum up to and including the Clean-Up Option Date and thereafter 0.36 per cent., per annum, in each case in respect of the Class A2 Notes;
- (iii) 0.36 per cent., per annum up to and including the Clean-Up Option Date and thereafter 0.72 per cent., per annum, in each case in respect of the Class B Notes; and
- (iv) 1.10 per cent., per annum up to and including the Clean-Up Option Date and thereafter 2.20 per cent., per annum, in each case in respect of the Class C Notes.

If interest which is due and payable under (i) the Class A1 Notes and Class A2 Notes or (ii), once the Class A1 Notes and the Class A2 Notes have been redeemed in full, the Class B Notes or (iii), once the Class A Notes and the Class B Notes have been redeemed in full, the Class C Notes pursuant to the Senior Conditions is not paid in a timely manner, an Enforcement Event will occur under the Senior Notes, entitling the Representative of the Noteholders to serve an Enforcement Notice, thereby causing the Issuer’s obligations under the Senior Notes to become enforceable.

However, Senior Condition 6(h) provides that if before the redemption in full of the Class A1 Notes and the Class A2 Notes, the Issuer has insufficient Interest Available Funds to pay any amount of interest under the Class B Notes or the Class C Notes; or after the redemption in full of the Class A Notes but before the redemption in full of the Class B Notes the Issuer has insufficient Interest Available Funds to pay any amount of interest under the Class C Notes, the amount of shortfall will be deferred and paid, subject to the same Senior Condition 6(h), on the next succeeding Payment Date.

## Class D Notes

The terms and conditions of the Class D Notes are the same, *mutatis mutandis*, as the Senior Conditions except that interest payable on the Class D Notes on each Payment Date will be determined on the basis of the residual Interest Available Funds after satisfaction of the items ranking in priority to the interest on the Class D Notes pursuant to the Interest Priority of Payments.

## Legal Maturity Date

Save as described below, unless previously redeemed in full, the Issuer will redeem the Notes at their Principal Amount Outstanding on the Payment Date falling in July 2028.

## **Tax**

All payments in respect of the Notes will be made net of any withholding or deduction required by law (including, without limitation, any Law 239 Withholding (as defined below)) and neither the Issuer nor any other person shall be obliged to pay any additional or “gross-up” amounts to any Noteholder on account of such withholding or deduction.

According to the provisions of Article 6 of Law 239, as amended by Article 41, paragraph 1, of Law Decree 269/03, a holder of a Note who: (a) is not a person resident for tax purposes (or an institutional investor incorporated) in a country which allows an adequate exchange of information with the Republic of Italy; or (b) is resident/incorporated in such a country but has not fulfilled all the requisite documentary requirements under Law 239; will receive amounts of interest payable on the Notes, net of Italian withholding tax. (a “**Law 239 Withholding**”) (See section entitled “*Taxation*”).

## **Mandatory Pro rata Redemption in Whole or In Part**

The Senior Notes will be subject to mandatory *pro rata* (within each Class) redemption in whole or in part on each Payment Date starting from the Payment Date falling in October 2005 to the extent that, on the Calculation Date which immediately precedes the relevant Payment Date, the Issuer has sufficient Available Capital Funds. In such event, the Issuer will be obliged, following discharge of any amounts required by Senior Condition 5 to be paid in priority to or *pari passu* therewith, to apply the Available Capital Funds, in redeeming the Class A1 Notes in whole or in part and *pro rata*, and following the Class A1 Notes being redeemed in full, the Class A2 Notes in whole or in part and *pro rata*, and following the Class A Notes being redeemed in full, the Class B Notes in whole or in part and *pro rata*, and following the Class A Notes and the Class B Notes being redeemed in full, the Class C Notes in whole or in part and *pro rata*, in each case on the relevant Payment Date, on giving not less than two Business Days’ prior notice to the Noteholders in accordance with Senior Condition 16. Except following the service of an Enforcement Notice or the occurrence of an Issuer Insolvency Event, no mandatory redemption of the Principal Amount Outstanding under the Senior Notes by the Issuer may occur during the Initial Period.

During the Initial Period, Principal Available Funds provisioned for redemption of the Notes will be retained by the Issuer in the Issuer Main Account as Potential Capital Funds, the Calculation Agent will make a corresponding entry on the Potential Capital Funds Ledger in respect of the relevant Class, and those funds will not be used to redeem the Notes of that Class until the first Payment Date following the expiry of the Initial Period. On the Calculation Date immediately preceding such Payment Date, Potential Capital Funds (if any) which have been retained by the Issuer during the Initial Period will, together with any Principal Available Funds, be applied in or towards redeeming the Notes of the relevant Class on such Payment Date.

## **Optional Redemption, Clean-up Option**

The Issuer may redeem all, but not some only, of the Senior Notes at their Principal Amount Outstanding, unless previously redeemed in full, on any Payment Date falling on or after the Clean-Up Option Date. Any such redemption shall be effected by the Issuer on giving not less than 30 days’ prior notice in writing to the Representative of the Noteholders and the Senior Noteholders in accordance with Condition 16 and provided that the Issuer has produced evidence acceptable to the Representative of the Noteholders that it will have the funds, not subject to the interests of any other person, to discharge all its outstanding liabilities in respect of the Senior Notes and any amounts required under the relevant Priority of Payments to be paid in priority to, or *pari passu* with, the Senior Notes of each Class.

## **Optional Redemption for Taxation**

The Issuer will have the option to redeem the Senior Notes for certain taxation related reasons other than a Law 239 Withholding, in whole but not in part, at their Principal Amount Outstanding, together with all accrued but unpaid interest to the date of redemption, on any Payment Date, on giving not less than 30 days' prior notice in writing to the Representative of the Noteholders and to the holders of the Senior Notes in accordance with Senior Condition 16. However, the Issuer may not exercise this redemption option unless the Representative of the Noteholders is satisfied that, on the next succeeding Payment Date, the Issuer would be required to deduct or withhold (other than in respect of a Law 239 Withholding) any amount from any payment of principal or interest on the Senior Notes and that it will be in a position on the relevant Payment Date to discharge all its outstanding liabilities in respect of the Senior Notes, and any amounts required under the applicable Priority of Payments and the Intercreditor Agreement to be paid in priority to the Senior Notes.

Pursuant to the terms of the Intercreditor Agreement, following the occurrence of the event described above, the Issuer shall have the right to sell the Portfolio at a sale price not less than the then Principal Amount Outstanding under the Notes (or, in the event that the Class D Noteholders have passed a resolution at a Class D Noteholders' meeting waiving their rights to redemption, at a price not less than the then Principal Amount Outstanding under the Senior Notes) together with any interest accrued thereon and unpaid up to the Payment Date fixed for the redemption of the Senior Notes and any amounts required under the relevant Priority of Payments set out in Senior Condition 5 to be paid in priority to or *pari passu* with the Senior Notes. Should the Issuer sell the Portfolio, it shall be bound to use the proceeds of the sale of the Portfolio to redeem in advance in whole (but not in part) any Principal Amount Outstanding of all the Senior Notes together with any interest accrued thereon but unpaid up to the time of redemption of the Senior Notes and any amount required to be paid in priority thereto pursuant to the relevant Priority of Payments.

## **Subordination**

The relevant Conditions of the Notes and the Intercreditor Agreement will provide that before the service of an Enforcement Notice or the occurrence of an Issuer Insolvency Event:

- (a) *first*, to retain in the Issuer Main Account the Potential Capital Funds in respect of the Class A1 Notes only on each Payment Date which occurs during the Initial Period and, on any Payment Date falling after the expiry of the Initial Period, to repay principal on the Class A1 Notes only *provided that* should the Unpaid Principal Deficiency ever exceed 0.50 per cent., as at any Collection Date (such date, the "**Relevant Collection Date**"), the Principal Available Funds shall be applied on each Payment Date as follows: to retain in the Issuer Main Account, on each Payment Date which occurs during the Initial Period following the Relevant Collection Date and on any Payment Date thereafter up to the end of the Initial Period, the Potential Capital Funds in respect of the Class A1 Notes and the Class A2 Notes and, on any Payment Date falling after the expiry of the Initial Period and following the Relevant Collection Date and on any Payment Date thereafter, to repay principal *pari passu* and *pro rata* on the Class A1 Notes and the Class A2 Notes;
- (b) the Class A2 Notes will rank *pari passu* amongst themselves in respect of payments of interest and repayments of principal and with the Class A1 Notes in respect of payments of interest and repayments of principal should the Unpaid Principal Deficiency exceed a certain level as summarised at (a)

above, and in all cases in priority to the Class B Notes, the Class C Notes and the Class D Notes, in respect of payments of interest and repayments of principal, but subordinate to the Class A1 Notes (subject to, as summarised in (a) above, the Unpaid Principal Deficiency not having exceeded a certain level) in respect of repayments of principal in accordance with the relevant Priority of Payments, and subordinate to the claims of creditors of the Issuer expressed to rank ahead of the Class A2 Notes, in each case in the Interest Priority of Payments;

- (c) the Class B Notes will rank *pari passu* amongst themselves in respect of payment of interest and repayment of principal and in priority to the Class C Notes and the Class D Notes, but subordinate to the Class A1 Notes and the Class A2 Notes, in respect of payments of interest and repayments of principal in accordance with the relevant Priority of Payments, and subordinate to the claims of creditors of the Issuer expressed to rank ahead of the Class A1 Notes, the Class A2 Notes and the Class B Notes in the Interest Priority of Payments;
- (d) the Class C Notes will rank *pari passu* amongst themselves in respect of payment of interest and repayment of principal and in priority to the Class D Notes, but subordinate to the Class A1 Notes, the Class A2 Notes and the Class B Notes, in respect of payments of interest and repayments of principal in accordance with the relevant Priority of Payments, and subordinate to the claims of creditors of the Issuer expressed to rank ahead of the Senior Notes in the Interest Priority of Payments; and
- (e) the Class D Notes will rank *pari passu* amongst themselves but subordinate to the Senior Notes in respect of payments of interest and repayments of principal in accordance with the relevant Priority of Payments, and subordinate to the claims of creditors of the Issuer expressed to rank ahead of the Senior Notes and the Class D Notes in the Interest Priority of Payments.

#### **Security for the Notes**

By operation of Italian law, the Issuer's rights, title and interests in and to the Portfolio and any relevant Collections will be segregated from all other assets of the Issuer and amounts deriving therefrom will only be available, both prior to and following a winding up of the Issuer, to satisfy the obligations of the Issuer to the holders of the Notes, each of the other Issuer Secured Creditors and any Connected Third Party Creditor (see subsection "*Special Factors – Prior Securitisation, Further Securitisation and Ring Fencing*"). Further security is provided by the Pledge Agreement, the Luxembourg Pledge Agreement and the Deed of Charge (see subsection "*Other Principal Transaction Documents*" below).

#### **Representative of the Noteholders**

The Representative of the Noteholders will represent the interests of the Noteholders of each Class in accordance with the Conditions of the Notes, and the interests of the other Issuer Secured Creditors in accordance with the Intercreditor Agreement.

The Representative of the Noteholders shall exercise as it sees fit all rights and discretions of the Noteholders under the Transaction Documents in accordance with the Conditions. Under the Intercreditor Agreement, the Representative of the Noteholders shall be entitled to exercise certain other rights and discretions as agent (*mandatario*) of all Issuer Secured Creditors (other than the Noteholders) with respect to the Issuer Security.

The acts of the Representative of the Noteholders will be binding on each of the Issuer Secured Creditors. Each of the Issuer Secured Creditors (other than the Noteholders) will agree in the Intercreditor Agreement and each of the Noteholders will agree or will be deemed to agree by virtue of the transfer to it of the Note(s), that in the exercise of its powers, authorities, duties and discretions the Representative of the Noteholders shall have regard to the Noteholders of each Class as if they formed a single Class (except where expressly provided otherwise) and shall also have regard to the interests of the Issuer Secured Creditors (other than the Noteholders). However, if, in the Representative of the Noteholders' opinion, there is a conflict between the interests of the Noteholders of each Class, or between the interests of the Noteholders and the other Issuer Secured Creditors, it shall have regard only to the interests of the holders of the Most Senior Class of Notes, and if there is a conflict between the interests of any of the Issuer Secured Creditors (other than the Noteholders), it shall have regard only to the interests of the Issuer Secured Creditor the amounts owed to which rank highest in the relevant Priority of Payments.

Each of the Issuer Secured Creditors (other than the Noteholders) will acknowledge pursuant to the Intercreditor Agreement that the Representative of the Noteholders shall not be bound: (a) to take any steps or institute any proceedings after an Enforcement Notice has been served upon the Issuer or an Issuer Insolvency Event has occurred; or (b) to exercise any rights granted under the mandate conferred on it by the Issuer under the Intercreditor Agreement; unless it has been indemnified to its satisfaction against all actions, proceedings, claims and demands to which it may thereby render itself liable and all costs, charges, damages and expenses which it may incur by so doing.

The Representative of the Noteholders shall not be liable in respect of any loss, liability, claim, expense or damage suffered or incurred by any Issuer Secured Creditor as a result of the performance of its duties save where such loss, liability, claim, expense or damage is suffered or incurred as a result of any gross negligence (*colpa grave*), wilful default (*dolo*) or fraud (*frode*) of the Representative of the Noteholders.

**Limitation to individual rights and non-petition**

Under the terms of the Intercreditor Agreement and the Conditions, each of the Issuer Secured Creditors will agree that only the Representative of the Noteholders is entitled to: (a) enforce the Issuer Security and institute proceedings against the Issuer; (b) take any steps for the purposes of obtaining payment of any amount expressed to be payable to the Issuer Secured Creditors; or (c) enforce any other obligation of the Issuer under the Conditions of each Class and/or the Transaction Documents; except in the limited circumstances permitted under the Conditions of each Class and the Intercreditor Agreement.

No Issuer Secured Creditor may exercise any right of set-off (*compensazione*) against the Issuer under the Notes and/or the Transaction Documents or otherwise.

Pursuant to the Intercreditor Agreement and the Conditions, no Issuer Secured Creditor may take any steps for the purpose of commencing any Insolvency Proceedings against the Issuer, except two years following redemption in full of all notes issued by the Issuer from time to time.

**Limited Recourse and Extinguishment of Claims**

If, following the service of an Enforcement Notice or the occurrence of an Issuer Insolvency Event and following the enforcement of the Issuer Security and the exercise by the Representative of the Noteholders of its various rights in respect of the Portfolio and any asset or amount derived therefrom or, if no Enforcement Notice has been

served or Issuer Insolvency Event occurred, on the Legal Maturity Date, the aggregate funds available to the Issuer to repay any interest and/or outstanding principal and any other amounts accrued and unpaid under the Senior Notes in accordance with the relevant Priority of Payments are not sufficient to pay in full such amounts, then upon final distribution of the available funds only a *pro rata* share of the funds which are available to the Issuer shall be applied in respect of such payment obligations in accordance with the relevant Priority of Payments and the unpaid balance of each such amount shall cease to be due and payable and shall be cancelled.

### 3. THE PORTFOLIO AND CASH MANAGEMENT

**The Portfolio** The Portfolio purchased by the Issuer comprises monetary receivables arising out of residential mortgage loans (*mutui fondiari residenziali*) classified at the Effective Date as performing by the Originator and selected on the basis of the objective criteria set forth in the Transfer Agreement.

**Acquisition of the Portfolio** On 23 March 2004 (the “**Transfer Date**”), BNL and the Issuer entered into a Transfer Agreement pursuant to which BNL sold the Portfolio to the Issuer without recourse (*pro soluto*) in accordance with Articles 1 and 4 of the Securitisation Law and subject to the terms and conditions thereof.

(See sections entitled “*The Portfolio*” and “*Description of the Transfer Agreement*”).

The transfer of the Portfolio from the Originator to the Issuer is effective from (and including) the Effective Date and the Issuer is entitled to all right, title and interest in and to the Portfolio (including all Collections thereof) from (and including) the Effective Date.

**Purchase Price** On the Issue Date, pursuant to the Transfer Agreement the Issuer shall pay to the Originator as purchase price for the Portfolio the amount of euro 1,267,836,256.88 (the “**Purchase Price**”).

Under the Transfer Agreement, the Originator has given certain representations and warranties in favour of the Issuer in relation, *inter alia*, to the Portfolio, the Mortgage Loans, the Mortgages, the Collateral Security and the Insurance Policies and has agreed to indemnify the Issuer in respect of certain costs, expenses and liabilities of the Issuer incurred in connection with the purchase and ownership of the Portfolio. (See section entitled “*Description of the Transfer Agreement*”).

**Servicing of the Portfolio** Under the Servicing Agreement entered into on the Transfer Date, the Servicer has agreed to administer and service the Portfolio on behalf of the Issuer and, in particular, to collect amounts due in respect thereof, to administer the Mortgage Loan Receivables and to preserve and enforce all related rights. The Servicer has agreed to use all due care and skill in servicing the Portfolio and will act in accordance with the same guidelines and procedures that it applies in relation to servicing its own residential mortgage loans portfolio. In return for the services provided by the Servicer during each Collection Period, the Issuer will pay to the Servicer the Servicing Fees in arrear on the Payment Date falling after the Collection Period in respect of which the Servicing Fees is computed. In addition the Issuer will pay to the Servicer the Recovery Expenses. (See section entitled “*Description of the Servicing Agreement*” and “*Loan Servicing and Collection Procedures*”).

All amounts received by the Servicer in respect of the Portfolio will be credited to the Issuer Collection Account as outlined in the section entitled “*Cash Management - Flow of Funds*”.

The Servicer has further undertaken to prepare and submit reports on a monthly and quarterly basis (respectively, the “**Monthly Report**” and the “**Quarterly Report**”), in the respective forms set out in the Servicing Agreement, to the Issuer, the Managers, the Swap Counterparty, the Swap Calculation Agent, the Calculation Agent, each of the Rating Agencies and the Representative of the Noteholders. The Monthly Reports and the Quarterly Reports will contain information on the performance and characteristics of the Portfolio.

## **Cash Management Agreement**

Pursuant to the Cash Management Agreement to be entered into on or prior to the Issue Date: (i) the Italian Operating Bank will agree to hold and operate the Issuer Collection Account and to provide the Issuer with account-keeping services in relation to moneys from time to time standing to the credit of the Issuer Collection Account; (ii) the Main Operating Bank will agree to hold and operate the Issuer Main Account and to provide the Issuer with account keeping services in relation to moneys from time to time standing to the credit of the Issuer Main Account; and (iii) the Calculation Agent will agree to provide certain calculation, notification and reporting services to the Issuer, subject to the prior receipt of the Quarterly Reports or any other necessary information by any parties to the Transaction Documents, including the Swap Calculation Agent. On or before each Calculation Date, the Calculation Agent will prepare a report containing *inter alia* details of: (A) amounts received by the Issuer from any source during the Collection Period ending on the Collection Date immediately preceding such Calculation Date; and (B) amounts to be paid by the Issuer to each Issuer Secured Creditor and any other person in connection with the Securitisation on or following the Payment Date succeeding the relevant Calculation Date in accordance with Condition 5 of each Class of Notes and the provisions of the Intercreditor Agreement relating to the application of the Issuer’s funds (the “**Payments Report**”).

Not later than the third Business Day after each Calculation Date, but subject to the prior receipt of the Quarterly Reports or any other necessary information by any parties to the Transaction Documents, the Calculation Agent will also prepare a report containing information relating to the Portfolio, the Collections and the Notes (the “**Investors’ Report**”) that will be sent to the Issuer, each of the Joint Lead Managers, the Swap Calculation Agent, the Luxembourg Agent, the Rating Agencies and the Representative of the Noteholders. The Investors’ Report will be made available to Senior Noteholders and prospective Senior Noteholders at the specified office of the Luxembourg Agent. The Calculation Agent will publish the Investors’ Report on the Calculation Agent’s website.

The Calculation Agent will also agree to maintain certain books and records in connection with the Securitisation on behalf of the Issuer.

In addition, the Main Operating Bank will agree, so long as the Issuer Main Account remains open with it, to pay to the Issuer interest on any credit balance thereof at a rate equal to the EONIA less 15 basis points and the Italian Operating Bank will agree, so long as the Issuer Collection Account remains open with it, to pay to the Issuer interest on any credit balance thereof at a rate equal to EONIA less 15 basis points. (See section entitled “*Cash Management – Cash Management Agreement*”).

## **Accounts**

Under the Transaction Documents, the Issuer shall at all times maintain the following deposit accounts with the following respective parties:

- (a) the Issuer Collection Account with the Italian Operating Bank, Branch of Via Bissolati, Rome;

- (b) the Issuer Main Account with the Main Operating Bank;
- (c) the Principal Paying Agent Account with the Principal Paying Agent;
- (d) the Expenses Accounts with Banca Antoniana Popolare Veneta, Conegliano Branch.

(For a description of the operation of the Accounts see section entitled “*Cash Management – Flow of Funds*”, “*Credit Structure – Issuer Collection Account and Issuer Main Account*”).

In the event that the obligations of the Italian Operating Bank with respect to the Issuer Collection Account cease to be guaranteed by the Bank Account Guarantee Provider and the Italian Operating Bank does not qualify as an Eligible Institution, the Issuer will be required to open a new account with a bank being an Eligible Institution (the “**New Collection Account**”) where certain advances will be made by BNL under the terms of the Servicing Agreement and, failing BNL to make such advances, the Borrowers shall be required to re-direct all payments in respect of the Mortgage Loan Receivables as directed by the Issuer (see section entitled “*Description of the Servicing Agreement*”).

#### **4. PRIORITY OF PAYMENTS AND CREDIT STRUCTURE**

##### **Application of Funds**

On each Payment Date or, in relation to the Interest Rate Swap, on each Swap Payment Date, the Issuer will apply Interest Available Funds and Principal Available Funds in accordance with Senior Condition 5. The Issuer will, prior to the occurrence of a Credit Trigger Event, an Issuer Insolvency Event or the service of an Enforcement Notice (including on final maturity of the Notes), apply Interest Available Funds in the order of priority of application provided in the Interest Priority of Payments and it will apply Principal Available Funds in the order of priority of application provided in the Principal Priority Payments.

Following the occurrence of a Credit Trigger Event, a portion of the Interest Available Funds will become part of the Principal Available Funds and applied in accordance with the Principal Priority of Payments (see section entitled “*Credit Structure*”).

Following service of an Enforcement Notice or the occurrence of an Issuer Insolvency Event, all amounts received or recovered by the Issuer and/or the Representative of the Noteholders in respect of the Portfolio and/or the Issuer Security and/or the Transaction Documents will be applied in accordance with the Enforcement Priority of Payments.

(See section entitled “*Description of the Security and Priority Arrangements – Priority of Payments*”).

##### **Cash Reserve Amount**

On each Payment Date prior to the occurrence of a Credit Trigger Event, the Issuer will retain in the Issuer Main Account an amount up to the Cash Reserve Amount, subject to the Interest Priority of Payments.

(See section entitled “*Credit Structure – Cash Reserve Amount*”).

##### **Interest Available Funds and Principal Available Funds**

Interest Available Funds consist, *inter alia*, of all amounts paid under the Mortgage Loan Receivables other than repayment of principal, including, without limitation, all payment of interest, default interest and pre-payment penalties (if any), Recoveries and all other amounts available to the Issuer pursuant to the Transaction Documents other

than the Transfer Agreement, including advances under the Liquidity Facility and payments received under the Interest Rate Swap provided that any interest on the Portfolio accrued up to the Effective Date (exclusive) and unpaid to BNL as at the Effective Date shall be paid as Principal Available Funds.

Principal Available Funds consist, *inter alia*, of all amounts paid under the Mortgage Loan Receivables as repayment of principal (excluding Recoveries) and all other amounts available to the Issuer pursuant to the Transfer Agreement.

**Principal Deficiency Ledger** On each Calculation Date, the Calculation Agent will, subject to receipt of the relevant information from the Servicer, record, to the extent not already recorded: (a) as a debit entry in the Principal Deficiency Ledger, an amount equal to the difference between the Principal Amount Outstanding of the Notes at the immediately preceding Payment Date (after the payments on the Notes required to be made on such Payment Date having been made) and (i) the Collateral Portfolio at the end of the relevant Collection Period; (ii) the aggregate of the Potential Capital Funds, if any, as recorded on all preceding Payment Dates; (iii) the Principal Receipts for the relevant Collection Period; and (iv) any amount standing to the debit of the Principal Deficiency Ledger, if any, taken as an absolute figure, as at the immediately preceding Payment Date (after the payments on the Notes required to be made on such Payment Date having been made); and (b) up to when the balance on the Principal Deficiency Ledger reaches zero, as a credit entry prior to the occurrence of a Class D Trigger, the amount to be transferred, on the Payment Date immediately succeeding such Calculation Date, to Principal Available Funds in accordance with Senior Condition 5.1(h); after the occurrence of a Class D Trigger and thereafter, the amount to be transferred, on the Payment Date immediately succeeding such Calculation Date, to Principal Available Funds in accordance with Senior Condition 5.1(j); after the occurrence of a Class C Trigger and thereafter, the amount to be transferred, on the Payment Date immediately succeeding such Calculation Date, to Principal Available Funds in accordance with Senior Condition 5.1(g) and, after the occurrence of a Class B Trigger and thereafter, the amount to be transferred, on the Payment Date immediately succeeding such Calculation Date, to Principal Available Funds in accordance with Senior Condition 5.1(f).

(See section entitled “*Credit Structure – Principal Deficiency Ledger*”).

**Credit Trigger Events** Following the occurrence of a Class D Trigger Event but before the service of an Enforcement Notice or the occurrence of an Issuer Insolvency Event, the Conditions and the Intercreditor Agreement will provide that the Interest Available Funds after satisfaction of the items ranking in priority to the interest on the Class D Notes pursuant to the Interest Priority of Payments shall constitute Principal Available Funds and be applied in accordance with the Principal Priority of Payments.

Following the occurrence of a Class C Trigger Event (which can only occur after the occurrence of a Class D Trigger Event), but before the service of an Enforcement Notice or the occurrence of an Issuer Insolvency Event, the Conditions and the Intercreditor Agreement will provide that the Interest Available Funds after satisfaction of the items ranking in priority to the interest on the Class C Notes pursuant to the Interest Priority of Payments shall constitute Principal Available Funds and be applied in accordance with the Principal Priority of Payments.

Following the occurrence of a Class B Trigger Event (which can only occur after the occurrence of a Class C Trigger Event and a Class D Trigger Event), but before the

service of an Enforcement Notice or the occurrence of an Issuer Insolvency Event, the Conditions and the Intercreditor Agreement will provide that the Interest Available Funds after satisfaction of the items ranking in priority to the interest on the Class B Notes pursuant to the Interest Priority of Payments shall constitute Principal Available Funds and be applied in accordance with the Principal Priority of Payments.

The effect of the Credit Trigger Events is to accelerate the amortisation of the Class A1 Notes only or of the Class A1 Notes and the Class A2 Notes only or of the Class A Notes and the Class B Notes only or of the Senior Notes only, as the case may be, where the credit quality of the Portfolio deteriorates.

Once a Credit Trigger Event has occurred it cannot subsequently be rectified in order to restore the application of funds to a position that applies prior to such Credit Trigger Event occurring.

(See section entitled “*Credit Structure – Credit Trigger Events: Class D Trigger Event, Class C Trigger Event and Class B Trigger Event*”).

### **Interest Rate Swap**

Until the earlier of the Legal Maturity Date and the Payment Date on which the balance of the Principal Amount Outstanding of the Senior Notes is equal to zero, subject, in the case of the Issuer, to the application of the relevant Priority of Payments, payments under the Interest Rate Swap will be made on each Swap Payment Date as follows:

- (a) the Issuer will pay to the Swap Counterparty an amount based on the notional amount linked to the principal amount outstanding of the Performing Mortgage Loans (as defined in the Interest Rate Swap); and
- (b) the Swap Counterparty will pay to the Issuer an amount equal to three month Euribor on the Principal Amount Outstanding of the Notes less the principal amount outstanding of all Mortgage Loans that are more than thirty calendar days in arrears,

in each case (a) and (b) as determined by the Swap Calculation Agent in a swap payment report to be prepared at least six Business Days prior to the relevant Payment Date (the “**Swap Payment Report**”).

(See section entitled “*Credit Structure – Interest Rate Swap*”).

### **Liquidity Facility**

On or prior to the Issue Date, the Issuer and the Liquidity Facility Provider will enter into the Liquidity Facility pursuant to which the Liquidity Facility Provider will agree to make available to the Issuer, from the Issue Date, a 364 day renewable committed facility in a maximum aggregate amount equal to euro 35 million.

Prior to the occurrence of a Class C Trigger Event, the Liquidity Facility will provide liquidity support in the event that Interest Available Funds, as at any Payment Date are not sufficient to meet the Issuer’s liabilities set out in the items (a) to (g) (inclusive) of the Interest Priority of Payments.

After the occurrence of a Class C Trigger Event but provided that no Class B Trigger Event has occurred, the Liquidity Facility will provide liquidity support in the event that the Interest Available Funds as at any Payment Date are not sufficient to meet the Issuer’s liabilities set out in the items (a) to (f) (inclusive) of the Interest Priority of Payments.

After the occurrence of a Class B Trigger Event, the Liquidity Facility will provide liquidity support in the event that the Interest Available Funds as at any Payment Date are not sufficient to meet the Issuer's liabilities set out in the items (a) to (e) (inclusive) of the Interest Priority of Payments.

(See section entitled "*Credit Structure - Liquidity Facility*").

**Bank Account Guarantee** On or prior to the Issue Date, the Bank Account Guarantee Provider will issue a 364 day guarantee for up to euro 65 million, renewable for such amount as the Bank Account Guarantee Provider and the Italian Operating Bank may agree, guaranteeing the due performance of the payment obligations of the Italian Operating Bank in relation to the Issuer Collection Account. Should the Bank Account Guarantee be terminated or should it not be renewed on expiration, BNL will be required to make certain advances to the Issuer pursuant to the terms of the Servicing Agreement.

(See sections entitled "*Description of the Servicing Agreement*", "*Credit Structure Bank Account Guarantee*" and "*Cash Management – Cash Flows*").

## 5. OTHER PRINCIPAL TRANSACTION DOCUMENTS

**Agency Agreement** Pursuant to the Agency Agreement to be entered into on or prior to the Issue Date, the Principal Paying Agent will arrange on behalf of the Issuer for the payment of interest and repayment of principal on the Notes and agree to calculate the interest payable on the Senior Notes. In addition, the Luxembourg Agent will agree to provide certain agency services in relation to the listing of the Senior Notes on the Stock Exchange.

**Pledge Agreement** In view of the risk that the Italian courts may interpret the segregation of the Issuer's assets under the Securitisation Law as not applying to the rights of the Issuer under the Transaction Documents, pursuant to the terms of the Pledge Agreement to be entered into on or prior to the Issue Date, the Issuer will grant in favour of the Representative of the Noteholders, as agent (*mandatario*) for the Noteholders and the other Issuer Secured Creditors, an Italian law pledge over all the Issuer's monetary rights (other than the Portfolio and the relevant Collections) in, to and under:

- (a) the Agency Agreement;
- (b) the Cash Management Agreement;
- (c) the Class D Notes Subscription Agreement;
- (d) the Corporate Services Agreement;
- (e) the Senior Notes Subscription Agreement;
- (f) the Servicing Agreement;
- (g) the Transfer Agreement;
- (h) the Bank Account Guarantee; and
- (i) the Liquidity Facility,

all as more particularly described in the Pledge Agreement.

Pursuant to the Intercreditor Agreement, the Pledge Agreement and the Conditions, the Representative of the Noteholders will, following the service of an Enforcement Notice on the Issuer or the occurrence of a Issuer Insolvency Event, exercise the Issuer Secured Creditors' rights under the Pledge Agreement for the account and benefit of the Issuer Secured Creditors.

**Luxembourg Pledge Agreement**

Under the terms of the Luxembourg Pledge Agreement to be entered into on or prior to the Issue Date, the Issuer will grant in favour of the Representative of the Noteholders, as agent for the Noteholders and the other Issuer Secured Creditors, a Luxembourg law pledge over all amounts standing to the credit from time to time of the Issuer Main Account.

**Deed of Charge**

In order to ensure that the Issuer's rights under the Interest Rate Swap are not available to any creditor of the Issuer other than the Issuer Secured Creditors, as a further security for its obligations towards the Issuer Secured Creditors, under the terms of the Deed of Charge the Issuer will, *inter alia*, charge in favour of the Representative of the Noteholders, on trust for itself, for the Noteholders and the other Issuer Secured Creditors, all its rights, title, interest and benefit, present and future, in, to and under the Interest Rate Swap.

Pursuant to the Deed of Charge, the Representative of the Noteholders will, following the service of an Enforcement Notice on the Issuer or the occurrence of an Issuer Insolvency Event, hold and exercise the Issuer Secured Creditors' rights under the Deed of Charge for the account and benefit of the Issuer Secured Creditors. The Deed of Charge will be subject to English Law.

**Intercreditor Agreement and Enforcement**

Under the terms of the Intercreditor Agreement, the Issuer will undertake, following the service of an Enforcement Notice, to comply with all directions of the Representative of the Noteholders in relation to the management and administration of the Portfolio.

The Issuer will also grant an irrevocable mandate in favour of the Representative of the Noteholders to take, following the service of an Enforcement Notice, such action in the name of the Issuer as the Representative of the Noteholders may deem necessary to protect the interests of the Issuer Secured Creditors in respect of the Portfolio, including the sale thereof.

The mandate conferred by the Issuer upon the Representative of the Noteholders by the Intercreditor Agreement shall also take effect upon the occurrence of a Specified Event, but only in relation to the powers and authority needed by the Representative of the Noteholders to enforce the rights entitlements or remedies, to exercise the discretion, authorities or powers, to give the direction or make the determination in respect of which the Specified Event has occurred.

(See section entitled "*Description of the Security and the Priority Arrangements – Intercreditor Agreement*").

**Purchase of the Portfolio by the Originator**

Under the Intercreditor Agreement the Issuer will grant to the Originator an option to repurchase the Portfolio on any date falling on or after the Collection Date in which the Collateral Portfolio is equal to or less than 10% of the Initial Principal Amount of the Mortgage Loans, for a price not less than the Principal Amount Outstanding under the Notes (or to the extent that the Class D Noteholders so consent, at a price not less than the Principal Amount Outstanding under the Senior Notes plus any interest accrued and unpaid up to the date fixed for the redemption of the Senior Notes), plus any interest accrued and unpaid up to the date fixed for the redemption of the Senior Notes or the Notes, as the case may be, any amount due and payable under the Liquidity Facility and any amounts required under the relevant Priority of Payments to be paid in priority to, or *pari passu* with, the Notes or the Senior Notes of each Class, as the case may be, as indicated in the relevant Payment Report (the "**Option Price**"). The Originator will

lose its right to exercise such option under the Intercreditor Agreement if the Option Price proves to be higher than the aggregate between: (i) the market value of any Defaulted Mortgage Loan and/or any Delinquent Mortgage Loan comprised in the Portfolio, as the case may be, as determined by a third party expert jointly selected by the Representative of the Noteholders, the Issuer and the Originator; and (ii) the then Outstanding Principal, plus the Unpaid Principal Instalments, the Unpaid Interest Instalments and the Accrued Interest of any Mortgage Loan which do not qualify as a Defaulted Mortgage Loan and/or a Delinquent Mortgage Loan.

## SPECIAL FACTORS

*The following is a summary of certain aspects of the issue of the Senior Notes of which prospective holders of the Senior Notes should be aware. It is not intended to be exhaustive and prospective holders of the Senior Notes should also read the detailed information set out elsewhere in this document.*

### **Structural Considerations**

#### ***Source of Payments to Senior Noteholders***

The Senior Notes will be limited recourse obligations solely of the Issuer. In particular, the Senior Notes will not be obligations or responsibilities of, or guaranteed by, any shareholders of the Issuer or any of the Representative of the Noteholders, the Principal Paying Agent, the Luxembourg Agent, the Main Operating Bank, the Italian Operating Bank, the Calculation Agent, the Swap Calculation Agent, the Swap Counterparty, the Bank Account Guarantee Provider, the Liquidity Facility Provider, BNL (in any capacity), the Sole Arranger, the Managers or any other person except the Issuer. Furthermore, none of such persons accepts any liability whatsoever in respect of any failure by the Issuer to make any payment of any amount due on the Senior Notes.

The Issuer's principal asset is the Portfolio. The Issuer will not as of the Issue Date have any significant assets available for the benefit of the Noteholders other than the Portfolio and its rights under the Transaction Documents to which it is a party.

The ability of the Issuer to meet its obligations in respect of the Senior Notes will be dependent on the receipt by the Issuer of Collections from the Servicer in respect of the Portfolio, any payments to be made by the Swap Counterparty under the Interest Rate Swap and any other amounts to be received by the Issuer pursuant to the terms of the Transaction Documents.

In addition, the ability of Borrowers to repay Mortgage Loans may be also affected by adverse changes in macroeconomic conditions affecting the Republic of Italy.

#### ***Liquidity and Credit Risk***

The Issuer is subject to the risk that the number of Mortgage Loans which become classified as Delinquent Mortgage Loans and Defaulted Mortgage Loans results in the Issuer being unable to discharge all amounts payable under the Senior Notes in full as they fall due.

The credit risk is addressed in part, in relation to the Class A Notes, by the credit support provided by the Class B Notes, the Class C Notes and the Class D Notes. In relation to the Class B Notes, the credit risk is addressed in part by the credit support provided by the Class C Notes and the Class D Notes. In relation to the Class C Notes, the credit risk is addressed in part by the credit support provided by the Class D Notes. Prior to the occurrence of a Credit Trigger Event, an Enforcement Event or an Issuer Insolvency Event: (i) payments of interest on the Class B Notes will be subordinated to payments of interest on the Class A Notes; payments of interest on the Class C Notes will be subordinated to payments of interest on the Class A Notes and on the Class B Notes; and payments of interest on the Class D Notes will be subordinated to payments of interest on the Senior Notes; and (ii) payments of principal on the Class A2 Notes will be subordinated to payments of principal on the Class A1 Notes (unless the Unpaid Principal Deficiency has exceeded a certain level, in which case payments of principal on the Class A2 Notes will be made *pari passu* with the payments of principal on the Class A1 Notes); payments of principal on the Class B Notes will be subordinated to payments of principal on the Class A1 Notes and the Class A2 Notes; payments of principal on the Class C Notes will be subordinated to payments of principal on the Class A Notes and on the Class B Notes; and payments of principal on the Class D Notes will be subordinated to payments of principal on the Senior Notes. The credit risk and the liquidity risk in relation to the Senior Notes is also addressed in part by the credit support provided by the Cash Reserve Amount.

In addition, to the extent a shortfall occurs in Principal Receipts, prior to the occurrence of a Class D Trigger Event, amounts which would otherwise be payable in discharge of interest due on the Class D Notes will instead be applied, by

way of the Principal Deficiency Ledger mechanism, to provide credit support for the repayment of principal on the Most Senior Class of Notes.

Following a Class D Trigger Event, the Priority of Payments is altered so that payments of both principal and interest on the Class D Notes are subordinated to payments of principal and interest on the Senior Notes with the result that amounts otherwise payable as interest on the Class D Notes will be payable as principal on the Most Senior Class of Notes. Following a Class C Trigger Event, the Priority of Payments is altered so that payments of both principal and interest on the Class C Notes and the Class D Notes are subordinated to payments of principal and interest on the Class A Notes and the Class B Notes with the result that, amounts otherwise payable as interest on both the Class C Notes and the Class D Notes will instead be applied to redeem the Most Senior Class of Notes. Following a Class B Trigger Event, the Priority of Payments is altered so that payments of both principal and interest on the Class B Notes, the Class C Notes and the Class D Notes are subordinated to payments of principal and interest on the Class A Notes with the result that, amounts otherwise payable as interest on both the Class B Notes, Class C Notes and the Class D Notes will instead be applied to redeem the Class A Notes.

The liquidity risk is addressed in part by the Cash Reserve Amount and by the Liquidity Facility. The Cash Reserve Amount is an amount retained by the Issuer in the Issuer Main Account prior to the occurrence of a Credit Trigger Event which will constitute Interest Available Funds to be distributed under the Interest Priority of Payments at each Payment Date and which will be reconstituted at each Payment Date, and the amount of which will depend upon the Principal Amount Outstanding from time to time of the Notes (see section entitled “*Credit Structure – Cash Reserve Amount*”). However upon a Credit Trigger Event occurring the Cash Reserve Amount shall no longer be reconstituted. The Liquidity Facility is a renewable committed facility that can be drawn by the Issuer in the event the Interest Available Funds are not sufficient to meet the Issuer’s liabilities (see section entitled “*Credit Structure – Liquidity Facility*”).

On enforcement of the security for the Notes, the Senior Noteholders will have priority over the Class D Noteholders in respect of the proceeds of such enforcement.

There can however be no assurance that the levels of credit support will be adequate to ensure timely and full payment of amounts due under the Senior Notes.

### ***Subordination and Clean-up option***

The rights of the holders of the Senior Notes to receive payments of interest are subordinated to the rights of the Senior Creditors to receive payments of certain amounts payable under the Transaction Documents to which they are, respectively, a party and to the claims of certain Connected Third Party Creditors. No payments of interest will be made on the Senior Notes on any Payment Date unless all amounts payable in priority thereto to the Senior Creditors and any Connected Third Party Creditors on such Payment Date have been paid or are paid simultaneously with such payments. The rights of the holders of the Senior Notes are also subordinated to the rights of the Senior Creditors and to the claims of Connected Third Party Creditors on an enforcement of the security for the Notes. If interest under any of the Class A Notes is not paid in a timely manner and, once the class A Notes have been redeemed in full, if interest under any of the Class B Notes is not paid in a timely manner and, once the Class A Notes and the Class B Notes have been redeemed in full, if interest under any of the Class C Notes or the Class D Notes is not paid in a timely manner, an Enforcement Event will occur under the Class A Notes or under the Class B Notes or under the Class C Notes or under the Class D Notes, as the case may be, entitling the Representative of the Noteholders to serve an Enforcement Notice. (See section entitled “*Description of the Security and Priority Arrangements*”). Further upon exercise of the clean-up option by the Originator on the Clean-up Option Date, the Senior Notes will be redeemed and repaid in full and Noteholders will receive payments for interest under the Senior Notes for a shorter period than initially expected. (See section entitled “*Transaction Summary Information – Purchase of the Portfolio by the Originator*”).

### ***Prepayment Risk***

Borrowers are, in general, entitled to prepay the Mortgage Loans at any time, subject to the payment of a prepayment fee up to 3 per cent., the amount of which varies from loan to loan both in the case of variable rate Mortgage Loans and

in the case of fixed rate Mortgage Loans. Approximately 89% of the Mortgage Loans comprised in the Portfolio provide for a prepayment fee of 3 per cent. In the case of *mutui fondiari* the prepayment right is provided for by Article 40 of the Italian Banking Act.

### ***Interest Rate Risk***

All amounts of interest payable under or in respect of the Mortgage Loans comprising the Portfolio will be calculated by reference to a fixed rate or a floating rate of interest based on six month euribor (see section entitled “*The Portfolio*”), whilst the Senior Notes will bear interest at a floating rate based on three month Euribor. As a result, in the event that three month Euribor were to exceed a certain level, the Issuer could have insufficient Collections available in accordance with the Intercreditor Agreement to be able to make timely payment of interest on the Senior Notes in full. To address the risk of such adverse interest rate movements, the Issuer will enter into the Interest Rate Swap.

The protection provided by the Interest Rate Swap may cease to be available due, *inter alia*, to the early termination of the Interest Rate Swap as a result of the Swap Counterparty’s insolvency, non-performance or the occurrence of an “Illegality” (as defined in the Interest Rate Swap) or a ratings downgrade of the Swap Counterparty.

As a result the Issuer is subject to credit risk on the Swap Counterparty. The long term unsecured, unsubordinated and unguaranteed debt obligations of the Swap Counterparty are currently rated Aa1 by Moody’s and AA by S&P, and the short term unsecured, unsubordinated and unguaranteed debt obligations of the Swap Counterparty are currently rated P-1 by Moody’s and A-1+ by S&P. (See further sections entitled “*The Royal Bank of Scotland plc*” and “*Credit Structure – Interest Rate Swap*”).

### ***Servicing of the Portfolio***

The Portfolio will continue to be serviced by the Servicer after the Issue Date. Consequently, the net cash flows from the Portfolio may be affected by decisions made, actions taken and the collection procedures adopted by the Servicer. To address this risk, the terms of the Servicing Agreement provide that the Servicer will ensure that the personnel carrying out the Servicer’s activities under the Servicing Agreement will have appropriate experience in the field of debt collection. However, such personnel will also continue to perform debt collection services for BNL and therefore will not be exclusively dedicated to the performance of the Servicer’s activities under the Servicing Agreement.

### ***Mortgage Loans Performance***

The Portfolio is exclusively comprised of residential mortgage backed loans which were performing as at the Effective Date (see section entitled “*The Portfolio*”). There can be no guarantee that the Borrowers will not default under such mortgage loans and that they will continue to perform. The recovery of amounts due in relation to non-performing loans will be subject to the effectiveness of enforcement proceedings in respect of the Portfolio which in the Republic of Italy can take a considerable time depending on the type of action required, where such action takes place and several other factors, including the following: (i) proceedings in certain courts involved in the enforcement of the Mortgage Loans and Mortgages may take longer than the national average; and (ii) obtaining title deeds from land registries which are in the process of computerising their records can take up to two or three years.

Law No. 302 of 3 August 1998 allowed notaries to conduct certain stages of the foreclosure proceedings in place of the courts and is expected to reduce the length of foreclosure proceedings by between two and three years, although at the date of this offering circular the impact which such law will have on the Mortgage Loan Receivables comprised in the Portfolio cannot be fully assessed.

### ***Risks of losses associated with declining property values***

The security for the Notes consists of, *inter alia*, the Issuer’s interest in the Mortgages. The value of this security may be affected by, among other things, a decline in property values. No assurance can be given that the values of the Real Estate Assets have remained or will remain at the level at which they were on the dates of origination of the related Mortgage Loans. Should the residential property market in Italy experience an overall or a regional decline in property

values, such a decline could, in certain circumstances, result in the value of the security being significantly reduced and ultimately, may result in losses to the Noteholders if the Mortgages are required to be enforced.

### ***Value of the Mortgages***

Pursuant to Article 39, paragraph 5, of the Italian Banking Act, upon repayment of each fifth of the original debt, the debtors of *mutui fondiari* loans are entitled to a proportional reduction of the mortgage. Accordingly, the underlying value of the Portfolio might decrease from time to time in connection with the partial repayment of the Mortgage Loans irrespective of whether the Mortgage Loans have been fully repaid.

### ***Absence of secondary market***

Application has been made to list the Senior Notes on the Luxembourg Stock Exchange. However there can be no assurance that a secondary market in the Senior Notes of any Class will develop or, if it does develop, that it will provide holders of the Senior Notes of such Class with liquidity of investment, or that it will continue for the life of the Senior Notes of such Class.

### ***Representations and Warranties***

Neither the Issuer nor the Representative of the Noteholders has undertaken, or will undertake, any investigations, searches or other actions to verify the details of the Mortgage Loan Receivables comprised in the Portfolio or to establish the creditworthiness of any Borrower or to establish the value of the Real Estate Assets. Each of the Issuer and the Representative of the Noteholders will rely solely on warranties given by the Originator in respect, *inter alia*, of the Mortgage Loan Receivables, the Borrowers, the Mortgage Loans, the Mortgage Loan Agreements and the Insurance Policies. These representations and warranties have been given for the Portfolio purchased by the Issuer on the Transfer Date. Security over the rights of the Issuer under the Transfer Agreement (other than the Portfolio and the relevant Collections) will be granted by the Issuer in favour of the Issuer Secured Creditors under the Pledge Agreement.

### ***Statute of Limitations***

Certain rights of the Issuer under the Transaction Documents may become barred under statutes of limitation provided for by operation of law. In particular, although the parties to the Transfer Agreement have expressly agreed that claims for a breach of representation or warranty given by the Originator may be pursued against the Originator until such time as the Senior Notes shall be repaid in full, there is a possibility that the one year prescription period set out in Article 1495 of the Italian Civil Code could be held to apply to some or all of the representations and warranties given by BNL in the Transfer Agreement, on the ground that such provisions may not be derogated from by the parties to a sale contract ("*contratto di compravendita*") such as the Transfer Agreement.

### ***The Representative of the Noteholders***

The Intercreditor Agreement will contain provisions requiring the Representative of the Noteholders to have regard to the interests of the holders of each Class of Notes as regards all powers, authorities, duties and discretion of the Representative of the Noteholders as if they formed a single Class (except where expressly provided otherwise) but requiring the Representative of the Noteholders, in the event of a conflict between the interests of the holders of different Classes of Notes, to have regard only to the interests of the holders of the Most Senior Class of Notes. Remedies pursued by the Representative of the Noteholders in such circumstances may be adverse to the interest of the holders of the lower ranking Class of Notes. (See section entitled "*Description of the Security and Priority Arrangements – Intercreditor Agreement – Conflict*"). The Conditions provide for a limitation of liability of the Representative of the Noteholders. As a consequence the Representative of the Noteholders shall not be liable for any obligations other than those expressly provided in the Transaction Documents and in the Conditions, which are essentially in cases where the Issuer Secured Creditors have suffered damages deriving from any activity carried out by the Representative of the Noteholders in such capacity as a result of its gross negligence (*colpa grave*) and/or wilful default (*dolo*) and/or fraud (*frode*).

### ***Events affecting the ratings of the Senior Notes***

The credit ratings which will be assigned to the Senior Notes by the Rating Agencies on the Issue Date (which are expected to be for the Class A1 Notes and the Class A2 Notes, AAA by S&P and Aaa by Moody's, for the Class B Notes, AA by S&P and Aa2 by Moody's and, for the Class C Notes, BBB by S&P and Baa2 by Moody's) will be based on a number of different factors including the credit quality of the Mortgage Loan Receivables, the transaction structure and documentation, the short-term unsecured, unsubordinated and unguaranteed debt rating of the Main Operating Bank, the Bank Account Guarantee Provider, the Liquidity Facility Provider, the Swap Counterparty and the long-term unsecured, unsubordinated and unguaranteed debt rating of the Swap Counterparty and only reflect the views of the Rating Agencies.

Future events such as the deterioration of the Portfolio, the unavailability or the delay in the delivery of information, the failure by the parties to the Transaction Documents to perform their obligations under the Transaction Documents and the revision, suspension or withdrawal of the unsecured, unsubordinated and unguaranteed debt rating of third parties involved in the Securitisation could have an adverse impact on the credit ratings of the Senior Notes.

In addition, in the event of downgrading of the unsecured, unsubordinated and unguaranteed debt rating of third parties involved in the Securitisation, there is no guarantee that the Issuer will be in a position to secure a replacement for the relevant third party or there may be a significant delay in securing such a replacement and, consequently, the rating of the Senior Notes may be affected.

### ***Prior Securitisation, Further Securitisations and Ring Fencing***

The Issuer may by way of separate transactions enter into new securitisations other than the Securitisation (each a "**Further Securitisation**") by way of purchasing and securitising further monetary claims, including those from other originators, in addition to the Portfolio (a "**Further Securitisation**" with reference to future securitisations or "**Prior Securitisation**" with reference to a prior securitisation entered into on 30 April 2003 through the issue of five classes of notes), and has entered into the Prior Securitisation to date, of which additional information is given in the section entitled "*The Issuer*". Under the terms of Article 3 of the Securitisation Law, the assets relating to each individual securitisation transaction (the "**Securitized Assets**") will, by operation of law, be segregated for all purposes from all other assets of the Issuer. On a winding up of the Issuer, such Securitized Assets will only be available to holders of the notes issued to finance the acquisition of the relevant Securitized Assets and to certain creditors claiming payments of debts incurred by the company in connection with the securitisation of the relevant Securitized Assets. In addition, the Securitized Assets relating to a particular securitisation transaction will not be available to the holders of notes issued to finance any other securitisation transaction or to general creditors of the Issuer. In addition, it is a condition precedent to any such Further Securitisation, *inter alia*, that the Rating Agencies confirm that the then current ratings of the Senior Notes will not be adversely affected by such Further Securitisation.

However, under the Securitisation Law it is unclear whether all claims relating to a securitisation transaction are caught by the asset segregation principle outlined above. For this reason the Issuer will grant additional security pursuant to the Deed of Charge, the Luxembourg Pledge Agreement and the Pledge Agreement in relation to such claims.

In the case of Connected Third Party Creditors, including any tax authority, the Issuer is entitled to pay such amounts ahead of all other items in the relevant Priority of Payments. The Issuer will covenant in the Conditions of the Notes not to enter into any agreements or to take any action except as permitted under the Transaction Documents or otherwise authorised by the Representative of the Noteholders or, *inter alia*, as may be necessary to maintain its corporate existence and comply with applicable laws. Nonetheless, there remains the risk that, in the event of any such amounts being due to Connected Third Party Creditors, the funds available to the Issuer for purposes of fulfilling its obligations under the Notes could be reduced, which, in turn, could adversely affect the Issuer's ability to make payments due under the Notes.

Any amount due by the Issuer to any third party creditor in relation to a specific securitisation, and not related to the corporate existence of the Issuer, will be paid by the Issuer out of the Securitised Assets of such securitisation.

### ***Withholding Tax in respect of the Senior Notes***

According to the provisions of Article 6 of Legislative Decree No. 239 of 1 April 1996, as amended by Article 41, paragraph 1, of Law Decree No. 269 of 30 September 2003, converted into law with amendments by Italian Law No. 326 of 24 November 2003, any Senior Noteholder who (a) is not a person resident for tax purposes (or an institutional investor incorporated) in a country that recognizes the Italian tax authorities right to a satisfactory exchange of information (as per the list provided in Ministerial Decree of 4 September 1996) (the “**Qualifying Countries**”), or (b) is resident/incorporated in such a country but has not fulfilled all the requisite documentary requirements under Law 239 will receive amounts of interest payable on the Senior Notes, net of Italian withholding tax (see section entitled “*Taxation*”). At the date of this Offering Circular such withholding tax is levied at the rate of 12.5 per cent. or such lower rate as may be applicable under the relevant double taxation treaty.

On 3 June 2003, the EU Council of Economic and Finance Ministers (ECOFIN) adopted a new directive regarding the taxation of savings income (Council Directive 2003/48/EC on taxation of savings income in the form of interest payments). This directive is scheduled to be applied by Member States from 1 January 2005, provided that certain non-EU countries adopt similar measures from the same date. Under the directive, each Member State of the European Union will be required to provide the tax authorities of another Member State the details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State; however, Austria, Belgium and Luxembourg may instead apply a withholding system for a transitional period in relation to such payments. The transitional period is to commence on the date from which the directive is to be applied by Member States and terminates at the end of the first tax year following agreement by certain non-EU countries to the exchange of information relating to such payments.

Without prejudice to the above, in the event that any Notes are redeemed in whole or in part during the Initial Period, the Issuer will be obliged to pay an additional amount of tax at a rate of 20 per cent. of all interest accrued on such principal amount repaid up to the relevant repayment date. Except where the Senior Notes are declared due and payable following the service of an Enforcement Notice on the Issuer or the occurrence of an Issuer Insolvency Event, no redemption of the Notes may occur under the Conditions until after the expiry of the Initial Period. Senior Condition 7 provides that, in the event that any amounts would, save for the provisions of Senior Condition 7, be payable to Noteholders as a mandatory redemption of principal during the Initial Period, such amounts will be retained by the Issuer until the first Payment Date following the expiry of the Initial Period, when they will be applied in accordance with the Principal Priority of Payments.

### **Italian Legal Considerations**

#### ***Italian Usury Law***

Italian Law No. 108 of 7 March 1996 (the “**Usury Law**”) introduced legislation preventing lenders from applying interest rates higher than those deemed to be usurious (“**Usury Rates**”). Usury Rates are set on a quarterly basis by a Decree issued by the Italian Treasury. Judgments from Italian Courts (and in particular Italian Supreme Court judgments No. 1126 of 2 February 2000, No. 5286 of 22 April 2000 and No. 14899 of 17 November 2000) have held that the Usury Law applies to loan agreements executed prior to the Usury Law coming into force with regard to interest payments made following such date. Based on such judgment, Italian borrowers of loans bearing interest at a rate which is at any time above the prevailing Usury Rate or any interested person, including the judge deciding the case, may claim or declare, as the case may be, that the clause providing for the payment of interest is null and void or that a corresponding reduction in the contractual rate payable under the relevant loan should be made and the amounts paid in excess be returned. With a view to limiting the impact of the application of the Usury Law to Italian loans executed prior to its entering into force, on 29 December 2000 the Italian Government issued a law decree (*decreto legge*) (“**Decree 394/2000**”) converted into Law by the Italian Parliament with Law No. 24 of 28 February 2001 (“**Law**

24/2001”), interpreting the provisions of the Usury Law. Pursuant to Law 24/2001, an interest rate is usurious if it is higher than the legal limit in force at the time at which it is promised or agreed, in any form, regardless of the time at which payment is made. Law 24/2001 further provides that, due to the exceptional fall in interest rates in the years 1998 and 1999, rates of interest set in relation to fixed interest loans (granted in the form of *mutui* as defined pursuant to Article 2, paragraph 2, of the Usury Law) other than subsidised loans (*finanziamenti agevolati*) in force at the date of Decree 394/2000 and in respect of instalments payable after 2 January 2001, shall, as an extraordinary measure, except where the parties have agreed more favourable contractual terms, be replaced with the rates specified in Law 24/2001. A rate of 9.96 per cent. per annum is applied for all loans, other than certain mortgages financing the purchase of certain residential property for an amount not in excess of euro 77,468 for which the rate is 8 per cent. per annum. Furthermore, pursuant to Law 24/2001, Italian borrowers may not claim exceptions to, or assert claims based on, the Usury Law in respect of interest payable on the relevant loans up to 2 January 2001, unless at the time of execution of the relevant loan agreement or at the time at which the rate of interest in respect thereof was agreed (if different), the interest rate exceeded the then applicable Usury Rate.

Law 24/2001 has however been challenged before the Italian Constitutional Court on the grounds that it does not comply with the provisions of the Constitution.

In February 2002, the Constitutional Court confirmed the legitimacy of Decree 394/2000 as to the fact that the relevant time to consider in order to determine whether a rate is usurious or not is the date of execution of the relevant loan agreement, but sustained that the replacement with the rates fixed by Decree 394/2000 should operate as from 31 December 2000 and not 2 January 2001 as stated in Decree 394/2000.

BNL has represented and warranted in the Transfer Agreement that each Mortgage Loan has been entered into, and was at all relevant times, in compliance with the Usury Law. (See section entitled “*Description of the Transfer Agreement*”).

#### ***Compounding of Interest (Anatocismo)***

According to Article 1283 of the Italian Civil Code, in respect of a monetary claim or receivable, accrued interest may be capitalised only from the date when any legal proceedings are commenced in respect of that monetary claim or receivable or by virtue of an agreement entered into by the parties after the date when such claim or receivable became due and provided that such interest has accrued for at least six months. Article 1283 of the Civil Code allows derogation from this provision in the event that there are recognised customary practices (*usi normativi*) to the contrary. Banks and financial institutions in the Republic of Italy have traditionally capitalised accrued interest on a three month basis on the grounds that such practice could be characterised as a customary practice. However, a number of recent judgments from Italian courts (including the judgments from the Italian Supreme Court No. 13739/2003, No. 12222/2003, No. 2593/2003, No. 3096/1999 and No. 2374/1999) have held that such practices are not customary practices. In this respect, it should be noted that Article 25 of Legislative Decree No. 342 of 4 August 1999 (“**Law No. 342**”) enacted by the Italian Government under a delegation granted pursuant to Law No. 142 of 19 February 1992 (“**Legge Delega**”) has considered the capitalisation of accrued interest, made by banks prior to the date on which the resolution of the Interministerial Committee of Credit and Savings (CICR) of 9 February 2000 (the “**Resolution**”) came into force (22 April 2000), to be valid. After such date, the capitalisation of accrued interest will still be possible upon the terms established by the Resolution which further provided that all conditions applied in relation to contracts executed prior to its entry into force were to be adjusted to such new rules by 30 June 2000 with effect from 1 July 2000. Law No. 342 has been challenged, however, before the Italian Constitutional Court on the grounds that it falls outside the scope of the legislative powers delegated under the Legge Delega (*eccesso di delega*). On 17 October 2000, Italian Constitutional Court Judgment No. 425/2000 upheld the challenge of Article 25 of Law No. 342 declaring such article to be null and void on the basis of conflict with Italian constitutional principles.

As a consequence thereof, if the Borrowers were to challenge this practice and such interpretation of the Italian Civil Code were to be upheld before other courts in the Republic of Italy, there could be a negative effect on the returns generated from the Mortgage Loans.

## *Securitisation Law*

The Securitisation Law was enacted on 30 April 1999 and was conceived to simplify the process and facilitate the increased use of securitisation as a financing technique in the Republic of Italy.

It applies to securitisation transactions involving the “true” sale (by way of non-gratuitous assignment) of receivables where the sale is to a company created in accordance with Article 3 of the Securitisation Law and all amounts paid by the assigned debtors are to be used by the relevant company exclusively to meet its obligations under notes issued to fund the purchase of such receivables and other costs and expenses associated with the securitisation transaction.

The assignment of receivables under the Securitisation Law will be governed by Article 58 paragraphs 2, 3 and 4 of the Italian Banking Act. The prevailing interpretation of this provision, which has been strengthened by Article 4 of the Securitisation Law, is that:

- (a) the assignment can be perfected against the assigned debtors and third party creditors by way of publication in the Italian Official Gazette and registration with the Companies’ register, so avoiding the need for notification to be served on each assigned debtor;
- (b) as from the later of the date of publication of the notice in the Italian Official Gazette and the registration with the Companies’ register, the assignment becomes enforceable against:
  - (i) the assigned debtors and any creditors of the originator who have not prior to the date of publication of the notice commenced enforcement proceedings against the relevant receivables;
  - (ii) the liquidator or other bankruptcy official of the assigned debtors (so that pursuant to the Securitisation Law any payments made by an assigned debtor to the securitising company may not be subject to the claw-back action provided for under Article 67 of Royal Decree No. 267 of 16 March 1942 (the “**Bankruptcy Law**”)); and
  - (iii) other permitted assignees of the originator who have not perfected their assignment prior to the date of publication;
- (c) the benefit of any privilege, guarantee or security interest guaranteeing or securing repayment of the assigned receivables is automatically transferred to and perfected with the same priority in favour of the purchaser, without the need for any formality or annotations with the relevant land registry in Italy;
- (d) as from the later of the date of publication of the assignment in the Italian Official Gazette and the registration with the Companies’ register, no legal action may be brought to attach the assigned receivables or the sums derived therefrom, other than for the purposes of enforcing the rights of the holders of the notes issued for the purpose of financing the acquisition of the relevant receivables and to meet the costs of the transaction; and
- (e) assignments executed under the Securitisation Law are subject to revocation on bankruptcy under Article 67 of the Bankruptcy Law but only in the event that the securitisation transaction is entered into within three months of the adjudication of bankruptcy of the relevant party or, in cases where paragraph 1 of Article 67 applies, within six months of the adjudication of bankruptcy.

Under Article 3 of the Securitisation Law, by operation of law, the Issuer’s right, title and interest in and to the Portfolio and the relevant Collections will be segregated from all other assets of the Issuer and amounts deriving therefrom will be available on a winding up of the Issuer only to satisfy the obligations of the Issuer to the holders of the Notes, each of the other Issuer Secured Creditors and any Connected Third Party Creditor. Amounts derived from the Portfolio will not be available to any other creditors of the Issuer. Under the Intercreditor Agreement, the Issuer Secured Creditors party thereto will agree not to commence insolvency or winding up proceedings against the Issuer except in certain limited circumstances and, in addition, the obligations of the Issuer under the Notes are limited recourse. However, under Italian law, any creditor of the Issuer would be able to commence insolvency or winding up proceedings against the Issuer in respect of any unpaid debt.

As at the date of this Offering Circular, the application of the Securitisation Law has not been considered by an Italian Court and only a number of interpretations of its application have been issued by Italian governmental or regulatory authority. Consequently, it is possible that Italian Courts or such authorities may deliver judgment or issue further regulations relating to the Securitisation Law or the interpretation thereof, the impact of which cannot be predicted by the Issuer as at the date of this document.

### ***Tax position of the Issuer***

The Issuer is a *società a responsabilità limitata* registered with the *Ufficio Italiano dei Cambi* and the Bank of Italy as a non-banking financial intermediary and, as such, is currently subject to (i) Italian corporation tax (“**IRES**”) at a rate of 33 per cent. as from the tax year starting on or after 1 January 2004 and (ii) Italian regional tax (“**IRAP**”) at a rate ranging between 4.25 to 5.25 per cent. on its annual profits for 2004 depending on certain factors. Pursuant to the regulations issued by the Bank of Italy on 29 March 2000 (*schemi di bilancio delle società per la cartolarizzazione dei crediti*) as to accounting treatment of companies incorporated pursuant to the Securitisation Law, all assets, liabilities, income and expenses attributable directly to the securitisation of the Mortgage Loan Receivables will be treated as off-balance sheet assets, liabilities, income and expenses. Circular No. 8/E of 6 February 2003, issued by the Italian Agency of Revenues (*Agenzia delle Entrate*) a department of the Italian tax authorities, has stated that the tax regime applicable to the Issuer as long as the Notes are outstanding is consistent with the above applicable accounting regime. According to Circular No. 8/E of 6 February 2003, an issuer will be taxed on the proceeds generated by a securitisation transaction under the ordinary Italian tax rules if and to the extent that such proceeds are legally available to such issuer when all obligations of the issuer to the noteholders and to the other creditors in respect of the relevant securitisation transaction have been fully discharged. As a consequence of the position taken by the Italian tax authorities in Circular No. 8/E of 6 February 2003, no taxable income will be realised by the Issuer whilst any notes are outstanding (except only for the amounts retained by the Issuer as Issuer Corporate Maintenance Fee).

### ***Withholding Tax on the Issuer Accounts***

The interest accrued on the Issuer Collection Account will be subject to withholding tax on account of corporate income tax which, as at the date of this document is levied at a rate of 27 per cent. per annum.

### ***Registration Tax***

If the Issuer were to obtain a judgment from an Italian Court in respect of a breach of any Transaction Document or were to enforce a foreign judgment in Italy in respect of any such breach, a registration tax of up to three per cent. of the amount awarded pursuant to any such judgment may be payable. However, in normal circumstances such registration tax would be chargeable to the losing party by way of damages.

In addition, each Transaction Document may be subject to registration tax at a rate of up to three per cent. of the amount indicated in each Transaction Document where a *caso d’uso* or an *enunciazione* will occur.

*Caso d’uso* means the filing of a Transaction Document with an Italian Court which is called to decide on non-contentious matters (*un atto si deposita per essere acquisito agli atti presso le cancellerie giudiziarie nell’esplicazione di attività amministrative*), or with an Italian administrative authority or public body where the filing is aimed at obtaining the granting of a right from such administrative authority or public body, unless such filing is compulsory as a matter of law. The filing of a Transaction Document with any Italian Court for the purposes of judicial proceedings (i.e. contentious matters) does not give rise to a *caso d’uso*.

Cross-references to the Transaction Documents in a deed, agreement or other document which has been filed with the Italian registration tax office will give rise to a case of *enunciazione* for the Transaction Documents if the relevant document filed for registration has been entered by the same parties which entered the Transaction Documents. In such a case, the Italian tax authorities may ask for the cross-referenced Transaction Documents to be filed with the

competent Italian registration tax office and, consequently, the application of registration tax to such Transaction Documents according to the ordinary rules. The rule applies at Italian tax authorities' request and only to the extent that the document filed with the registration tax office and the Transaction Document which has been mentioned therein are entered into by the same parties. Where one of the parties of one of the Transaction Documents is not also a party of the document filed for registration with the Italian registration tax office, no *enunciazione* will apply in respect of the specific Transaction Document.

The same rule also applies in case of cross-references into a judicial decision of a Transaction Document which has not been subject to registration tax in Italy.

In case the Transaction Documents filed with the registration tax office as a consequence of a *caso d'uso* or *enunciazione* are subject to VAT, registration tax would be levied at the fixed rate of euro 129.11.

***The inability of the Issuer to pay interest or repay principal on the Senior Notes may occur for reasons not related to the issues identified above and the Issuer does not represent that the risks and other considerations relating to the holding of the Senior Notes described above are exhaustive. While the various structural elements described in this Offering Circular are intended to lessen some of the risks inherent in the transaction for holders of the Senior Notes, there can be no assurance that these measures will be sufficient or effective to ensure payment of interest to holders of the Senior Notes on a timely basis or at all.***

## THE PORTFOLIO

The Portfolio purchased by the Issuer pursuant to the Transfer Agreement comprises monetary receivables arising out of residential mortgage loans (*mutui fondiari*), classified as performing by BNL as of the Effective Date. The Mortgage Loan Receivables have been selected in accordance with the Securitisation Law on the basis of the objective criteria set forth in the Transfer Agreement. Notice of assignment of the Portfolio with an indication of these objective criteria has been published in the *Official Gazette of the Republic of Italy* on 5 April 2004 and registered with the Companies' register.

### Characteristics of the Mortgage Loans

Agreements relating to *mutui fondiari* executed before 1 January 1994 are regulated by the Italian legislation on *credito fondiario* in force prior to that date, which permitted only credit institutions having a special licence to grant *mutui fondiari*. All other credit institutions were not permitted to conduct mortgage-lending business with the benefit of this special legislation.

On 1 January 1994 new legislation came into force under the Italian Banking Act as a result of which all banks having a general banking licence became qualified to execute *mutui fondiari* agreements. The provisions previously in force in respect of *mutui fondiari* were replaced by the new rules and regulations contained in Articles 38 to 42 of the Italian Banking Act. The new legislation applies only to *mutui fondiari* agreements executed, and foreclosure proceedings commenced, on or after 1 January 1994. The principal effect of the Italian Banking Act in respect of mortgage lending is that mortgage lenders have fewer rights and privileges against borrowers than under the legislation on *credito fondiario* in force prior to the implementation of the Italian Banking Act.

Article 38 of the Italian Banking Act sets out the definition of mortgage loans. As a general rule, pursuant to regulations implementing paragraph 2 of Article 38, mortgages may qualify as *mutui fondiari* if the principal amount to be advanced to the borrower, together with the principal amount of any loan secured by previously recorded mortgages, does not exceed 80 per cent. of the value of the real estate assets constituting security for the new mortgage loan at the time of its drawdown.

As at the Effective Date, the Portfolio comprised monetary claims arising in favour of the Originator under 23,444 Mortgage Loans (the "**Portfolio**").

The Mortgage Loan Receivables were transferred to the Issuer pursuant to the terms of the Transfer Agreement, together with any other rights of the Originator to guarantees or security interests and any related rights which have been granted to the Originator to secure or ensure payments due under any of the Mortgage Loan Receivables. (See section entitled "*Description of the Transfer Agreement*")

The aggregate outstanding principal balance of the Portfolio as at the Effective Date was euro 1,259,373,188.74.

Each Mortgage Loan from which the Mortgage Loan Receivables originate has the following characteristics as at the Effective Date:

**(a) Mortgage Loan Status:**

- (i) each Mortgage Loan was fully performing, i.e. there was no amounts overdue;
- (ii) no Mortgage Loan was classified as "*Incaglio*", "*Sofferenza*", in the process of being restructured (*in corso di ristrutturazione*) or restructured (*ristrutturati*) according to the Bank of Italy Instructions; and
- (iii) the first instalment of each Mortgage Loan with six-monthly instalments and the first 10 instalments of each Mortgage Loan with monthly instalments had been already paid by the relevant Borrower.

**(b) Security:**

- (i) each of the Mortgage Loans is secured by an economically first ranking priority mortgage (*ipoteca di primo grado in senso economico*), i.e.:
  - (a) a first ranking priority mortgage (*ipoteca legale di primo grado*); or
  - (b) a subsequent ranking mortgage where the obligations secured by the mortgage(s) ranking in priority to it have been fully satisfied;

(ii) each Mortgage Loan Agreement was executed as a public deed (“*atto pubblico*”) before an Italian public notary; and

(iii) each Real Estate Asset is located in Italy.

(c) **Currency:**

each Mortgage Loan is denominated in euro.

(d) **Mortgage Loan Types:**

(i) each Mortgage Loan is a residential mortgage loan;

(ii) each Mortgage Loan qualifies as a *mutuo fondiario*;

(iii) the Mortgage Loans are either floating or fixed rate loans;

(iv) the interest rate on each floating rate Mortgage Loan is linked to 6-month euribor; and

(v) each Mortgage Loan was accruing, at the Effective Date, at an annual interest rate not exceeding 8.00 per cent. and in the case of fixed rate Mortgage Loans, at a rate exceeding 4.00 per cent..

(e) **Repayment Type**

(i) the instalments of each fixed rate Mortgage Loan fall due monthly or six-monthly and the instalments of each floating rate Mortgage Loan fall due six-monthly; and

(ii) the amortisation profile of each Mortgage Loan is determined at the time of funding by computing constant monthly or six-monthly instalments on the basis of the applicable fixed or floating interest rate; as for the floating rate Mortgage Loans, every six months, the floating rate for the period is determined and the total amount of the outstanding instalment due is recalculated taking into consideration such new interest rate. As for the fixed rate Mortgage Loans, the overall majority are repayable in equal instalments while less than one per cent. in number are repayable in increasing or decreasing instalments.

(f) **Year of Origination:**

each Mortgage Loan was originated not earlier than 1 January 1995.

(g) **Term:**

each Mortgage Loan is due to be repaid on or before 28 February 2024;

(h) **Borrowers:**

each Borrower was a private individual classified as such pursuant to the Bank of Italy’s regulations.

### **The Provisional Portfolio**

As at 23 January 2004, the Portfolio comprised monetary claims arising in favour of the Originator under No. 22,975 Mortgage Loans (the “**Provisional Portfolio**”). The aggregate outstanding principal balance of the Provisional Portfolio as at 23 January 2004 was euro 1,250,642,795.

The following tables set out information representing the characteristics of the Provisional Portfolio derived from information provided by BNL. The information in the following tables reflects the position as at 23 January 2004. The characteristics of the Portfolio as at the Issue Date may vary from those set out in the tables as a result, *inter alia*, of repayment of Mortgage Loans prior to the Issue Date. The amounts set out in the tables below are expressed in euro.

<b>SUMMARY</b>	
Outstanding Principal Balance	1,250,642,795
Number of Loans	22,975
Average Current Loan Amount	54,435
WA Original LTV	56.34%
WA Current LTV	50.26%
WA Seasoning (years)	2.50
WA Maturity (Years)	12.61
1° ranking mortgage	100%
WA interest rate (Fixed rate)	6.35%
WA Spread (Floating rate)	1.32%
Direct debit in BNL accounts	84%
First Property	100%

### 1. Breakdown by Origination Date

<b>Breakdown by Origination Date</b>	<i>No. of Loans</i>	<i>% of Total</i>	<i>Outstanding Value</i>	<i>% of Total</i>
1995	59	0.3%	2,146,607	0.2%
1996	77	0.3%	2,604,337	0.2%
1997	503	2.2%	16,986,205	1.4%
1998	1,731	7.5%	62,286,558	5.0%
1999	2,462	10.7%	100,629,976	8.0%
2000	1,518	6.6%	76,165,103	6.1%
2001	6,280	27.3%	359,851,880	28.8%
2002	10,016	43.6%	609,478,511	48.7%
2003	329	1.4%	20,493,619	1.6%
<b>Total</b>	<b>22,975</b>	<b>100.0%</b>	<b>1,250,642,795</b>	<b>100.0%</b>

### 2. Breakdown by Geographic Area

<b>Breakdown by Geographic Area</b>	<i>No. of Loans</i>	<i>% of Total</i>	<i>Outstanding Value</i>	<i>% of Total</i>
North	7,186	31.3%	438,203,725	35.0%
Centre	10,481	45.6%	567,334,758	45.4%
South	5,308	23.1%	245,104,313	19.6%
<b>Total</b>	<b>22,975</b>	<b>100.0%</b>	<b>1,250,642,795</b>	<b>100.0%</b>

### 3. Breakdown by Province of Location of the Real Estate Assets

<b>Breakdown by Province of Location of the Real Estate Assets</b>	<i>No. of Loans</i>	<i>% of Total</i>	<i>Outstanding Value</i>	<i>% of Total</i>
ROMA	5,308	23.1%	295,492,886	23.6%
MILANO	1,010	4.4%	68,123,390	5.4%
NAPOLI	1,066	4.6%	56,091,210	4.5%
TORINO	698	3.0%	38,588,380	3.1%
FIRENZE	626	2.7%	36,800,533	2.9%
GENOVA	613	2.7%	34,156,906	2.7%
VENEZIA	482	2.1%	29,230,400	2.3%
BARI	552	2.4%	25,294,810	2.0%
BOLOGNA	325	1.4%	21,452,862	1.7%
CATANIA	486	2.1%	21,410,996	1.7%
TERAMO	412	1.8%	20,461,985	1.6%
LUCCA	319	1.4%	18,671,831	1.5%

<b>Breakdown by Province of Location of the Real Estate Assets</b>	<i>No. of Loans</i>	<i>% of Total</i>	<i>Outstanding Value</i>	<i>% of Total</i>
SALERNO	362	1.6%	18,595,290	1.5%
PALERMO	372	1.6%	17,915,374	1.4%
LATINA	336	1.5%	16,292,376	1.3%
VARESE	250	1.1%	15,928,590	1.3%
PISA	253	1.1%	15,166,140	1.2%
PAVIA	249	1.1%	15,047,762	1.2%
PADOVA	210	0.9%	14,953,304	1.2%
CATANZARO	310	1.3%	13,746,060	1.1%
PRATO	249	1.1%	13,598,356	1.1%
L'AQUILA	287	1.2%	13,157,951	1.1%
PESARO	241	1.0%	12,995,115	1.0%
PESCARA	262	1.1%	12,864,172	1.0%
ANCONA	240	1.0%	12,767,861	1.0%
RAVENNA	184	0.8%	12,444,227	1.0%
LIVORNO	201	0.9%	11,086,648	0.9%
NOVARA	182	0.8%	11,010,237	0.9%
VICENZA	155	0.7%	10,649,695	0.9%
COMO	173	0.8%	10,640,211	0.9%
AREZZO	204	0.9%	10,447,072	0.8%
ALESSANDRIA	202	0.9%	10,222,875	0.8%
TREVISO	168	0.7%	10,141,558	0.8%
CHIETI	212	0.9%	10,119,481	0.8%
VITERBO	209	0.9%	9,747,426	0.8%
BRESCIA	146	0.6%	9,312,700	0.7%
FORLI'	146	0.6%	9,245,369	0.7%
VERONA	145	0.6%	8,872,137	0.7%
CASERTA	187	0.8%	8,389,158	0.7%
ASCOLI PICENO	162	0.7%	8,364,047	0.7%
LECCE	218	0.9%	8,274,158	0.7%
REGGIO CALABRIA	193	0.8%	7,984,125	0.6%
MODENA	107	0.5%	7,644,774	0.6%
MESSINA	180	0.8%	7,642,719	0.6%
BERGAMO	133	0.6%	7,596,989	0.6%
TRIESTE	152	0.7%	7,305,531	0.6%
GROSSETO	135	0.6%	7,041,894	0.6%
PERUGIA	137	0.6%	6,839,737	0.5%
FROSINONE	143	0.6%	6,764,627	0.5%
SASSARI	139	0.6%	6,377,108	0.5%
REGGIO EMILIA	94	0.4%	6,372,590	0.5%
PISTOIA	113	0.5%	6,154,348	0.5%
CAGLIARI	132	0.6%	6,009,709	0.5%
VERCELLI	109	0.5%	5,675,605	0.5%
MACERATA	108	0.5%	5,415,278	0.4%
BIELLA	101	0.4%	5,295,025	0.4%
FERRARA	94	0.4%	5,150,604	0.4%
COSENZA	118	0.5%	5,014,458	0.4%
PORDENONE	79	0.3%	4,891,668	0.4%
MASSA CARRARA	80	0.3%	4,777,684	0.4%
TARANTO	137	0.6%	4,726,178	0.4%
RIMINI	66	0.3%	4,648,649	0.4%
TERNI	94	0.4%	4,643,994	0.4%
FOGGIA	105	0.5%	4,549,571	0.4%
LA SPEZIA	82	0.4%	4,477,955	0.4%
SIENA	78	0.3%	4,452,407	0.4%
BENEVENTO	94	0.4%	4,361,504	0.3%
UDINE	74	0.3%	4,332,597	0.3%
AVELLINO	84	0.4%	4,261,435	0.3%
PIACENZA	66	0.3%	3,927,810	0.3%
LODI	59	0.3%	3,826,505	0.3%
IMPERIA	66	0.3%	3,803,065	0.3%
PARMA	57	0.2%	3,541,412	0.3%
CUNEO	56	0.2%	3,405,396	0.3%

<b>Breakdown by Province of Location of the Real Estate Assets</b>	<i>No. of Loans</i>	<i>% of Total</i>	<i>Outstanding Value</i>	<i>% of Total</i>
RIETI	72	0.3%	3,210,909	0.3%
CROTONE	71	0.3%	3,185,347	0.3%
ROVIGO	58	0.3%	3,161,331	0.3%
MANTOVA	50	0.2%	3,115,662	0.2%
CREMONA	57	0.2%	3,084,881	0.2%
POTENZA	65	0.3%	3,016,112	0.2%
SAVONA	48	0.2%	2,928,507	0.2%
SIRACUSA	74	0.3%	2,885,119	0.2%
LECCO	53	0.2%	2,842,409	0.2%
BOLZANO	44	0.2%	2,801,216	0.2%
BRINDISI	68	0.3%	2,449,102	0.2%
MATERA	55	0.2%	2,368,149	0.2%
VIBO VALENTIA	47	0.2%	2,306,697	0.2%
GORIZIA	30	0.1%	1,756,725	0.1%
ASTI	27	0.1%	1,687,576	0.1%
ORISTANO	37	0.2%	1,668,270	0.1%
TRAPANI	43	0.2%	1,605,126	0.1%
VERBANIA	27	0.1%	1,519,628	0.1%
NUORO	27	0.1%	1,352,243	0.1%
TRENTO	21	0.1%	1,284,949	0.1%
CALTANISSETTA	31	0.1%	1,117,606	0.1%
RAGUSA	19	0.1%	893,401	0.1%
AGRIGENTO	20	0.1%	841,308	0.1%
BELLUNO	17	0.1%	832,850	0.1%
ENNA	16	0.1%	771,971	0.1%
AOSTA	12	0.1%	727,023	0.1%
SONDRIO	9	0.0%	544,191	0.0%
<b>Total</b>	<b>22,975</b>	<b>100.0%</b>	<b>1,250,642,795</b>	<b>100.0%</b>

#### 4. Breakdown by Region of Location of the Real Estate Assets

<b>Breakdown by Region of Location of the Real Estate Assets</b>	<i>No. of Loans</i>	<i>% of Total</i>	<i>Outstanding Value</i>	<i>% of Total</i>
Lazio	6,068	26.4%	331,508,225	26.5%
Lombardia	2,189	9.5%	140,063,289	11.2%
Toscana	2,258	9.8%	128,196,913	10.3%
Campania	1,793	7.8%	91,698,598	7.3%
Veneto	1,235	5.4%	77,841,275	6.2%
Piemonte	1,402	6.1%	77,404,722	6.2%
Emilia-Romagna	1,139	5.0%	74,428,297	6.0%
Abruzzo	1,173	5.1%	56,603,590	4.5%
Sicilia	1,241	5.4%	55,083,618	4.4%
Liguria	809	3.5%	45,366,433	3.6%
Puglia	1,080	4.7%	45,293,819	3.6%
Marche	751	3.3%	39,542,300	3.2%
Calabria	739	3.2%	32,236,687	2.6%
Friuli Venezia Giulia	335	1.5%	18,286,521	1.5%
Sardegna	335	1.5%	15,407,331	1.2%
Umbria	231	1.0%	11,483,731	0.9%
Basilicata	120	0.5%	5,384,261	0.4%
Trentino Alto Adige	65	0.3%	4,086,165	0.3%
Valle d'Aosta	12	0.1%	727,023	0.1%
<b>Total</b>	<b>22,975</b>	<b>100.0%</b>	<b>1,250,642,795</b>	<b>100.0%</b>

#### 5. Breakdown by Spread on six-month Euribor

<b>Breakdown by Spread on six-month Euribor</b>	<i>No. of Loans</i>	<i>% of Total</i>	<i>Outstanding Value</i>	<i>% of Total</i>
>0.75%≤1%	428	11.7%	26,814,017	11.5%
>1%≤2%	2,948	80.7%	195,576,621	83.8%
>2%≤3%	277	7.6%	11,108,468	4.8%
<b>Total</b>	<b>3,653</b>	<b>100.0%</b>	<b>233,499,106</b>	<b>100.0%</b>

## 6. Breakdown by Interest Rate Type

Breakdown by Interest Rate Type	No. of Loans	% of Total	Outstanding Value	% of Total
Fixed	19,322	84.1%	1,017,143,689	81.3%
Floating	3,653	15.9%	233,499,106	18.7%
<b>Total</b>	<b>22,975</b>	<b>100.0%</b>	<b>1,250,642,795</b>	<b>100.0%</b>

## 7. Breakdown by Instalment Frequency

Breakdown by Instalment Frequency	No. of Loans	% of Total	Outstanding Value	% of Total
Monthly	13,906	60.5%	768,271,281	61.4%
Semi Annually	9,069	39.5%	482,371,514	38.6%
<b>Total</b>	<b>22,975</b>	<b>100.0%</b>	<b>1,250,642,795</b>	<b>100.0%</b>

## 8. Breakdown by Current Interest Rate

Breakdown by Current Interest Rate	No. of Loans	% of Total	Outstanding Value	% of Total
<=3.5%	2,184	9.5%	152,518,919	12.2%
>3.5%<=4%	1,126	4.9%	66,140,145	5.3%
>4%<=5%	633	2.8%	27,377,789	2.2%
>5%<=6%	4,727	20.6%	218,676,629	17.5%
>6%<=7%	13,381	58.2%	741,399,214	59.3%
>7%<=8%	924	4.0%	44,530,099	3.6%
<b>Total</b>	<b>22,975</b>	<b>100.0%</b>	<b>1,250,642,795</b>	<b>100.0%</b>

## 9. Breakdown by Original LTV

Breakdown by Original LTV	No. of Loans	% of Total	Outstanding Value	% of Total
<=10%	90	0.4%	2,302,630	0.2%
>10%<=20%	1,036	4.5%	32,716,893	2.6%
>20%<=30%	2,292	10.0%	89,794,245	7.2%
>30%<=40%	3,205	13.9%	147,773,453	11.8%
>40%<=50%	4,008	17.4%	206,658,488	16.5%
>50%<=60%	3,341	14.5%	191,249,550	15.3%
>60%<=70%	3,310	14.4%	191,824,705	15.3%
>70%<=80%	5,693	24.8%	388,322,831	31.0%
<b>Total</b>	<b>22,975</b>	<b>100.0%</b>	<b>1,250,642,795</b>	<b>100.0%</b>

## 10. Breakdown by Current LTV

Breakdown by Current LTV	No. of Loans	% of Total	Outstanding Value	% of Total
<=10%	261	1.1%	5,295,609	0.4%
>10%<=20%	1,884	8.2%	58,534,259	4.7%
>20%<=30%	3,200	13.9%	130,264,593	10.4%
>30%<=40%	3,680	16.0%	179,530,642	14.4%
>40%<=50%	4,391	19.1%	235,464,525	18.8%
>50%<=60%	3,907	17.0%	225,694,468	18.0%
>60%<=70%	2,601	11.3%	178,158,502	14.2%
>70%<=80%	3,051	13.3%	237,700,198	19.0%
<b>Total</b>	<b>22,975</b>	<b>100.0%</b>	<b>1,250,642,795</b>	<b>100.0%</b>

### 11. Breakdown by Original Balance (in ,000)

Breakdown by Original Balance (in ,000)	No. of Loans	% of Total	Outstanding Value	% of Total
<=20	296	1.3%	3,550,256	0.3%
>20<=50	7,926	34.5%	236,788,031	18.9%
>50<=100	12,095	52.6%	721,988,851	57.7%
>100<=150	2,375	10.3%	249,693,570	20.0%
>150<=200	267	1.2%	36,492,178	2.9%
>200<=250	13	0.1%	1,718,515	0.1%
>250<=300	3	0.0%	411,394	0.0%
<b>Total</b>	<b>22,975</b>	<b>100.0%</b>	<b>1,250,642,795</b>	<b>100.0%</b>

### 12. Breakdown by Current Balance (in ,000)

Breakdown by Current Balance (in ,000)	No. of Loans	% of Total	Outstanding Value	% of Total
<=20	1,370	6.0%	21,406,089	1.7%
>20<=50	10,740	46.7%	388,664,420	31.1%
>50<=100	9,240	40.2%	647,051,853	51.7%
>100<=150	1,625	7.1%	193,520,433	15.5%
<b>Total</b>	<b>22,975</b>	<b>100.0%</b>	<b>1,250,642,795</b>	<b>100.0%</b>

### 13. Breakdown by Remaining Term (months)

Breakdown by Remaining Term (months)	No. of Loans	% of Total	Outstanding Value	% of Total
>36<=48	550	2.4%	16,313,119	1.3%
>48<=60	927	4.0%	25,519,423	2.0%
>60<=120	8,722	38.0%	372,589,047	29.8%
>120<=180	8,441	36.7%	505,005,157	40.4%
>180<=240	4,335	18.9%	331,216,049	26.5%
<b>Total</b>	<b>22,975</b>	<b>100.0%</b>	<b>1,250,642,795</b>	<b>100.0%</b>

### 14. Breakdown by Seasoning (months)

Breakdown by Seasoning (months)	No. of Loans	% of Total	Outstanding Value	% of Total
>12<=18	2,971	12.9%	184,090,199	14.7%
>18<=24	6,138	26.7%	371,708,303	29.7%
>24<=36	7,313	31.8%	422,577,075	33.8%
>36<=48	1,576	6.9%	80,438,264	6.4%
>48<=60	2,374	10.3%	99,562,211	8.0%
>60<=120	2,603	11.3%	92,266,744	7.4%
<b>Total</b>	<b>22,975</b>	<b>100.0%</b>	<b>1,250,642,795</b>	<b>100.0%</b>

### 15. Breakdown by Mortgage Amount on Original Balance

Breakdown by Mortgage Amount on Original Balance	No. of Loans	% of Total	Outstanding Value	% of Total
>150%<=200%	16,616	72.3%	966,367,290	77.3%
>200%<=250%	4,270	18.6%	211,204,446	16.9%
>250%<=500%	2,032	8.8%	71,716,275	5.7%
>500%<=1000%	43	0.2%	1,241,271	0.1%
>1000%	14	0.1%	113,514	0.0%
<b>Total</b>	<b>22,975</b>	<b>100.0%</b>	<b>1,250,642,795</b>	<b>100.0%</b>

**16. Breakdown by Mortgage Amount on Current Balance**

<b>Breakdown by Mortgage Amount on Current Balance</b>	<i>No. of Loans</i>	<i>% of Total</i>	<i>Outstanding Value</i>	<i>% of Total</i>
>200%≤250%	17,756	77.3%	1,062,389,553	84.9%
>250%≤500%	4,619	20.1%	172,940,995	13.8%
>500%≤1000%	579	2.5%	15,003,566	1.2%
>1000%	21	0.1%	308,681	0.0%
<b>Total</b>	<b>22,975</b>	<b>100.0%</b>	<b>1,250,642,795</b>	<b>100.0%</b>

## MORTGAGE PRODUCTS, ORIGINATION AND UNDERWRITING PROCESS

Residential mortgage loans are primarily granted by BNL to individuals and to families.

The mortgage approval process is initiated through the receipt of an application and the opening of an anagraphical report on the applicant.

The evaluation of the credit worthiness and the determination of the competent managing department are carried out by taking into account the overall financial position of the client.

The granting of the loans depends not only on having a real estate mortgage as security created in favour of BNL upon granting a mortgage, but also on the economic and financial information of the applicant. The reliability of the applicants is fundamental both in the context of transactions carried out by BNL's distribution network (the "**Distribution Network**") and transactions carried out by BNL's central departments (the "**Central Departments**"), that are very limited in number.

In particular, the Distribution Network is not authorised to grant residential mortgage loans (i) in respect of positions classified as delinquent or with respect to which a transfer to delinquent status has already been made or (ii) in favour of individuals or entities which have been debtors under mortgage loans which had previously been the subject of a non-performing loan securitisation. Any exceptions to these requirements must be evaluated by the Central Departments.

The application process involves the evaluation of a variety of information, such as:

- the type and source of the income of the applicant;
- information provided by the applicant (real estate deed registration with the (land deeds registry) (*Conservatoria dei Registri Immobiliari*), notary reports, credit history registered by the *Centrale Rischi* of the Bank of Italy and by the *Centrale Rischi Finanziari (CRIF)*, which keeps credit records collected from banks and financial institutions and a database about any loan applicants' overall exposure, relationships with the BNL Group, etc.); and
- additional information (informational bulletins from regular clients and suppliers, from banks, specialised agencies, bad check register (*Casellario Protesti*), compromising formalities, internal checks on the position of the candidate if the same is a client).

In particular, the required documentation includes:

1. Notarial report in duplicate copy;
2. Technical appraisal by a professional known and trusted by BNL (or self-appraisal, to the discretion of BNL where certain conditions are met);
3. Copy of the deed of origin of the relevant property with relevant attachments and annotations;
4. Registered blueprints of the real estate property;
5. Abstract of the Land Registry (*N.C.E.U.*) code;
6. Preliminary agreement for the purchase and sale of the property (if already executed) or reservation/option;
7. Tax return (and last two payslips in the case of employees) of the applicant and guarantors, if any; and
8. List of estimated costs for proposed renovation (in the case of mortgage loans for the renovation of the real estate property).

Candidates are classified as follows: family units, employees, self-employed individuals, professionals, etc..

The purpose of the economic and financial analysis is to evaluate (i) to what extent that candidate maintains a steady financial position and (ii) his capacity to reimburse the loan on a regular basis. In the case of mortgage loans granted to families, the repayment capacity is evaluated on the basis of the net income of the family.

The internal management of the mortgage loan proposal is carried out by using the necessary instruments including the following:

- the entry of information on the applicants and guarantors;
- the entry of a code indicating more than one mortgage loan to be perfected under a single agreement;
- the preparation of an opinion in respect of mortgage loans under the competence of the Central Departments;
- the preparation of the proposal and the conclusions; and
- the printing of the proposal.

BNL's retail scoring system provides an objective and global method of evaluating the Borrowers and of estimating the probability of insolvency within a one year period. The retail scoring system gives an efficient and effective evaluation of the credit transaction and provides a completely automated system for the mortgage loan approval process.

The scoring of retail mortgages is a "decisional support" system based upon an automatic acceptance strategy which quickly and effectively evaluates the credit worthiness of a given transaction by analysing all the information available at the moment the loan application is submitted.

The scoring strategy process for retail mortgage loans can be summarised in five different steps:

- bad check results;
- compromising factors;
- economic and social scoring;
- credit bureau scoring; and
- global evaluation of risk (the "**Global Evaluation**").

The Global Evaluation produced by the scoring system is the result of the preceding steps set out above. In short, the outcomes of the economic and social scoring and the credit bureau scoring are cross-checked in order to identify 11 risk areas.

The scoring results are combined in four macro-risk areas associated to the Global Evaluation. The scoring results represent a preliminary evaluation for the operational units. The following table indicates the risk areas and the corresponding Global Evaluations:

<b>Risk Area</b>	<b>Global Evaluation</b>
Extremely high risk	extremely negative evaluation
High risk	negative evaluation
Medium risk	further evaluation necessary
Low risk	positive evaluation

Credit policies have been further developed by the operational units pursuing an even more selective approach on the basis of the Global Evaluation. In particular, a more restrictive approach is used to analyse the application process involving candidates with an extremely high risk or high risk profile.

The scoring system with respect to retail mortgage loans provides (i) the quantification of risk with respect to each single transaction and (ii) the identification of retail mortgage loans presenting higher risk profiles.

This concentration process allows a more efficient screening of the high risk transactions by the operational units. On the basis of a sampling analysis, it has been determined that 40% of bad loans (approximately 10% of the total) are concentrated in the first three scoring classes (a-b-c).

In consideration of this strongly discriminating factor, the system results in polarised probability rates of default. As represented by the four principal risk areas, the extremely high risk area together with the high risk area indicate a probability of default of 7.2%, the medium risk area indicates a probability of default of 2.4% and the low risk area indicates a probability of default of 0.75%.

## LOAN SERVICING AND COLLECTION PROCEDURES

BNL has agreed in the Servicing Agreement to service the Mortgage Loans on the basis and in accordance with the same procedures as it applies to the mortgage loans not transferred to the Issuer at the time the Servicing Agreement was entered into.

A description of these procedures, as attached to the Servicing Agreement, is set out below.

### Payment Procedures

All the Mortgage Loans comprised in the Portfolio began to amortise on the first day of the amortisation period (which may be monthly or semi-annual) falling immediately after the date of execution of the relevant Mortgage Loan Agreement (except where the relevant Mortgage Loan Agreement provided for a pre-amortisation period, during which the Borrower was only required to pay interest). No Mortgage Loans of the Portfolio are in the pre-amortisation period.

In 2000/2001 a procedure was introduced in the IT system of BNL to improve and standardise the payment procedures of the medium and long term loans. The SIF application (*Sistema Integrato Finanziamenti*), built on an internet platform, will manage all the phases of the servicing process connected with the Securitisation.

The payment of the instalments under all mortgage loans originated by BNL are managed by the SIF procedures and can be effected as follows:

- (i) by direct debit from the bank account of the borrower, held with BNL (which applies to 84% of the Mortgage Loan Agreements);
- (ii) by payment from the bank account of the borrower, held with another bank; in particular, the amounts due are transferred daily to BNL through a specific procedure (“*SIRIO*”) which connects the interbank system (*Rete Nazionale Interbancaria*) with BNL IT; at a second stage BNL accounting department (*Centro Amministrativo*) provides for the identification of the funds collected to pay the loans; and
- (iii) by paying cash at a branch of BNL.

### Direct Debit Payments from Current Accounts held at BNL

Where payments are made by direct debit from a bank account held with BNL (which applies to 84% of the Mortgage Loans comprised in the Portfolio), the SIF procedures will identify all the instalments due on a specified day and debit the bank account of the relevant Borrower on such day (allowing for any exceptions such as where such a day is not a business day or the payments relate to arrears). If a bank account does not have sufficient funds standing to its credit, the account will not be debited and each relevant branch shall automatically obtain details as to the amounts which have not been paid.

Any arrear will be immediately registered on the computer systems of BNL. The computer systems of BNL are immediately updated upon a Mortgage Loan becoming in arrear, so that the status of payments can be checked at any time.

### Delinquency Management and Recovery Management

Monitoring procedures of BNL are automated so that prompt action can be taken in relation to any borrower who is in arrears with the payments under its mortgage loan.

Under BNL standard policy, a mortgage loan is classified as “in arrear” (*in arretrato*) when one instalment is unpaid for not more than 29 calendar days. A mortgage loan is classified as “delinquent” when it is unpaid for a period of between 30 and 180 calendar days.

A special unit denominated “*Business Unit - Gestione Crediti Irregolari*” carries out the entire process for the management of arrears or delinquencies through an Operative Collection Centre (*Centro Operativo Recupero*) which is completely automatic and centralised.

BNL Delinquency Management consists of a monitoring system, composed of a series of functions in order to recover any loan “in arrear” or delinquent. This process consists of a sequence of contacts with the relevant borrowers by phone or by sending them letters to solicitate the payments in arrears.

The different stages of these activities are diversified by classifying the borrowers in relation to their economic status and to the scoring attributed to them: every segment of borrowers is managed on a personalised basis.

### **Management of defaulted mortgage loans (*crediti problematici*)**

Under the criteria established by the Bank of Italy, a mortgage loan is declared “*problematico*” when it is classified as an “*Incaglio*” or as a “*Sofferenza*”.

The criteria established by the Bank of Italy in classifying the loans as “*Incaglio*” are set out hereinafter:

#### a. Identification of the ‘Incaglio’ on the basis the number of unpaid instalments:

<b>Duration of the mortgage loan</b>	<b>Semi-annual instalments</b>	<b>Monthly instalments</b>
>36 months	3 unpaid instalments	7 unpaid instalments
=< 36 months	2 unpaid instalments	5 unpaid instalments

and at the same time:

#### b. Identification of the ‘Incaglio’ as a percentage of arrears:

The total outstanding amount (excluding any default interest) of the mortgage loan in arrear is equal to or greater than 20% of the aggregate exposure of the bank in relation to the specific borrower.

The approach of the unit “*Business Unit - Gestione Crediti Irregolari*” is more restrictive than the criteria established by the Bank of Italy in classifying the loans as “*Incaglio*”. The Portfolio identifies as “*Incaglio*”:

- (i) in the case of mortgage loans with monthly instalments, those mortgages in respect of which more than six instalments have not been paid when due (except where seven instalments that have not been paid when due and the unpaid amount for the first instalment is of euro 50.00 or less); and
- (ii) (ii) in the case of mortgage loans with semi-annual instalments, those mortgages in respect of which more than one instalment has not been paid when due (except where two instalments that have not been paid when due and the unpaid amount for the first instalment is for euro 50.00 or less).

In addition to the above criteria, BNL classifies mortgage loans as an “*Incaglio*” or as a “*Sofferenza*” on the basis of criteria that are different from the non-payment of an instalment when due.

The difference between “*Incaglio*” and “*Sofferenza*” is based on the Bank of Italy criteria that refer to the objective economic and financial difficulties of the relevant borrower, which in each instance can be classified at the discretion of a bank as being temporary or permanent, and which in turn trigger respectively an “*Incaglio*” or a “*Sofferenza*”. As a consequence a loan that has been previously classified as an “*Incaglio*” could be re-classified as performing (“*in bonis*”) if all instalments due but unpaid are paid. If such loan is not so reclassified as performing, it is then classified as a “*Sofferenza*”. Upon a loan being classified as a “*Sofferenza*” all amounts recovered shall constitute Recoveries.

With respect to the classification of “*Incaglio*”, the loan servicing and collection procedures and criteria applied by BNL’s unit “*Business Unit – Gestione Crediti Irregolari*” in the context of a securitisation transaction (“*BNL’s Approach*”) differ slightly from the criteria established by the Bank of Italy (the “*Bank of Italy Approach*”). Although

under the Bank of Italy Approach an “*Incaglio*” does not yet constitute a defaulted mortgage loan, under BNL’s Approach an “*Incaglio*” is always classified as a defaulted mortgage loan. As a consequence, an entry for all principal instalments due and unpaid and the aggregate outstanding principal is made on the principal deficiency ledger (pursuant to the terms and conditions of the notes) each time an “*Incaglio*” occurs. Therefore, the overall burden of this entry for an “*Incaglio*” under BNL’s Approach is borne by the junior note subscriber at an earlier stage than would be the case under the Bank of Italy Approach.

Under both the Bank of Italy Approach and the BNL’s Approach, a mortgage loan that is at any time classified as “*Incaglio*” may be re-classified as “performing” (“*in bonis*”) if all instalments due and unpaid are subsequently paid. Once a mortgage loan is classified as “*Sofferenza*”, it cannot be re-classified as “performing” (“*in bonis*”).

According to the Bank of Italy regulations, the total exposure of a borrower who is insolvent or bankrupt or that is in the process of being declared insolvent or bankrupt or who has an equivalent status, is considered in default (even where no judgment has yet been given in relation to such insolvency), regardless of any loan loss provisions which may have been assessed or posted by BNL or any evaluations made in relation to existing security.

A special office of the unit “*Business Unit - Gestione Crediti Irregolari*” is responsible for the recovery of non-performing mortgage loans. Waivers with respect to a mortgage loan can be agreed, in order to recover amounts due in a shorter period of time as opposed to recovering monies under the same mortgage loan by means of legal proceedings (i.e. out-of-court settlements).

The unit “*Business Unit - Gestione Crediti Irregolari*” appoints external legal advisers to undertake legal proceedings against defaulted debtors. Such legal advisers will be closely monitored and supervised at all times. Furthermore the unit “*Business Unit - Gestione Crediti Irregolari*” will debit the client any external legal advisers, fees, even before any invoice is issued by such advisers on the basis of previously defined costs (i.e. at the time of the appointment of the external legal advisers for debt recovery) or of specific proposals by the client (at the request of BNL for an assessment of an out-of-court settlement).

This organisation will ensure that:

- (i) all legal proceedings to recover debt are initiated and will encourage, address and direct such legal proceedings where necessary;
- (ii) where possible, out-of-court settlements with customers are pursued (also through the assignment of the debt); and
- (iii) other assets of the borrower are, where appropriate, seized (attachment of one-fifth of salary, real estate foreclosure of assets other than the collateral involved).

The unit “*Business Unit - Gestione Crediti Irregolari*” attempts to ensure that out-of-court settlements are reached and, in particular:

- (a) will consider the rental value of any mortgaged or seized property;
- (b) will request a set of accounts from the custodian of the property;
- (c) may agree, upon request, to borrowers paying their debts by instalments; and
- (d) may agree, in exceptional cases, to borrowers deferring their payment.

The standard procedure of the unit “*Business Unit - Gestione Crediti Irregolari*” as to any loan including a Mortgage Loans comprised in the Portfolio does not allow the following:

- a partial cancellation of the amount due, if the amount offered by the Borrower (as repayment of principal and payment of interest and expenses) is determined to be lower than 80 per cent. with respect to the amount still due; and
- a rescheduling of payments if the delay exceeds 36 months.

## BANCA NAZIONALE DEL LAVORO S.P.A. AND ITS GROUP

### Overview

As at 31 December 2003, Banca Nazionale del Lavoro S.p.A. (“**BNL**”) and its subsidiaries and affiliates (all together, the “**Group**”) was one of the principal banking groups in Italy.

Over the last few years the Group has seen a re-organisation of its core activities with a specific focus on active management of capital resources, asset quality improvement, revenue growth in its various business areas and increased efficiency. The Group now provides a wide range of banking services all based on the concept of the universal banking model. The Group’s core activities (directed both to corporate and to retail customers) consist of commercial banking, direct deposit banking, wholesale banking, asset management, retail banking, payment services, treasury and securities dealing and brokerage activities, *bancassurance* (i.e. hybrid banking-insurance products), merchant banking, telephone banking and e-banking.

### History

Incorporated in 1913 with the name of “*Istituto di Credito per la Cooperazione*”, BNL adopted its current name in 1929. In 1992 BNL changed from being a state-owned bank, with 80 per cent. owned by the Italian Treasury, into a limited liability, joint stock company (*società per azioni*) with a statutory duration currently set to expire on 31 December 2050. BNL is registered in the register of Italian banks held by the Bank of Italy under number 7860. In November 1998 BNL was privatised, partly through an offer of its shares to the public and partly through private placements. BNL’s ordinary shares and savings shares are now listed on the Italian Stock Exchange on the main market - “*Mercato Telematico Azionario*” or (“**MTA**”).

### Structure of the Group

BNL is both the parent company of the Group and is the Group’s largest commercial banking entity. BNL co-ordinates and monitors the Group’s activities and manages the relationship of the Group with the Bank of Italy. The Group operates in Italy mainly through BNL itself, three banking subsidiaries and other non-banking subsidiaries. Abroad, the Group has a presence in twenty countries, with seven branches, thirteen area offices, seven banking companies, nine affiliates in the financial intermediary business (of which two are themselves holding companies) and one affiliate providing services internal to the Group, all controlled directly or indirectly by BNL. Through its presence abroad, the Group offers its services (including structured finance and private banking) to Italian corporates with interests abroad and multinationals with interests in Italy.

The table below sets forth the main current activities of the Group's principal operating companies:

<i>Name of Operating Company</i>	<i>Main Area of Activity</i>
<b>In Italy</b>	
Banca Nazionale del Lavoro S.p.A.	Commercial and investment banking
Artigiancassa	The Bank of reference for the entire skilled trades industry (craftsmanship and Cooperatives)
BNL Finance	Specialised in factoring
BNL Fondi Immobiliari SGR	BNL Fondi Immobiliari SGR manages a closed-end property fund
BNL Gestioni SGR	BNL Gestioni SGR manages 17 open-end mutual funds, one Irish UCIT and one closed-end mutual fund
BNL Multiservizi	An organisation charged with building and managing new online services as well establishing an infrastructure capable of supporting hundreds of thousands of online customers
BNL Vita	Specialised in the life insurance sector
Coopercredito	A company that provides medium and long-term funding for the benefit of co-operatives in all sectors
Ifitalia	One of the largest Italian factoring company, leader in this sector
Locafit	One of the largest Italian leasing company
Servizio Italia	Specialised in individual real-estate portfolios on a fiduciary basis
<b>Outside Italy</b>	
BNL Inversiones Argentinas SA (Argentina)	Commercial banking and private banking
Banca Nazionale del Lavoro International S.A. (Luxembourg)	Commercial banking
Banco BNL do Brasil (Brazil)	Commercial banking
BNL International Investments (Luxembourg)	Holding company
Lavoro Bank AG (Switzerland)	Commercial banking
<b>Other associated companies</b>	
Albacom Holdings	Telecommunication

## Share Capital and Listing

As at 31 December 2003 BNL's issued and outstanding share capital was equal to euro 1,105,831,821.50 fully paid-up divided into 2,188,465,312 ordinary shares with a nominal value of euro 0.50 each, and into 23,198,331 savings shares with a nominal value of euro 0.50 each. Ordinary shares are the only securities issued by BNL which have voting rights attached.

BNL's ordinary shares and savings shares are in bearer and dematerialised form, indivisible and freely transferable.

## Rating of Debt Instruments

BNL currently has ratings assigned both to its long-term, unsecured, unsubordinated and unguaranteed debt obligations and to its short-term unsecured, unsubordinated and unguaranteed debt obligations. These appear in the table below.

<i>Rating Agency</i>	<i>Short-term Rating</i>	<i>Long-term Rating</i>	<i>Outlook</i>	<i>Last Rating Assessment</i>
Moody's	P-1	A2	Stable <sup>1</sup>	2 October 2000
S&P	A-2	BBB+	Stable <sup>2</sup>	17 October 2003
Fitch Ratings Limited	F2	BBB+	Stable <sup>3</sup>	21 July 2003

<sup>1</sup> as at 17 January 2002

<sup>2</sup> as at 17 October 2003

<sup>3</sup> as at 21 July 2003

## Business of the Group - Overview

The Group has operations in most Italian regions. The Group has traditionally operated from its head office in Via V. Veneto, 119, Rome.

As at 30 June 2003, the Group operated through a network of 744 branches (excluding the branches of the BNL's Group operating in Argentina). As part of BNL's multi-channel distribution strategy, the traditional bank branch network is being complemented by the financial advisors of *BNL Investimenti Bank*, the self-banking terminals (Atm and Pos), telephone-banking services (*Telebanca BNL*) and internet or electronic banking services (*e-Family BNL*, the banking, trading and shopping channel dedicated to the retail market or *Business Way BNL*, the portal offering both banking and non-banking services to corporate and professional customers, entrepreneurs and SMEs). To improve its ability to exploit market opportunities, the Group has started initiatives aimed at sustaining profitability, including working on a divisional model designed to rationalise and mould operating units in accordance with the demands for services coming from different business areas (*Commercial Banking Division and Wholesale Banking Division*). In line with this divisional structure and with a view to raising the level of specialisation by business and by market, BNL has also started implementing a new organisational and distribution model structured according to geographical area.

## Business of the Group - Core Activities

The Group's core activities consist of commercial banking, including retail banking and payment services, (including credit and debit cards, leasing and factoring), wholesale banking (including treasury and securities dealing and brokerage activities, asset management, private banking, *bancassurance*) and merchant banking. The Group's clientele comprises of individuals, families, small to medium-sized businesses, companies and public entities.

The retail and commercial banking activities of the Group are conducted in Italy by Banca Nazionale del Lavoro S.p.A. through its direct branch network. Internationally, the group is present in South America (Brazil and Argentina), and in Europe (Germany, Switzerland and Luxembourg).

The Group's traditional lending products are available to private individuals and families, businesses and public bodies. The loan portfolio (other than consumer loans) is, however, mainly distributed among firms operating in the wholesale

and retail trade, building and infrastructure business, farming and agriculture business, textile and machinery production, and the production of machinery for the agricultural, footwear and clothing sectors.

The Group's asset management activities include (i) management of mutual funds; (ii) management of individual securities portfolios (also on a fiduciary basis); (iii) management of life assurance funds; and (iv) management of pension funds.

As at 31 December 2003 the Group, through *BNL Gestioni SGR*, managed 17 open-ended mutual funds, one Irish incorporated SICAV, a multisection fund of funds ("*BNL Bussola*"), four "stand alone" funds – among which an ethical fund ("*BNL per Telethon*") and one close-ended mutual fund ("*BNL Investire Impresa*") and offered these funds to its customers through the Group's branch network and the network of financial advisors of *BNL Investimenti SIM*. In addition, the Group's mutual funds product range extended to two close-ended property funds ("*BNL Portfolio Immobiliare*" and "*BNL Portfolio Immobiliare Crescita*") managed by *BNL Fondi Immobiliari SGR*.

The Group operates in the pension fund sector through *Lavoro Servizi Previdenziali S.p.A.*, a newly formed company that offers a range of pension fund services for the creation, administration and financial management of personal pensions.

As at 31 December 2003 the Group's Italian network comprised 698 branches, 1,017 financial advisers and 1,259 cash points. Of the 698 branches, 42 per cent. were located in Northern Italy, 31 per cent. in Central Italy and 27 per cent. in Southern Italy, resulting in, possibly, the widest spread of branch network of any banking group in Italy. A newly implemented business plan has made customer relationship specialists available to retail, corporate and public administration customers through the branch network.

Amongst its various payment services, the Group offers several different types of credit cards linked to either the VISA or the Eurocard/MasterCard circuits.

It is present in the life assurance business through "*BNL Vita*". The Group distributes these products through the Group's branch and financial advisers networks.

The Group also operates in the so called "*leasing market*" (comprising operating and financial leases and hire purchase agreements) through *Locafit S.p.A.* which distributes its products through its own commercial network as well as the Group's branch network.

The Group's factoring activities are centred in *Ifitalia S.p.A.*, one of the leading player in the factoring business in Italy.

## **Strategy**

With the Business Plan 2003-2005 (the "**Business Plan**") BNL has implemented a new strategy, inspired by the principle of increasing shareholder return. The Business Plan is expected to enhance the Group's accountability to the market both with respect to the Group's aggregate revenue and business prospects, in the context of the relevant asset classes.

The Business Plan comprises actions aimed at achieving the following priority objectives:

- 1) completing the reorganisation commenced after BNL's privatisation, with a view to increasing the Group's business efficiency and operational effectiveness from the results achieved prior to the period covered by the Business Plan;
- 2) varying the composition of the Group's asset portfolio by concentrating its asset classes to respond to changing markets scenarios and to reduce aggregate business risks; and
- 3) strengthening the financial performance and asset balance of the Group by managing more actively the Group's assets and liabilities.

## **Management - Board of Directors and Statutory Auditors**

Pursuant to BNL's by-laws, the Board of Directors is composed of not less than seven and not more than 15 members, elected by the Shareholders' General Meeting.

The Shareholders' General Meeting of 30 April 2002 appointed a Board of Directors comprising 13 directors and a Board of Statutory Auditors for the three years 2002/2004.

The Chairman, the Vice Presidents and the Managing Director were appointed at the meeting of the Board of Directors of 3 May 2002. Mr Davide Croff, the former Managing Director, resigned on 14 June 2003.

The Board of Directors and the Management are currently composed as follows:

<i>Name</i>	<i>Position</i>
Abete Luigi	Chairman
Girotti Mario	General Manager and Chief Executive Officer
Lanzara Ademaro	Deputy General Manager
Fabrizi Pier Luigi	Deputy Chairman
Terreros Ceballos Gonzalo	Deputy Chairman
Maida Alessandro	Commercial Banking Division
Lupi Riccardo	Wholesale and International Banking Division
Carbone Luciano	Human Resources and Organizational Development
Cefis Davide Emilio	Communications
Furia Euclide	Risk Management
Oronzo Vittorio	Auditing
Formosa Giovan Domenico (interim)	Accounting and Corporate Affairs
Colella Francesco	Operations
Pandolfini Niccolò	Investments
Di Giovanni Alessandro	Credits
Ortega Parra Antonio	Director
Caracciolo Landolfo	Director
Catania Elio Cosimo	Director
Gonzalez Cid Manuel	Director
Minucci Aldo	Director
Perez Calot Juan	Director
Perissinotto Giovanni	Director
Della Valle Diego	Director
Tosato Massimo	Director
Trapani Francesco	Director
Zonin Giovanni	Director
Formosa Giovan Domenico	Secretary*

### ***Board of Statutory Auditors***

Pursuant to Italian law, in addition to appointing the Board of Directors, BNL's shareholders in general meeting also appointed on 30 April 2002 a Board of Statutory Auditors (*Collegio Sindacale*), comprising three standing auditors and two alternate auditors, and its Chairman. Statutory Auditors remain in office for three years, and may be re-appointed.

The following table sets forth the current members of the Board of Statutory Auditors:

<i>Name</i>	<i>Position</i>
<b>Standing Auditors</b>	
Di Tanno Tommaso	Chairman
Caramanti Franco	Acting auditor
Piccinelli Pier Paolo	Acting auditor
<b>Substitute Auditors</b>	
Bagnera Massimo	Substitute auditor
Trivi Daniele	Substitute auditor

\* Secretary to the Board and to the Executive Committee.

## Financial Statements

The following tables present the consolidated balance sheets and income statements of BNL (expressed in millions of euros) as at 30 September 2003 and for the year ended 31 December 2002 (the “2003 Financial Statements”).

	30 September 2003	31 December 2002	Variation %
<b>Consolidated Profit and Loss Account</b>			
Net interest income	1,246	1806	-31.0%
Non-interest income	1,044	1,251	-16.5%
Gross operating income	2,290	3,057	-25.1%
Operating Costs	-1,446	2,018	-28.3%
- of which: personnel costs	-825	-1,129	-26.9%
Operating Profit	844	1,039	-18.8%
Profit on ordinary activities	379	486	-22.0%
Net profit (loss) for the period	149	91	63.7%
<b>Consolidated Balance Sheet Data</b>			
Total assets	84,236	83,711	-0.6%
Loans to customers	57,147	60,249	-5.1%
- of which: net doubtful loans	2,146	2,057	4.3%
Loans to banks	12,639	6,819	85.3%
Securities portfolio	3,667	5,887	-37.7%
Equity investments	487	495	-1.6%
Deposits from customers	55,084	56,232	-2.0%
Deposits from banks	15,114	14,968	1.0%
Subordinated debts and hybrid instruments	2,797	2,878	-2.8%
Tier 1	3,450 <sup>1</sup>	3,379	2.1% <sup>2</sup>
Capital for supervisory purposes	6,246 <sup>1</sup>	6,034	3.5% <sup>2</sup>
<b>Assets under Management and Securities under custody</b>	44,386	42,537	4.3%
Total assets under management	28,785	27,708	3.9%
- of which			
<i>Mutual Funds</i>	19,008	18,540	2.5%
<i>Portfolio</i>	7,209	6,471	11.4%
<i>Funds under Fiduciary Management</i>	2,568	2,697	-4.8%
Securities under custody	44,386	42,537	4.3%
Total indirect deposits	73,171	70,245	4.2%
<b>Staff and Network Structure</b>	18,833	19,405	-2.9%
Number of employees as at year-end	17,816	18,305	-2.7%
Financial Advisors <sup>3</sup>	1,017 <sup>1</sup>	1,100	-7.5% <sup>2</sup>
Number of Banking branches <sup>4</sup>	744 <sup>1</sup>	748	-0.5% <sup>2</sup>
- of which in Italy	709	705	0.6% <sup>2</sup>

<sup>1</sup> At 30 June 2003

<sup>2</sup> Over six months

<sup>3</sup> Including Banca BNL Invesimenti S.p.A.

<sup>4</sup> Excluding the banking branches of the BNL's Group operating in Argentina

## THE ROYAL BANK OF SCOTLAND PLC

The Royal Bank of Scotland Group plc (the “**Group**”) is a diversified financial services group engaged in a wide range of banking, financial and finance related activities in the United Kingdom and internationally. The Group's operations are principally centred in the United Kingdom.

The Group's principal operating subsidiary is The Royal Bank of Scotland plc (“**RBS**”). On 31 January 2003 the entire issued ordinary share capital of National Westminster Bank Plc (“**NatWest**”) was transferred from the Group to RBS. Both RBS and NatWest are major UK clearing banks engaging principally in providing a comprehensive range of banking, insurance and other financial services and each controls, directs and promotes the operations of various subsidiary companies.

RBS was created by the merger in 1985 of the former The Royal Bank of Scotland plc, the largest of the Scottish clearing banks, and Williams & Glyn's Bank plc. At 31 December, 2003, RBS had over 600 retail branches in the UK.

NatWest was incorporated in England in 1968 and was formed from a merger of National Provincial Bank Limited and Westminster Bank Limited, which had themselves been formed through a series of mergers involving banks with origins dating back as far as the seventeenth century. Natwest was acquired by the Group on 6 March 2000. At 31 December, 2003, NatWest had over 1,600 retail branches in the UK.

At 31 December 2003, the Group had total assets of £455 billion and total deposits of £304 billion. Shareholders' funds at 31 December 2003 were £28,099 million.

The short-term unsecured and unguaranteed debt obligations of RBS are currently rated A-1+ by S&P, P-1 by Moody's and F-1+ by Fitch. The long-term unsecured and unguaranteed debt obligations of RBS are currently rated AA by S&P, Aa1 by Moody's and AA+ by Fitch.

In its capacity as Swap Counterparty, RBS will be acting through its branch at 135 Bishopsgate, London, EC2M 3UR.

In its capacity as Bank Account Guarantee Provider and as Liquidity Facility Provider, RBS will be acting through its branch at Via Turati, 18, 20121 Milan, Italy.

The information contained herein with respect to RBS and the Group relates to and has been obtained from it. Delivery of this Offering Circular shall not create any implication that there has been no change in the affairs of RBS or the Group since the date hereof, or that the information contained or referred to herein is correct as of any time subsequent to its date.

## THE ISSUER

### Introduction

The Issuer was incorporated in the Republic of Italy (registered in the register of enterprises held in Treviso with number 03678290267) on 23 November 2001 pursuant to Law No. 130 of 30 April 1999 as a limited liability company and is currently named Vela Home S.r.l., registered in the register held by *Ufficio Italiano Cambi* pursuant to Article 106 of the Italian Banking Act under No. 33750 and registered in the special register of financial intermediaries held by the Bank of Italy Article 107 of the Italian Banking Act. The registered office of the Issuer is in Conegliano, Treviso, Via V. Alfieri 1. The Issuer has no employees. The financial statements for the year ending on 31 December 2003 have been duly prepared, approved and deposited according to all applicable laws. The authorised registered capital of the Issuer is euro 10,000 divided into two quotas of euro 9,100 and euro 900 respectively. The quotaholders of the Issuer are as follows:

- SVM Securitisation Vehicles Management S.r.l. (“**SVM**”), a quota equal to 91 per cent. of the quota capital; and
- BNL Partecipazioni S.p.A. (“**BNL Partecipazioni**”), a wholly owned subsidiary of BNL, a quota equal to 9% of the quota capital.

### Shareholders Agreement

Pursuant to the terms of a shareholders agreement entered into on 30 April 2003 and an amendment agreement to such shareholders agreement to be entered into on 16 April 2004 between, *inter alios*, the Issuer, BNL Partecipazioni, SVM and the Representative of the Noteholders (together the “**Shareholders Agreement**”): (i) SVM has granted to the minority holder (now BNL Partecipazioni) the option to purchase SVM’s 91 per cent. stake in the Issuer’s share capital (“**SVM’s Holding**”) only after the date on which the Senior Notes and any other senior notes issued by the Issuer have been repaid in full; (ii) BNL Partecipazioni has granted to SVM the option to sell to BNL SVM’s Holding after the date on which the Senior Notes and any other senior notes issued by the Issuer in a prior or in a subsequent securitisation have been repaid in full; (iii) BNL Partecipazioni and SVM have assumed certain undertakings with respect, *inter alia*, the exercise of their voting rights in the Issuer to which they will be entitled; and (iv) BNL Partecipazioni and SVM have undertaken to dispose of their interest in the Issuer only in limited circumstances.

### Principal Activities

The principal activities of the Issuer are set out in Article 2 of its by-laws (*statuto*) and are to acquire monetary receivables for the purposes of securitisation transactions (*operazioni di cartolarizzazione*) and to issue asset-backed securities. The Issuer has been established as a multi-purpose vehicle and, accordingly, may engage in other securitisation transactions in addition to that contemplated in this Offering Circular. At the date hereof, the Issuer has engaged in one other securitisation transaction, the Prior Securitisation. The Prior Securitisation is segregated, and distinct from, and is not part of the transaction entered into pursuant to the Transaction Documents.

Pursuant to the Prior Securitisation, the Issuer purchased at a price of euro 2,198,188,353.41 a portfolio (the “**Old Portfolio**”) comprised of monetary receivables arising out of residential mortgage loans (*mutui fondiari*) classified on the relevant transfer date as performing by BNL, the relevant originator, and selected on the basis of certain objective criteria. In the context of the Prior Securitisation, the Issuer issued five classes of notes, payments of interest and repayments of principal on which are sourced from collections made in respect of the Old Portfolio. The final class under the notes so issued matures in 2027. Further, the notes so issued were offered and sold outside the United States in accordance with Regulation S of the Securities Act and, therefore, did not give rise to a requirement of the registration of the Issuer under the Investment Company Act. Further details of the Prior Securitisation can be found in the Offering Circular prepared by the Issuer dated 29 April 2003.

All conditions required under the relevant terms and conditions of the notes and of the transaction documents of the Prior Securitisation have been satisfied for the Issuer to enter into the transaction contemplated by this Offering Circular.

Pursuant to Article 3 of the Securitisation Law, the assets relating to a particular securitisation transaction will not be made available to the holders of the notes issued to finance any other securitisation transaction or to the general creditors of the Issuer.

No dividends have been paid and no indebtedness, other than the Issuer's costs and expenses of incorporation, any indebtedness related to the Prior Securitisation and the payment of dues, has been incurred by the Issuer.

The Issuer will covenant to observe, *inter alia*, those restrictions which are detailed in Senior Condition 4.

So long as any of the Senior Notes remain outstanding, the Issuer shall not, otherwise than as contemplated in the Transaction Documents or with the prior written consent of the Representative of the Noteholders and of the representative of the noteholders relating to the Prior Securitisation, incur any other indebtedness for borrowed moneys or engage in any business (other than acquiring and holding the assets on which the Notes are secured, issuing the Notes and entering into the Transaction Documents to which it is a party), pay any dividends, repay or otherwise return any equity capital, have any subsidiaries, employees or premises, consolidate or merge with any other person or convey or transfer its property or assets to any person or issue further shares. However, the Issuer may enter into further securitisation transactions provided that the Rating Agencies have been informed of such transaction and such transaction would not adversely affect the then current rating of any of the Senior Notes.

#### **Board of Directors**

The directors of the Issuer are Andrea Perin (Chairman), Luigi Bussi and Alessandro Deodato, whose address is at the registered office of the Issuer.

The auditor of the Issuer is Deloitte & Touche.

#### **Administration**

Securitisation Services S.p.A., in its capacity as Corporate Servicer, will provide certain administrative and accounting services to the Issuer pursuant to a Corporate Services Agreement to be entered into on 16 April 2004. The Corporate Servicer will receive a fee from the Issuer for providing such services.

In addition, the Issuer shall be entitled to retain from the Interest Available Funds an amount equal to the Issuer Maintenance Corporate Advance on each Payment Date. The Issuer Maintenance Corporate Advance will be credited to the Expenses Account and will be available to the Issuer to meet on-going costs and expenses.

## Capitalisation and Indebtedness Statement

The capitalisation and indebtedness of the Issuer as at 31 December 2003, adjusted for the issue of the Notes, is as follows:

### *Registered capital*

Registered capital of euro 10,000 euro 10,000

### *Indebtedness as at December 2003*

The prospectus below also shows the borrowings relating to the Prior Securitisation. The indebtedness arising out of the Prior Securitisation was also reported in the *Nota Integrativa* of the Issuer as an off-balance sheet liability in relation to the notes so issued.

euro 1,841,000,000	Class A1 Residential Mortgage Backed Floating Rate Notes due 2027	euro 1,841,000,000
euro 280,000,000	Class A2 Residential Mortgage Backed Floating Rate Notes due 2027	euro 280,000,000
euro 22,250,000	Class B Residential Mortgage Backed Floating Rate Notes due 2027	euro 22,250,000
euro 44,000,000	Class C Residential Mortgage Backed Floating Rate Notes due 2027	euro 44,000,000
euro 11,900,000	Class D Residential Mortgage Backed Variable Return Notes due 2027	euro 11,900,000
	Cash Reserve of the Prior Securitisation	euro 10,936,250
	Unpaid Interest on Class D Residential Mortgage Backed Variable Return Notes due 2027	euro 11,836,052
	Liabilities deriving from Swap Agreements	euro 22,545,103
	Interests on Class A1, Class A2, Class B and Class C Residential Mortgage Backed Floating Rate Notes due 2027	euro 10,337,431
	Residual Liabilities	euro 1,324,274

*Total indebtedness as at 31 December 2003* *Euro 2,256,129,110*

euro 507,150,000	Class A1-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028	euro 507,150,000
euro 706,800,000	Class A2-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028	euro 706,800,000
euro 15,850,000	Class B-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028	euro 15,850,000
euro 31,700,000	Class C-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028	euro 31,700,000
euro 7,250,000	Class D-Series 2 Residential Mortgage Backed Variable Return Notes due 2028	euro 7,250,000
	<i>Total indebtedness</i>	euro 3,524,879,110.00

*Total capitalisation and indebtedness* euro 3,524,889,110.00

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Save for the foregoing, as at 31 December 2003, the Issuer had no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities. Since 31 December 2003 and save for the foregoing, there has been no material adverse change in the borrowings, indebtedness, financial or trading position or prospects of the Issuer.

## Accountants' Report

The following is the text of a report received by the Board of Directors of the Issuer from Fausto Zanon of Deloitte & Touche S.p.A., the external auditor of the Issuer, with office at Piazza San Vito 37, 31100 Treviso, Italy. The Issuer's

accounting reference date will be 31 December in each year, with the first statutory accounts having been drawn up to 31 December 2002. The statutory accounts as at and for the year ending 31 December 2003 have been approved by the board of directors of the Issuer and have been audited and are expected to be approved by the shareholders of the Issuer at the shareholders meeting scheduled for the end of April 2004. The current financial period of the Issuer will end on 31 December 2004.

“Vela Home S.r.l. (The “**Issuer**”)  
Via Vittorio Alfieri, 1  
31015 Conegliano (TV)  
Italy

*To the kind attention of the Board of Directors*

Treviso 15 April 2004

Dear Sirs

We are reporting in connection with the listing and sale of euro 507,150,000 Class A1-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028 (the “**Class A1 Notes**”), euro 706,800,000 Class A2-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028 (the “**Class A2 Notes**”, and together with the Class A1 Notes, the “**Class A Notes**”), euro 15,850,000 Class B-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028 (the “**Class B Notes**”), euro 31,700,000 Class C-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028 (the “**Class C Notes**”) and euro 7,250,000 Class D-Series 2 Residential Mortgage Backed Variable Return Notes due 2028 (the “**Class D Notes**”), issued by Vela Home S.r.l. (the “**Issuer**”), referred to in the offering circular to be dated 15 April 2004 (the “**Offering Circular**”).

The financial information set out below is based on the statutory financial statements of the Issuer for the period from incorporation on 23 November 2001 to 31 December 2002 (unaudited) and from 1 January 2003 to 31 December 2003 (audited and approved by the board of directors of the Issuer) and on the non-statutory financial statements from 1 January to 31 March 2004 (the “**Financial Information**”), to which no adjustments were considered necessary.

The statutory financial statements of the Issuer for the period from 23 November 2001 to 31 December 2002, included herein for comparative purposes as required by law, have not been audited. Therefore my professional judgment does not extend to such statements.

The Financial Information is the responsibility of the Board of Directors of the Issuer who approved its issue. The Issuer (and any other persons referred to in the Offering Circular as accepting responsibility for the same or any part thereof) is responsible for the contents of the Offering Circular in which this report is included.

It is our responsibility to compile the financial information set out below from the financial statements, to form an opinion on the financial information and to report our opinion to you. We have conducted our work in accordance with generally accepted Italian accounting principles and reporting practices. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information set out below and whether the accounting policies are appropriate to the entity’s circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

In our opinion the financial information set out below gives, for the purposes of the Offering Circular a true and fair view of the state of affairs of the Issuer as at the date stated.

## Statement of Current Assets, Capital and Reserves

	31 March 2004	31 December 2003 *	(unaudited) 31 December 2002
	<i>euro</i>	<i>euro</i>	<i>euro</i>
<b>Assets</b>			
Cash and due from banks	18,176	41,695	5,681
Start Up Costs	2,545	2,714	2,069
Other assets	57,885	21,186	11
<b>Total</b>	<b>78,606</b>	<b>65,595</b>	<b>7,761</b>
<b>Liabilities and capital</b>			
Suppliers	19,564	19,868	0
Other liabilities	48,924	35,609	0
Capital	10,000	10,000	10,000
Losses year 2001-2002	(2,239)	(2,239)	(2,239)
Profit year 2003	2,357	2,357	
Profit year 2004	0		
<b>Total</b>	<b>78,606</b>	<b>65,595</b>	<b>7,761</b>

\* Subject to the approval of the shareholders of the Issuer.

*Notes to the statement:*

### 1. Basis of Preparation

The statement has been prepared under the historical cost convention and in accordance with applicable accounting standards.

### 2. Incorporation and Trading Activity

The Issuer was incorporated on 23 November 2001 with the sole object to perform one or more securitisation transactions. As of the date of this letter it has already engaged in one transaction.

This was a securitisation transaction entered into on 30 April 2003 (the “**Prior Securitisation**”), pursuant to which the Issuer has issued five tranches of notes, which were offered and sold outside the United States.

All administrative and start-up expenses that the Issuer has incurred up to the end of 2003 have been charged to the portfolio of the above mentioned transaction. The Issuer has no employees.

### 3. Capital

The called up and paid up capital of the Issuer is euro 10,000 divided into 10,000 quotas of a nominal value of euro 1 each or multiples thereof, of which 9,100 and 900 respectively held by SVM held by BNL Partecipazioni S.p.A..

### 4. Commitments

The Issuer has entered into agreements that relate to the above mentioned transaction including the purchase of the Portfolio, and that relate to the Prior Securitisation.

**5. The Portfolio**

The Portfolio amounting to euro 1,267,836,256.88 was purchased by the Issuer from Banca Nazionale del Lavoro S.p.A. on 23 March 2004 with effect from 22 March 2004 and it comprises 23,444 residential mortgage loans. The Portfolio is not included within the Statement of the “Current Assets and Capital and Reserves” stated above in accordance with Italian Law No. 130 of 30 April 1999 which provides that securitisation transactions shall be recorded as off-balance sheet.

**6. Collections on Portfolio**

The collections and recovery on the Portfolio from 22 March 2004 (included) to 31 March 2004 (included) and other related events are not reflected in the non-statutory financial statements. The amount collected will be transferred to the Issuer’s account in accordance with the Servicing Agreement.

Yours faithfully,

Deloitte & Touche S.p.A.

Fausto Zanon  
Partner

Treviso, Italy  
15 April 2004”

## **USE OF PROCEEDS**

The net proceeds from the issue of the Notes being euro 1,268,250,000 together with the underwriting fees advanced to the Issuer by the Originator on the Issue Date pursuant to Clause 11.2 of the Senior Notes Subscription Agreement will be applied on the Issue Date by the Issuer in the settlement of the Purchase Price of the Portfolio pursuant to the Transfer Agreement and in meeting certain of the expenses of the Issuer in connection with the issue of the Notes, the purchase of the Portfolio and the completion of the transactions described herein.

## DESCRIPTION OF THE TRANSFER AGREEMENT

*The description of the Transfer Agreement set out below is a summary of the main features of that agreement and is qualified by reference to the detailed provisions of the Transfer Agreement. Prospective Noteholders may inspect a copy of the Transfer Agreement upon request at the registered office of each of the Issuer and the Luxembourg Agent.*

On 23 March 2004 the Originator and the Issuer entered into the Transfer Agreement, pursuant to which the Originator assigned and transferred without recourse (*pro soluto*) with economic effect as from 22 March 2004 all the Originator's rights, title and interests in and to the Mortgage Loan Receivables arising under the Mortgage Loans in accordance with the Securitisation Law.

The purchase price of the Mortgage Loan Receivables payable pursuant to the Transfer Agreement was determined on the basis of the outstanding principal amount of the Mortgage Loan Receivables as at the Effective Date together with interest accrued but unpaid on the Mortgage Loan Receivables as at the Effective Date. The Purchase Price will be paid to BNL at the Issue Date.

The Mortgage Loan Receivables have been selected by BNL on the basis of the Criteria. Exhibit 3.5 to the Transfer Agreement (as updated as at the Effective Date according to the terms of the Transfer Agreement) contains a list of the Mortgage Loan Agreements in respect of which the Mortgage Loan Receivables have arisen.

The Transfer Agreement further provides that, if any Mortgage Loan specified in Exhibit 3.5 to the Transfer Agreement (as updated at the Effective Date according to the terms of the Transfer Agreement) does not meet the Criteria, the relevant Mortgage Loan Receivable (each an "**Excluded Mortgage Loan Receivable**") will be deemed never to have been assigned and transferred to the Issuer pursuant to the Transfer Agreement. In which case, the following two options apply: (a) if it transpires *prior* to the Issue Date that a Mortgage Loan did not meet the Criteria, the Purchase Price shall be reduced by the Individual Purchase Price of the Excluded Mortgage Loan Receivables and the Issuer shall pay back to the Originator any amounts recovered and collected by the Issuer with respect to the relevant Excluded Mortgage Loan Receivables and the Originator shall pay to the Issuer the aggregate of all expenses incurred by the Issuer in relation to the Excluded Mortgage Loan Receivables; or (b) if it transpires *after* the Issue Date that a Mortgage Loan did not meet the Criteria, the Originator shall reimburse the Issuer the Individual Purchase Price of the Excluded Mortgage Loan Receivable increased by interest accruing on such Individual Purchase Price from the Issue Date to the date of such reimbursement at a rate equal to the weighted average of the floating interest rates applicable in respect of the Senior Notes from the Issue Date to the date of such reimbursement. The sum to be paid by the Originator will have deducted from it an amount equal to the aggregate of all amounts recovered and collected by the Issuer with respect to the relevant Excluded Mortgage Loan Receivable, but will have added to it an amount equal to the aggregate of all expenses incurred by the Issuer in relation to the relevant Excluded Mortgage Loan Receivable. Any amount paid by the Issuer with respect to an Excluded Mortgage Loan Receivable shall be paid out of item (m) of Senior Condition 5.1 and of item (g) of Senior Condition 5.2.

If it transpires that any Mortgage Loan comprised in the Portfolio which did meet the Criteria was by some error not listed in Exhibit 3.5 to the Transfer Agreement (as updated as at the Effective Date according to the terms of the Transfer Agreement), the relevant Mortgage Loan Receivable (each an "**Additional Mortgage Loan Receivable**") shall be deemed to have been assigned and transferred to the Issuer by the Originator with economic effect as from the Effective Date. In which case, the following two options apply: (a) if it transpires *prior* to the Issue Date that a Mortgage Loan did meet the Criteria, the Purchase Price shall be increased by an amount equal to the aggregate of the principal amount outstanding of each Additional Mortgage Loan Receivable and interest accrued thereon up to the Effective Date (exclusive) and the Originator shall pay to the Issuer by and not later than the Issue Date, an amount equal to all amounts collected or recovered by the Originator in relation to the Additional Mortgage Loan Receivables from the Effective Date (inclusive) and all expenses incurred by the Issuer in relation to the purchase of the relevant Additional Mortgage Loan Receivable; or (b) if it transpires *after* the Issue Date that a Mortgage Loan did meet the Criteria, the Issuer shall pay to the Originator an amount equal to the aggregate of the principal amount outstanding of each Additional Mortgage Loan Receivable and interest accrued but unpaid thereon as at the Effective Date (exclusive), having deducted from it the aggregate of all amounts collected or recovered by the Originator in relation to the relevant

Additional Mortgage Loan Receivable from the Effective Date (inclusive) up to the date of payment to the Originator of the purchase price of such Additional Mortgage Loan Receivable by the Issuer, and all expenses incurred by the Issuer in relation to the purchase of the relevant Additional Mortgage Loan Receivable, and having added to it an amount corresponding to the recovery expenses incurred by the Originator in relation with the relevant Additional Mortgage Loan Receivable. Payments to be made by the Issuer in relation to any Additional Mortgage Loan Receivable will only be made in accordance with the order of priority of payments set out in the Intercreditor Agreement. Any amount paid by the Issuer with respect to an Additional Mortgage Loan Receivable shall be paid out of item (m) of Senior Condition 5.1 and of item (g) of Senior Condition 5.2.

The Transfer Agreement also provides that, if a court finds non-existence (*inesistenza*), nullity (*nullità*) or inefficacy (*inefficacia*) of the assignment and/or transfer to the Issuer of a Mortgage Loan Receivable, the Originator shall pay to the Issuer an amount equal to the Individual Purchase Price of the relevant Mortgage Loan Receivable, increased by the interest accruing on such Individual Purchase Price from the Effective Date to the date of such reimbursement at a rate equal to the weighted average of the floating interest rates applicable in respect of the Senior Notes from the Issue Date to the date of such reimbursement. The sum to be paid by the Originator will have deducted from it an amount equal to the aggregate of all sums recovered and collected by the Issuer with respect to the affected Mortgage Loan Receivable up to the date of the relevant reimbursement, but will have added to it an amount equal to the aggregate of all expenses incurred by the Issuer in relation to the affected Mortgage Loan Receivable.

The Transfer Agreement contains representations and warranties by BNL in respect, *inter alia*, of the following categories:

- (A) the status of the Originator and certain general matters relating to the transfer of the Mortgage Loan Receivables and the execution of Transaction Documents;
- (B) general representations and warranties in respect of the Mortgage Loans, the Mortgages, the Mortgage Deeds and the Collateral Security;
- (C) specific representations and warranties in respect of the Mortgage Loans;
- (D) specific representations and warranties in respect of the Mortgages and the Collateral Security;
- (E) representations and warranties in respect of the Real Estate Assets; and
- (F) specific representations and warranties in respect of the Insurance Policies.

The Originator has acknowledged that the Issuer has entered into the Transfer Agreement and the Servicing Agreement and that the Issuer will enter into the other Transaction Documents to which it is a party, in full reliance upon the representations, warranties and indemnities given by the Originator in the Transfer Agreement.

Specifically, the Originator has represented and warranted, *inter alia*, that:

- (a) prior to the Transfer Date, BNL had the right in relation to each Insurance Policy to request the relevant insurance company to effect any payment under the policy directly to BNL, BNL was the absolute legal and beneficial owner of the Mortgage Loan Receivables, and had not assigned, sold, transferred (whether absolutely or by way of security), mortgaged, charged or otherwise disposed of any of its rights, title, interest or benefit in any Mortgage Loan Agreement, Insurance Policy, Mortgage, Mortgage Deed or Collateral Security, nor terminated, nor waived, amended or varied (otherwise than in accordance with all applicable provisions of law and with the loan management and claim recovery policies from time to time adopted by BNL and in accordance with all prudent and customary banking practices) any of the terms of any Mortgage Loan Agreement, Insurance Policy or Collateral Security nor created nor does there exist any Security Interest on or over any Mortgage Loan Receivables, Mortgage Loan Agreement, Insurance Policy, Mortgage, Mortgage Deed or Collateral Security nor will it do so, other than pursuant to the Transaction Documents to which it is or is to become a party and save for any privileges over real estate assets ranking ahead of the Mortgage and arising as a matter of law;

- (b) the Mortgage Loan Receivables possess specific objective common elements at the Effective Date such as to constitute, on the basis of the Criteria, a portfolio of claims capable of being identified as a pool (*un insieme di crediti pecuniari individuabili in blocco*) within the meaning and for the purposes of the Securitisation Law;
- (c) the transfer of the Mortgage Loan Receivables, the Mortgages, the Insurance Policies and the Collateral Security to the Issuer was in compliance with the Securitisation Law;
- (d) each Borrower and each Surety in respect of a Mortgage Loan Agreement, Mortgage Deed and Collateral Security, as applicable and, to the extent BNL has adopted the applicable standards of care, according to Italian banking practice, each party to any ancillary document relating thereto, had, at the date of execution of the relevant document, full power and authority to enter into and execute the relevant document, and the obligations assumed by the relevant parties to each Mortgage Loan Agreement, Collateral Security and ancillary document relating thereto constitute legal, valid and binding obligations of each such Borrower, Surety or other party (as appropriate) enforceable in accordance with its terms and in accordance with any applicable Italian law, regulation or order of any competent authority;
- (e) each Mortgage Loan Agreement and Collateral Security was in the possession of BNL at the Trasfer Date and, together with each Insurance Policy, was at the Effective Date and are at the Transfer Date valid and effective and constituted valid, legal and binding obligations of each party thereto enforceable in accordance with its terms and complied in all respects with applicable Italian laws and regulations in force and each Mortgage and Collateral Security has been duly created and (when applicable) registered, renewed, preserved and perfected;
- (f) each duty, tax and commission of any kind which was payable prior to (but excluding) the Transfer Date and which was required to be paid to ensure the validity, legality, enforceability or priority of the rights and obligations of the relevant parties to each Mortgage Loan Agreement, Mortgage Deed and Collateral Security, has been duly paid;
- (g) each Mortgage Loan Agreement, Mortgage Deed and Collateral Security was entered into in compliance and still complies with all applicable Italian laws, rules and regulations including, without limitation, the provisions of the Usury Law or Article 1283 of the Italian Civil Code, and the creation of the related Mortgage and Collateral Security, the granting by BNL of the related Mortgage Loan and BNL's rights in respect of, and title to, the related Mortgage Loan Receivables was at all relevant times in compliance with all applicable laws, rules and regulations including, without limitation, in each case, all laws, rules and regulations relating to consumer credit protection, *credito fondiario*, personal data protection (including, without limitation, with all the provisions of Law no. 675 of 31 December 1996 and of Legislative Decree no. 196 of 30 June 2003, each as subsequently amended and supplemented) and disclosure (*trasparenza*);
- (h) none of the Mortgage Loan Receivables fell within the definition of non-performing credit (*credito in sofferenza*) or delinquent credit (*credito incagliato*) or restructured debt (*credito ristrutturato*) or was in the process of being restructured (*credito in corso di ristrutturazione*) within the definition of the Bank of Italy Instructions and all amounts due from the Borrowers to BNL in respect of the Mortgage Loan Agreements have been paid;
- (i) each of the Claims, Mortgages, Insurance Policies and Collateral Securities was freely and immediately transferable and the relevant assignment and/or transfer of the Claims, Mortgages, Insurance Policies and Collateral Securities by BNL to the Issuer pursuant to the Transfer Agreement is effective to vest the Issuer with the entire legal and beneficial ownership thereof and such assignment and transfer will not affect the legality, validity or enforceability of any obligation of any Borrower or Surety under the relevant Mortgage Loan Agreement, Insurance Policy or Collateral security or under any Italian binding laws or regulations or pursuant to order of any competent authority binding on such Borrower or Surety;
- (j) the origination, servicing and collection practices adopted by BNL with respect to each Loan, Mortgage, Mortgage Deed, Collateral Security and the relevant Claims arising thereunder had in all respects been conducted in accordance with all Italian applicable laws and regulations, including, without limitation,

applicable Bank of Italy Instructions and in a prudent and diligent manner in accordance with the loan management policies adopted by BNL from time to time, and in each case, the best banking practices of a prudent lender;

- (k) the *Situazione Contabile* that BNL is required to deliver to the Issuer pursuant to Clause 3.5 of the Transfer Agreement contained the complete list of all the Mortgage Loan Agreements and all the Claims in respect of such Mortgage Loan Agreements which comply with and are capable of being identified as regards Articles 1, 2 and 4 of the Securitisation Law on the basis of the Criteria (the “**Exclusion Warranty**”);
- (l) no Claim arising from or in respect of a Mortgage Loan Agreement which complied with the Criteria or which was capable of being identified as regards Articles 1, 2 and 4 of the Securitisation Law was not transferred by BNL pursuant to the Transfer Agreement (the “**Inclusion Warranty**”);
- (m) each Loan had been fully disbursed to or to the account of the relevant Borrower and there was no obligation on the part of BNL to advance or disburse further amounts in connection with the relevant Mortgage Loan Agreement;
- (n) as of the date of making each advance under each Mortgage Loan Agreement secured over a Real Estate Asset, the relevant Real Estate Asset complied with all applicable Italian laws as to its use (*destinazione urbanistica*) as a residential property (*ad uso abitativo*);
- (o) as of the date of making of each advance under each Mortgage Loan Agreement secured over a Real Estate Asset, the relevant Real Estate Asset was free from damage and waste and was in good condition (other than minor damage or waste);
- (p) BNL has not at the Effective Date relieved or discharged any Borrower or Surety from their respective obligations, or subordinated its rights to Mortgage Loan Receivables to those of other creditors thereof, or waived any rights, except in relation to payments made in a corresponding amount in satisfaction of the relevant Mortgage Loan Receivables or to the extent of what provided for by any applicable provision of law or by any prudent banking practice in order to protect the position of BNL as owner of the Claims;
- (q) the amount outstanding in respect of each Mortgage Loan at the Effective Date did not exceed 80% (eighty per cent.) of the value of the relevant Real Estate Asset, as determined in accordance with the appraisal referred to in clause 2.1 (e)(vi) of the Transfer Agreement, on which that Mortgage Loan is secured;
- (r) there were no outstanding registrations, transcriptions or annotations (*iscrizioni, trascrizioni o annotazioni*) at the Effective Date which may have been prejudicial to the legality, validity or enforceability of any Mortgage or which may have affected the priority (*grado*) thereof in relation to any relevant asset the subject of the Mortgage save for any privileges over the real estate asset ranking above the Mortgage and arising as a matter of law;
- (s) in relation to each of the Insurance Policies, at the Effective Date BNL had the right to request that the relevant insurance company make payment directly to BNL or to one of its assignees and not the relative Borrower and its interest therein could have been assigned in accordance with the Transaction Documents and the validity of such Insurance Policy would not have been affected thereby;
- (t) no claims have been notified to BNL as of the Effective Date for adverse possession (including *usucapione*) against any of the Real Estate Assets nor has an Adverse Claim been notified to BNL nor were there at the time of consolidation of the relating Mortgage, nor has BNL subsequently effected any prejudicial registrations or annotations (*iscrizioni o trascrizioni pregiudizievoli*) in respect of any Real Estate Asset which may have affected or impaired in any manner whatsoever the enforceability of the relevant Mortgage or Mortgage Loan and its respective ranking (*grado*) save for any privileges over the real estate asset ranking above the Mortgage and arising as a matter of law; and

- (u) at the time of advance of the Mortgage Loan and perfection of the Mortgages, the relevant Real Estate Assets were duly registered with the competent land offices and registration offices (*Conservatoria dei Registri Immobiliari and Ufficio del Catasto Urbano e dei Terreni*) or a valid application or petition has been presented officially to register them, in compliance with all applicable laws and regulations.

The Originator has agreed to indemnify and hold harmless the Issuer in respect of all damages, losses, claims, costs and expenses of the Issuer resulting from:

- (a) the breach of any representation and/or warranty given by the Originator; or
- (b) a default by the Originator in the performance of any of its obligations under the Transfer Agreement.

The Transfer Agreement also provides that:

- (i) in the event that a claim is made which relates to a breach or alleged breach of the representations and warranties given by BNL, within 30 days following notification of the relevant breach, BNL shall at its option either:

- (A) accept and settle the claim; or

- (B) challenge the validity of the claim. If BNL is deemed to have accepted the claim in the amount stated therein, it should pay any indemnity amount pursuant thereto in the immediately succeeding 15 days. In the event of a challenge, BNL shall pay to the Issuer all uncontested amounts within 15 days. As to the contested amounts, the Transfer Agreement provides that the parties have to try to reach an amicable settlement. Within 30 days of receipt by the Issuer of the notice of challenge by the Originator of the contested amount, such challenge shall be submitted to an arbitrator whose decisions may be challenged in limited circumstances through arbitration;

- (ii) as an alternative to the remedy described under paragraph (i) above, the Issuer is entitled to terminate the Transfer Agreement in relation to the Mortgage Loan Receivables giving rise to the breach of any representations and/or warranties at (B) to (F) above given by the Originator under the Transfer Agreement by serving a written notice on the Originator. Within 10 Business Days from receipt of such notice, the Originator shall:

- (A) accept and settle the claim; or

- (B) challenge the validity of such termination. In the event of a challenge, if the matter cannot be settled within 15 Business Days, the Transfer Agreement provides for it to be submitted to an arbitrator whose decisions may be challenged in limited circumstances through arbitration.

The Transfer Agreement also contains a number of undertakings by the Originator in respect of its activities relating to the Mortgage Loan Receivables, including, *inter alia*, the undertaking to refrain from carrying out any activities with respect to the Mortgage Loan Receivables, the Mortgage Loan Agreements, the Mortgages and the Collateral Securities which may prejudice any Mortgage Loan Receivables, Mortgage Loan Agreements, Mortgage Loans and Collateral Securities and in particular not to assign or transfer the Mortgage Loan Receivables, the Mortgage Loan Agreements, the Mortgages and the Collateral Securities to any third party or to create any security interest, charge, lien or encumbrance or other right in favour of any third party in respect of the Mortgage Loan Receivables, the Mortgages, the Mortgage Loan Agreements and the Collateral Securities other than under the Transaction Documents.

The Transfer Agreement is governed by, and will be construed in accordance with, Italian law. Any disputes arising in respect of the Transfer Agreement shall be referred to arbitration under the National Arbitration Rules of the National and International Arbitration Chamber of Milan. The place of arbitration shall be Milan. The Transfer Agreement is in the Italian language.

## DESCRIPTION OF THE SERVICING AGREEMENT

*The description of the Servicing Agreement set out below is a summary of the main features of that agreement and is qualified by reference to the detailed provisions of the Servicing Agreement. Prospective Noteholders may inspect a copy of the Servicing Agreement upon request at the registered office of each of the Issuer and the Luxembourg Agent.*

On 23 March 2004, the Issuer and the Servicer entered into the Servicing Agreement. Pursuant to the terms of the Servicing Agreement, the Servicer has agreed to administer and service the Mortgage Loan Receivables on behalf of the Issuer in accordance with applicable laws and regulations and the Loan Servicing and Collection Procedures. The Servicing Agreement further specifies the actions to be taken in the event a Mortgage Loan from which a Mortgage Loan Receivable arises becomes a Defaulted Mortgage Loan (see section entitled “*Loan Servicing and Collection Procedures*”).

The Servicer will be the entity responsible for the collection and recovery activities of the assigned receivables and for the cash and payment services (*soggetto incaricato della riscossione dei crediti ceduti e dei servizi di cassa e pagamento*) pursuant to the Securitisation Law and in such capacity it will be responsible for monitoring that the Securitisation complies with the law and the provisions of this document.

The Servicer has represented to the Issuer that it has all the skills, software, hardware, information technology and human resources necessary to comply with the efficiency standards required by the Servicing Agreement.

In return for the services provided by the Servicer, the Issuer will pay to the Servicer, in arrears on each Payment Date, the Servicing Fees, being equal to:

- (i) in relation to the managing and collection activity, a quarterly fee equal to 0.10 per cent. per year of the Outstanding Principal of all Mortgage Loan Receivables at the Collection Date immediately preceding the relevant Payment Date; and
- (ii) in relation to the managing of the recovery proceedings, a quarterly fee equal to 0.15 per cent. per year of the outstanding principal amount of the Delinquent Mortgage Loans at the Collection Date immediately preceding the relevant Payment Date.

Furthermore the Servicer shall be reimbursed for the Recovery Expenses on the Payment Date immediately following the Collection Period during which expenses are incurred.

The payment of the Servicing Fees and the reimbursement for costs and expenses are subject in each case to the provisions of the Intercreditor Agreement. The Servicer has expressly waived any rights to compensation or reimbursement that the Servicer may be entitled to by law other than those provided in the Servicing Agreement. It has also expressly waived its right to exercise any right to off-set the amounts due to it from the Issuer against the Collections or any other amount owed by the Servicer to the Issuer.

The Servicer has also undertaken to prepare and submit the Monthly Reports and the Quarterly Reports (in each case in the form set out in the Servicing Agreement) to the Issuer, the Representative of the Noteholders, the Managers, the Calculation Agent, the Swap Counterparty, the Principal Paying Agent, the Luxembourg Agent, the Main Operating Bank and each of the Rating Agencies and any other entity the Issuer would indicate, not later than, with respect to the Monthly Reports, each Monthly Report Date and, with respect to the Quarterly Reports, each Quarterly Report Date, containing information as to the Collections made in respect of the Portfolio during the immediately preceding month or quarterly period, as the case may be.

Save in respect of the monitoring activities provided above, the Servicer will be entitled to delegate, at its own expense, its activities as Servicer pursuant to the Servicing Agreement but it will remain directly responsible to the Issuer for the performance of all duties and obligations delegated and will be liable for the conduct of any such agent. In addition an entity to which the Servicer may so delegate its activities shall maintain at least BNL’s standards of service in performing such activities.

The Servicer has agreed, in accordance with the terms of the Mortgage Loan Agreements, to debit the current account of each Borrower at the relevant branch of the Servicer for the amounts from time to time owed by each Borrower pursuant thereto when each instalment under each Mortgage Loan Agreement falls due and to credit the Issuer Collections Account with the corresponding amount so debited to each Borrower. The amount so credited on the Issuer Collection Account with respect to such Borrower on such Mortgage Loan Agreement will be transferred to the Issuer Main Account not later than the following Business Day, with value date on such following Business Day. The Servicer, to the extent it becomes aware of any payment error in relation to an amount paid by the Servicer to the Issuer, shall give notice to the Issuer of such error provided that, at the request of the Representative of the Noteholders or of the Issuer the Servicer shall provide further information in relation to such error. The Servicer shall be paid back at the immediately succeeding Payment Date in accordance with the priority of payments set out in Condition 5 any amount erroneously paid to the Issuer under the Servicing Agreement.

The Servicer has agreed to give the Issuer and the Representative of the Noteholders certain rights to inspect and copy the documentation and records relating to the Mortgage Loan Receivables. In addition the Servicer has undertaken, *inter alia*, until the termination of the Servicing Agreement:

- (a) to undertake and continue any action necessary for the collection and recovery of the Mortgage Loan Receivables, with the ordinary professional level of diligence and to employ the same level of care and diligence it would employ if the Mortgage Loan Receivables were its own property;
- (b) not to amend the Mortgage Loan Agreements, the Mortgages, the Mortgage Deeds or the Collateral Security, or waive any rights under them, except to the extent permitted pursuant to the Loan Servicing and Collection Procedures or in accordance with any applicable provisions of law or in accordance with the prior written notice thereof to the Issuer and with the prior written consent of the Representative of the Noteholders (and provided always that any waiver so granted does not extend the original maturity date of the Portfolio), but save that a release in part or in full of any Collateral Security may be made pursuant to the Loan Servicing and Collection Procedures without any consent of the Representative of the Noteholders and save further that the Mortgage Loan Agreement, the Mortgages, the Mortgage Deeds or the Collateral Security may be amended by the Servicer provided that the ratio between the value of the Portfolio and the Real Estate Assets as of the Effective Date is left unaltered;
- (c) to ensure that the Collections are segregated from any other moneys belonging to the Servicer or other third parties;
- (d) not to modify its business where this could prejudice the Servicer's ability to comply with its obligations under the Servicing Agreement;
- (e) to obtain and comply with all authorisations, approvals, licenses and consents required for the fulfilment of its obligations under the Servicing Agreement;
- (f) to promptly inform the Issuer and the Representative of the Noteholders of every change or event that could adversely affect the Servicer, or which could prejudice the Issuer's rights in relation to the Servicing Agreement, the Mortgage Loan Receivables or the relevant Collateral Security; and
- (g) to pay any premiums in respect of the Insurance Policies that the Borrowers or the Sureties fail to pay as soon as the Servicer becomes aware of such a failure to pay.

In the event that:

- (a) the Bank Account Guarantee is not renewed or it is terminated early by the Bank Account Guarantee Provider and the Italian Operating Bank does not qualify as an Eligible Institution, BNL shall:
  - (i) 35 days before the expiry or the termination, as the case may be, of the Bank Account Guarantee, advance to the Issuer an amount equal to the amounts to be paid, assuming a pre-payment rate equal to 8 per cent. (the "**Pre-Payment Rate**") by the Borrowers under the Mortgage Loan Receivables comprised in the Portfolio during the period between the expiry date or the termination date of the

Bank Account Guarantee and the last day of the calendar month following such date (“**First Reference Period**”) by crediting such amount to an account of the Issuer to be opened with a bank that qualifies as an Eligible Institution (the “**New Collection Account**”); or

- (ii) five days before the first day of each calendar month following the First Reference Period (each a “**Reference Month**”), advance to the Issuer an amount equal to the amounts to be paid by the Borrowers under the Mortgage Loan Receivables comprised in the Portfolio during such Reference Month, increased by the Pre-Payment Rate, by crediting such amount to the New Collection Account;
- (b) the obligations of the Italian Operating Bank under the Issuer Collection Account cease to be guaranteed by a Bank Account Guarantee Provider that is an Eligible Institution and the Italian Operating Bank does not qualify as an Eligible Institution, BNL shall:
- (i) by the 10<sup>th</sup> day (the “**First Advance Date**”) from the date such event occurred, advance to the Issuer an amount equal to the amounts to be paid by the Borrowers under the Mortgage Loan Receivables comprised in the Portfolio during the period between the First Advance Date and the last day of the calendar month following such First Advance Date (the “**First Guaranteed Period**”), increased by the Pre-Payment Rate, by crediting such amount to the New Collection Account; and
  - (ii) five days before the first day of each calendar month following the First Guaranteed Period (each a “**Guaranteed Month**”) advance to the Issuer an amount equal to the amounts to be paid by the Borrowers under the Mortgage Loan Receivables comprised in the Portfolio during such Guaranteed Month, increased by the Pre-Payment Rate, by crediting such amount to the New Collection Account.

Should BNL fail to make an advance when due in accordance with (a)(i), (a)(ii), (b)(i) and (b)(ii) above, it shall within the following five calendar days instruct each Borrower to make all payments in respect of the Mortgage Loan Receivables directly to the New Collection Account or the Issuer Main Account.

The Issuer will have the right to terminate the Servicer’s appointment and appoint a successor Servicer (“**Successor Servicer**”) if any of the following events takes place:

- (i) an order is made by any competent authority providing for winding up or dissolution of the Servicer or for the Servicer to be admitted to *liquidazione coatta amministrativa* or is admitted to any of the proceedings referred to in Title IV of the Italian Banking Act or a resolution is passed by the Servicer with the intention of obtaining the application of such proceedings;
- (ii) the managing body of the Servicer is partially or totally removed from office by any authority, or the capacity of the Servicer to run its business is substantially prevented in whole or in part;
- (iii) the Servicer becomes unable, at any time and by operation of law or for any other reason, to fulfil its obligations under the Servicing Agreement (including the loss of capacity to act as servicer pursuant to the Securitisation Law), except where such inability is promptly remedied;
- (iv) any event occurs which may have a detrimental effect on the Servicer’s capacity to fulfil its obligations under the Servicing Agreement;
- (v) the representations and warranties given by the Servicer in the Servicing Agreement are proved to be untrue in any respect; and
- (vi) any breach by the Servicer of certain obligations under the Servicing Agreement,

provided in each case that the Rating Agencies have confirmed in writing that such an appointment does not affect the then rating of the Senior Notes.

Except in cases (i), (ii) and (iii) above, the termination of the Servicer’s appointment will become effective only when the Successor Servicer has accepted the appointment in a form acceptable to the Issuer.

Any Successor Servicer shall be appointed within 30 Business Days, from the relevant event requiring a Successor Servicer to be appointed and shall be an entity having the requisites prescribed by the Securitisation Law and by the Bank of Italy to conduct servicing activities, including:

- (a) a bank that is active, and that has one or more branches, in Italy with at least three years experience in the management of performing real estate mortgages in Italy; or
- (b) an entity registered pursuant to Article 107 of the Italian Banking Act, as amended, active and with offices in Italy that:
  - (i) has at least three years experience in the management of performing real estate mortgages in Italy;
  - (ii) has a software system compatible with the Servicer's software system at the time of the revocation of the Servicer's appointment; and
  - (iii) is financially and economically sound and has sufficient economic resources to ensure continuity in the performance of its functions as servicer,

provided that such an appointment does not affect the then rating of the Senior Notes.

If a Successor Servicer is not appointed within the above 30 Business Days, the Representative of the Noteholders shall give immediate notice of such event to the Issuer, the Rating Agencies and the Servicer and shall appoint the Successor Servicer among entities having the requisites to carry out such function and provided always that such an appointment does not affect the then rating of the Senior Notes.

Upon termination becoming effective the Servicer will be required, upon request by the Issuer to: (a) make available to the Successor Servicer the documentation and records relating to the Mortgage Loan Receivables, Mortgages and Collateral Security; (b) immediately credit to the account notified to the Servicer by the Issuer all Collections received but not yet credited to the Issuer Collection Account, any interest accrued thereon and any other amount due to the Issuer pursuant to the Servicing Agreement, including any Collection received by the Servicer after the termination of its appointment; (c) convert into cash, as soon as possible, any means of payment different from cash received by it with respect to the Mortgage Loan Receivables but not yet converted, and credit such amount to the account notified to it by the Issuer; and (d) carry out all necessary activities reasonably required of it by the Issuer to allow the Successor Servicer to take over the Servicer's duties under the Servicing Agreement.

In addition, the Servicer has agreed that for a period of six months from the termination of its appointment it shall take all necessary steps in order to enable the Successor Servicer to perform its duties as servicer pursuant to the Servicing Agreement. The Servicer will receive for such assistance the same fees it would be entitled to receive under the Servicing Agreement for the managing and collection activity of the Mortgage Loan Receivables.

The Servicer may not resign as Servicer under the Servicing Agreement, or renounce its responsibilities thereunder, unless there is a change in the law that prohibits the Servicer from fulfilling its obligations under the Servicing Agreement and a Successor Servicer has been appointed by the Issuer.

The Servicer has acknowledged and accepted that, apart from the Servicing Fees, it shall not have any recourse against the Issuer pursuant to the terms of the Servicing Agreement for any damages, claims, liabilities, costs, expenses including, without limitation, attorney's fee and disbursements incurred by the Servicer as a result of the performance of its activities under the Servicing Agreement, unless due to the gross negligence or wilful default of the Issuer.

The Servicer has agreed that the obligations of the Issuer *vis-à-vis* the Servicer under the Servicing Agreement are subordinated and limited recourse obligations and will be payable only out of the funds available to the Issuer in accordance with the Priority of Payments set out in the Intercreditor Agreement.

The Servicing Agreement is governed by, and will be construed in accordance with, Italian law. Any disputes arising in respect of the Servicing Agreement shall be referred to arbitration under the National Arbitration Rules of the National and International Arbitration Chamber of Milan. The place of arbitration shall be Milan. The Servicing Agreement is in the Italian language.

## CASH MANAGEMENT

### Cash Management Agreement

The Calculation Agent will agree in the Cash Management Agreement subject to the prior receipt of the Quarterly Reports or any other necessary information by any parties to the Transaction Documents, to prepare, on or before each Calculation Date, a report containing details of (i) amounts received by the Issuer from any source during the Collection Period immediately preceding such Calculation Date and (ii) amounts to be paid by the Issuer to each Issuer Secured Creditor and any other person in connection with the transactions described in this document on the Swap Payment Date or on the Payment Date succeeding the relevant Calculation Date or, following the Payment Date succeeding the relevant Calculation Date (the “**Payments Report**”), in accordance with Senior Condition 5 and the provisions of the Intercreditor Agreement relating to the application of the Issuer’s funds. (See section entitled “*Description of the Security and Priority Arrangements*”).

No later than the third Business Day after each Calculation Date, but subject to the prior receipt of the Quarterly Reports or any other necessary information by any parties to the Transaction Documents including the Swap Calculation Agent, the Calculation Agent will also deliver a report (the “**Investors’ Report**”) containing information relating to the Portfolio, the Collections and the Notes that will be made available, *inter alia*, to Senior Noteholders and prospective Senior Noteholders at the specified office of the Luxembourg Agent.

The Calculation Agent will also agree to maintain certain books and records on behalf of the Issuer. In return for the services so provided, the Calculation Agent will receive a fee payable in arrear on each Payment Date by the Issuer.

In the Cash Management Agreement, the Italian Operating Bank will agree to maintain and operate the Issuer Collection Account and to pay interest on amounts standing to the credit of the Issuer Collection Account at a rate equal to EONIA less 15 basis points, the Main Operating Bank will agree to maintain and operate the Issuer Main Account and to pay interest on amounts standing to the credit of the Issuer Main Account at a rate equal to EONIA less 15 basis points and the Principal Paying Agent will agree to maintain and operate the Principal Paying Agent Account and to pay interest on amounts standing to the credit of the Principal Paying Agent Account at a rate equal to the overnight rate less 30 basis points.

### Flow of Funds

The Payments Report will set out the calculation of all payments to be effected by the Issuer and any transfers required between the Issuer’s accounts. Specifically, the Calculation Agent will confirm in the Payments Report:

- (a) the amount of Principal Available Funds and Potential Capital Funds with reference to the relevant Payment Date;
- (b) the amount of Interest Available Funds with reference to the relevant Payment Date;
- (c) the amount (if any) to be paid by the Issuer to the Swap Counterparty under the Interest Rate Swap on the next succeeding Swap Payment Date;
- (d) the amount (if any) to be paid by the Swap Counterparty to the Issuer under the Interest Rate Swap due on the immediately succeeding Swap Payment Date;
- (e) the amount to be drawn by the Issuer under the Liquidity Facility on the immediately succeeding Liquidity Facility Drawdown Date;
- (f) the calculation of the amounts due and payable on the relevant Payment Date in respect of each of the items under the Interest Priority of Payments and the Principal Priority of Payments, respectively; and
- (g) the amounts to be paid from the Issuer Main Account:
  - (i) on or prior to the relevant Payment Date for the payment of any amount due to the Noteholders; and
  - (ii) on, of following, the Payment Date, to each of the creditors of the Issuer and other items listed in the Interest Priority of Payments and the Principal Priority of Payments, respectively.

## **Cash Flows**

The Issuer will undertake in the Intercreditor Agreement to establish and maintain the following accounts:

### **The Issuer Collection Account**

- (a) *to which* all amounts received from the Servicer pursuant to the Servicing Agreement will be credited; and
- (b) *out of which*, one Business Day after they are paid into the Issuer Collection Account such amounts will be paid to the Issuer Main Account.

### **The Issuer Main Account**

- (a) *to which:*
  - (i) all amounts transferred from the Issuer Collection Account;
  - (ii) all amounts received as indemnity payments from BNL or the other parties pursuant to the Transaction Documents;
  - (iii) all amounts received from BNL as adjustment of the Purchase Price pursuant to the Transfer Agreement;
  - (iv) amounts received from the Swap Counterparty pursuant to the Interest Rate Swap including amounts withdrawn for the account of the Issuer from any collateral account established pursuant to the Interest Rate Swap; and
  - (v) amounts received from the Liquidity Facility Provider pursuant to the Liquidity Facility, excluding amounts to be paid into the Liquidity Facility Reserve Account;
- (b) *out of which:*
  - (i) one Business Day before each Payment Date, any amount needed for payments to be made in respect of principal and interest on the Notes shall be paid to the Principal Paying Agent Account in order to be subsequently paid from such account to the Noteholders on such account as instructed by Monte Titoli;
  - (ii) on each Swap Payment Date, any amount due to the Swap Counterparty under the Interest Rate Swap shall be paid; and
  - (iii) on or following each Payment Date, the amounts other than at (i) and (ii) above instructed by the Calculation Agent will be paid by the Issuer to the relevant payee as specified in the relevant Payments Report.

### **The Principal Paying Agent Account**

- (a) *to which*
  - (i) any amount needed for payments to be made in respect of principal and interest on the Notes to be transferred from the Issuer Main Account; and
  - (ii) the net proceeds of the issue of the Notes to be credited on the Issue Date; and
- (b) *out of which:*
  - (i) on each Payment Date any amount needed for payments to be made in respect of principal and interest on the Notes to be paid through the Monte Titoli system and its related cash settlement system; and
  - (ii) the net proceeds of the issue of the Notes on the Issue Date to be paid to the Originator in relation to the Purchase Price under the Transfer Agreement.

the *Expenses Account*

- (a) *to which* the Issuer Maintenance Corporate Advance will be credited; and
- (b) *out of which* any corporate and out-of-pocket expenses of the Issuer not related to the Securitisation and, as such, to be accounted for in the Issuer's own balance sheet (*stato patrimoniale e conto economico*) shall be paid.

(See also section entitled "*Credit Structure - Issuer Collection Account and Issuer Main Account*").

## CREDIT STRUCTURE

*The Notes will be limited recourse obligations solely of the Issuer. In particular, the Notes will not be obligations or responsibilities of, or guaranteed by, any of the shareholders of the Issuer, the Representative of the Noteholders, the Principal Paying Agent, the Luxembourg Agent, the Servicer, the Calculation Agent, the Italian Operating Bank, the Main Operating Bank, the Originator, the Bank Account Guarantee Provider, the Liquidity Facility Provider, the Swap Counterparty, BNL (in any capacity), the Sole Arranger or the Managers. Furthermore, none of such persons accepts any liability whatsoever in respect of any failure by the Issuer to make any payment of any amount due on the Notes.*

It is expected that the Rating Agencies will, on issue, assign the Senior Notes the following ratings:

	S&P	Moody's
Class A1 Notes .....	AAA	Aaa
Class A2 Notes .....	AAA	Aaa
Class B Notes.....	AA	Aa2
Class C Notes.....	BBB	Baa2

*A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the Rating Agencies.*

### Subordination of Notes

#### *General*

In respect of payments of interest on the Notes before the service of an Enforcement Notice or the occurrence of an Issuer Insolvency Event, the relevant Conditions of the Notes and the Intercreditor Agreement will provide that: the Class A1 Notes and the Class A2 Notes will rank *pari passu* among themselves but in priority to the Class B Notes, the Class C Notes and the Class D Notes; the Class B Notes will rank *pari passu* among themselves but in priority to the Class C Notes and the Class D Notes; and the Class C Notes will rank *pari passu* among themselves but in priority to the Class D Notes; but, in each case, subordinate to the claims of certain other creditors of the Issuer as more fully specified in the Senior Conditions and in the Intercreditor Agreement or provided by mandatory provisions of law.

In respect of payments of principal on the Notes before the service of an Enforcement Notice or the occurrence of an Issuer Insolvency Event, the relevant Conditions of the Notes and the Intercreditor Agreement will provide that: the Class A1 Notes will rank *pari passu* among themselves but in priority to the Class A2 Notes (subject to the Unpaid Principal Deficiency not having ever exceeded 0.50 per cent. and upon the Unpaid Principal Deficiency having exceeded such level at any Collection Date, from the Payment Date immediately succeeding such Collection Date and at any time thereafter the Class A1 Notes and the Class A2 Notes will rank *pari passu* among themselves), the Class B Notes, the Class C Notes and the Class D Notes; the Class A2 Notes (subject to the Unpaid Principal Deficiency not exceeding a certain level) will rank *pari passu* among themselves but in priority to the Class B Notes, the Class C Notes and the Class D Notes; the Class B Notes will rank *pari passu* among themselves but in priority to the Class C Notes and the Class D Notes; and the Class C Notes will rank *pari passu* among themselves but in priority to the Class D Notes.

In respect of payments of interest and principal following the service of an Enforcement Notice or the occurrence of an Issuer Insolvency Event, the relevant Conditions of the Notes and the Intercreditor Agreement will provide that: interest on the Class A1 Notes and on the Class A2 Notes will rank in priority to interest and principal to the Class B Notes, the Class C Notes and the Class D Notes; that principal on the Class A1 Notes and on the Class A2 Notes will rank *pari passu* among themselves but in priority to principal and interest on the Class B Notes, the Class C Notes and the Class D Notes; that the Class B Notes will rank *pari passu* among themselves but in priority to principal and interest on the Class C Notes and the Class D Notes; the Class C Notes will rank *pari passu* among themselves but in priority to principal and interest on the Class D Notes; but, in each case, subordinate to the claims of certain other creditors of the Issuer as more fully specified in Senior Condition 5.4 or as provided by mandatory provisions of law.

### ***Class B Notes***

The Class B Notes will provide credit support for the Class A1 Notes and the Class A2 Notes. The obligation of the Issuer to pay interest and principal on the Class B Notes will be subject to the applicable Priority of Payments and the limited recourse provisions set out in Senior Condition 18, and such amounts will only be payable to the extent that the Issuer has sufficient funds after making payment or providing for the payment of all amounts required to be paid or provided for pursuant to Senior Condition 5 and the relevant provisions of the Intercreditor Agreement in priority to such payments.

The Interest Priority of Payments provides that interest due and payable on the Class B Notes at a Payment Date shall be paid, subject to the limited recourse provisions set out in Senior Condition 18, to the extent a Class B Trigger Event has not occurred, in which case the Interest Available Funds remaining after satisfaction of the items of the Interest Priority of Payments ranking prior to the payment of interest on the Class B Notes shall become Principal Available Funds and be applied in accordance with the Principal Priority of Payments.

### ***Class C Notes***

The Class C Notes will provide credit support for the Class A Notes and the Class B Notes. The obligation of the Issuer to pay interest and principal on the Class C Notes will be subject to the applicable Priority of Payments and the limited recourse provisions set out in Senior Condition 18, and such amounts will only be payable to the extent that the Issuer has sufficient funds after making payment or providing for the payment of all amounts required to be paid or provided for pursuant to Senior Condition 5 and the relevant provisions of the Intercreditor Agreement in priority to such payments.

The Interest Priority of Payments provides that interest due and payable on the Class C Notes at a Payment Date shall be paid, subject to the limited recourse provisions set out in Senior Condition 18, to the extent a Class C Trigger Event has not occurred, in which case the Interest Available Funds remaining after satisfaction of the items of the Interest Priority of Payments ranking prior to the payment of interest of the Class C Notes shall become Principal Available Funds and be applied in accordance with the Principal Priority of Payments.

### ***Class D Notes***

The Class D Notes will provide credit support for the Senior Notes. The obligation of the Issuer to pay interest and principal on the Class D Notes will be subject to the applicable Priority of Payments and the limited recourse provisions set out in Condition 18 of the Class D Notes and the provisions of the Intercreditor Agreement, and such amounts will only be payable to the extent that the Issuer has sufficient funds after making payment or providing for the payment of all amounts required to be paid or provided for pursuant to the Conditions of each Class of Notes and the relevant provisions of the Intercreditor Agreement in priority to such payments.

The Interest Priority of Payments provides that interest due and payable on the Class D Notes at a Payment Date shall be paid, subject to the limited recourse provisions set out in Senior Condition 18, to the extent a Class D Trigger Event has not occurred, in which case the Interest Available Funds remaining after satisfaction of the items of the Interest Priority of Payments ranking prior to the payment of interest of the Class D Notes shall become Principal Available Funds and be applied in accordance with the Principal Priority of Payments.

### **Principal Deficiency Ledger**

On each Calculation Date, the Calculation Agent will, subject to receipt of the relevant information from the Servicer, record, to the extent not already recorded: (a) as a debit entry in the Principal Deficiency Ledger, an amount equal to the difference between the Principal Amount Outstanding of the Notes at the immediately preceding Payment Date (after the payments on the Notes required to be made on such Payment Date having been made) and (i) the Collateral Portfolio at the end of the relevant Collection Period; (ii) the aggregate of the Potential Capital Funds, if any, as recorded on all preceding Payment Dates; (iii) the Principal Receipts for the relevant Collection Period; and (iv) any amount standing to the debit of the Principal Deficiency Ledger, if any, taken as an absolute figure, as at the

immediately preceding Payment Date (after the payments on the Notes required to be made on such Payment Date having been made); and (b) up to when the balance on the Principal Deficiency Ledger reaches zero, as a credit entry prior to the occurrence of a Class D Trigger, the amount to be transferred, on the Payment Date immediately succeeding such Calculation Date, to Principal Available Funds in accordance with Senior Condition 5.1(h); after the occurrence of a Class D Trigger and thereafter, the amount to be transferred, on the Payment Date immediately succeeding such Calculation Date, to Principal Available Funds in accordance with Senior Condition 5.1(j); after the occurrence of a Class C Trigger and thereafter, the amount to be transferred, on the Payment Date immediately succeeding such Calculation Date, to Principal Available Funds in accordance with Senior Condition 5.1(g) and, after the occurrence of a Class B Trigger and thereafter, the amount to be transferred, on the Payment Date immediately succeeding such Calculation Date, to Principal Available Funds in accordance with Senior Condition 5.1(f).

### **Cash Reserve Amount**

On each Payment Date prior to the occurrence of a Credit Trigger Event, the Issuer will retain in the Issuer Main Account an amount up to the Cash Reserve Amount, subject to the Interest Priority of Payments. The Cash Reserve Amount shall be the following: (i) on each Payment Date on which the Principal Amount Outstanding of the Senior Notes is *equal to* or *in excess* of 50 per cent. of the Principal Amount Outstanding of the Senior Notes as of the Issue Date, an amount equal to 0.50 per cent. of the Principal Amount Outstanding of the Senior Notes as of the Issue Date; and (ii) on each Payment Date in which the Principal Amount Outstanding of the Senior Notes is *less* than 50 per cent. of the Principal Amount Outstanding of the Senior Notes as of the Issue Date, an amount equal to 0.25 per cent. of the Principal Amount Outstanding of the Senior Notes as of the Issue Date; provided that should the Senior Notes be redeemed in full or should a Credit Trigger Event occur, the Cash Reserve Amount shall always be zero.

### **Credit Trigger Events: Class D Trigger Event, Class C Trigger Event and Class B Trigger Event**

A Class D Trigger Event occurs when on any Calculation Date the Annual Defaults Level exceeds 2.2 per cent. or the Unpaid Principal Deficiency exceeds 2 per cent. or the Delinquency Level exceeds 8 per cent..

Following the occurrence of a Class D Trigger Event, but before the service of an Enforcement Notice or the occurrence of an Issuer Insolvency Event, the Conditions and the Intercreditor Agreement will provide that Interest Available Funds after satisfaction of the items ranking in priority to the interest on the Class D Notes pursuant to the Interest Priority of Payments shall constitute Principal Available Funds and be applied in accordance with the Principal Priority of Payments. The effect will be that repayment of principal on the Class A1 Notes, Class A2 Notes, Class B Notes and the Class C Notes will be made in priority to the payment of interest or principal on the Class D Notes and as a result the Class D Notes will effectively cease to be entitled to receive interest payments until such time as the Senior Notes are redeemed in full. As a result the mandatory *pro rata* redemption of the Senior Notes, for the relevant class, will accelerate.

A Class C Trigger Event occurs when the Unpaid Principal Deficiency exceeds 7.5 per cent. and can only occur if a Class D Trigger Event has already occurred. Following the occurrence of a Class C Trigger Event but before the service of an Enforcement Notice or the occurrence of an Issuer Insolvency Event, the Conditions and the Intercreditor Agreement will provide that Interest Available Funds after satisfaction of the items ranking in priority to the interest on the Class C Notes pursuant to the Interest Priority of Payments shall constitute Principal Available Funds and be applied in accordance with the Principal Priority of Payments. As a result the mandatory *pro rata* redemption, for the relevant class, of the Class A Notes and the Class B Notes will accelerate.

A Class B Trigger Event occurs when the Unpaid Principal Deficiency exceeds 9 per cent. and can only occur if a Class C Trigger Event and a Class D Trigger Event have already occurred. Following the occurrence of a Class B Trigger Event but before the service of an Enforcement Notice or the occurrence of an Issuer Insolvency Event, the Conditions and Intercreditor Agreement will provide that Interest Available Funds after satisfaction of the items ranking in priority to the interest on the Class B Notes pursuant to the Interest Priority of Payments shall constitute Principal Available Funds and be applied in accordance with the Principal Priority of Payments. As a result the mandatory *pro rata* redemption of the Class A Notes, for the relevant class, will accelerate.

Once a Credit Trigger Event has occurred it cannot subsequently be rectified in order to restore the application of funds to a position that applies prior to such Credit Trigger Event occurring.

### **Liquidity Facility**

On or prior to the Issue Date, the Issuer, the Liquidity Facility Provider and the Representative of the Noteholders will enter into the Liquidity Facility pursuant to which the Liquidity Facility Provider will agree to make available to the Issuer, from the Issue Date, a 364 day committed facility (the “**Liquidity Facility**”) in a maximum aggregate amount equal to euro 35 million (the “**Liquidity Facility Available Commitment**”). The Issuer shall, not earlier than 90 days and not later than 60 days prior to the then expiry date, request to the Liquidity Facility Provider to renew the Liquidity Facility for a further period of 364 days in such an amount as summarised in the following paragraph. The Liquidity Facility shall be renewed for an amount equal to: (i) in the first four years from the Issue Date, euro 35 million; and (ii) in each year thereafter, the higher of (a) 3 per cent. of the Principal Amount Outstanding of the Senior Notes at the date of renewal; and (b) 1.5 per cent. of the Outstanding Principal of the Portfolio at the Issue Date. If such a renewal would cause the expiry date to occur after the Payment Date on which the Senior Notes will be redeemed in full (the “**Liquidity Facility Final Date**”), the renewal shall be for a shorter period ending on the Liquidity Facility Final Date.

Prior to the occurrence of a Class C Trigger Event the Liquidity Facility will provide liquidity support in the event that the Interest Available Funds as at any Payment Date are not sufficient to meet the Issuer’s liabilities set out in the items (a) to (g) (inclusive) of the Interest Priority of Payments.

After the occurrence of a Class C Trigger Event but provided that no Class B Trigger Event has occurred, the Liquidity Facility will provide liquidity support in the event that the Interest Available Funds as at any Payment Date are not sufficient to meet the Issuer’s liabilities set out in the items (a) to (f) (inclusive) of the Interest Priority of Payments.

After the occurrence of a Class B Trigger Event, the Liquidity Facility will provide liquidity support in the event that the Interest Available funds as at any payment date are not sufficient to meet the issuer’s liabilities set out in items (a) to (e) (inclusive) of the Interest Priority of Payments.

The Liquidity Facility Provider is required to have a rating assigned to its unguaranteed, unsubordinated and unsecured short-term debt obligations of at least A-1+ by S&P and P-1 by Moody’s (the “**Minimum Rating**”).

In the event that the Liquidity Facility Provider elects not to renew the Liquidity Facility or the credit rating of the Liquidity Facility Provider has been downgraded below the Minimum Rating, the Liquidity Facility Provider shall give (in the case of non-renewal only) 28 days advance notice of such event to each of the Issuer, the Calculation Agent, the Corporate Servicer, the Servicer and the Rating Agencies and then unless the Liquidity Facility Provider is replaced with another bank having the Minimum Rating who will provide a facility on the same terms as those contained in the Liquidity Facility. The Issuer may request the Liquidity Facility Provider to credit the Liquidity Facility Reserve Account to be opened in the name of the Issuer with the Reserve Account Bank with the amount of the then available Liquidity Facility Commitment (the “**Liquidity Facility Reserve Advance**”). Upon the Liquidity Facility Reserve Account being credited with the Liquidity Facility Reserve Advance the Issuer will be entitled to withdraw amounts from the Liquidity Facility Reserve Account in the same circumstances which entitle it to request any advance under the Liquidity Facility. The Liquidity Facility will be charged (*vincolato*), or otherwise secured, in favour of the Liquidity Facility Provider as security for the Issuer’s repayment obligations under the Liquidity Facility. Upon the occurrence of any of the events set out in Senior Condition 11, except Senior Condition 11(a)(iii), the Liquidity Facility Provider shall be entitled to withdraw (as repayment of the Liquidity Facility) any amount which has been credited to the Liquidity Facility Reserve Account and is not used for any payments of interest on the Senior Notes.

In the event of the replacement of the Liquidity Facility Provider as aforesaid, the Liquidity Facility Provider will transfer all of its rights and obligations under the Liquidity Facility to the substitute Liquidity Facility Provider. Any such substitute Liquidity Facility Provider will also be required to accede to the Intercreditor Agreement and agree to the order of priority of payments contained therein.

All amounts drawn down under the Liquidity Facility, including amounts advanced to the Liquidity Facility Reserve Account, will accrue interest, for the account of the Liquidity Facility Provider, at a rate per annum equal to the aggregate of Euribor for three month deposits plus a margin of 0.40 per cent. An annual fixed commitment fee will be payable to the Liquidity Facility Provider on the Liquidity Facility Available Commitment.

Each amount drawn down under the Liquidity Facility will be repayable on any subsequent Payment Date out of the Interest Available Funds subject to and in accordance with the priority of payments set out in the Interest Priority of Payments.

The Liquidity Facility will be governed by Italian law.

### **Interest Rate Swap**

The Interest Rate Swap will be subject to English law and will be drafted on the basis of the 1992 multicurrency cross border International Swaps and Derivatives Association Inc. (ISDA) Master Agreement, Schedule and Cross-Currency Rate Swap Confirmation and the ISDA 2000 Definitions.

For such time as any of the Senior Notes are outstanding, payments under the Interest Rate Swap will be made:

- (a) on each Payment Date, the Issuer will pay to the Swap Counterparty an amount based on the notional amount indexed to the principal amount outstanding of the Performing Mortgage Loans (as defined in the Interest Rate Swap); and
- (b) two Business Days prior to each Payment Date, the Swap Counterparty will pay to the Issuer an amount equal to three month Euribor on (i) the Principal Amount outstanding of the Notes less (ii) the principal amount outstanding of all Mortgage Loans that are more than thirty calendar days in arrears,

in each case (a) and (b) as determined by the Swap Calculation Agent in a swap payment report to be prepared at least six Business Days prior to the relevant Payment Date (the “**Swap Payment Report**”).

Neither the Issuer nor the Swap Counterparty will be required to gross-up any payment under the Interest Rate Swap from which any withholding or deduction is required to be made for Tax (as defined in the Interest Rate Swap).

If at any time the long-term unguaranteed, unsecured and unsubordinated debt obligations of the Swap Counterparty cease to be rated at least A1 by Moody's (the “**Moody's Required Ratings**”) then the Swap Counterparty will, within 30 days of the occurrence of such downgrade, at its own cost (a) post collateral equal to 102 per cent. of the mark-to-market value of the Interest Rate Swap and update the mark-to-market value of the Interest Rate Swap on a weekly basis as determined by the Swap Calculation Agent and to post such collateral in a manner acceptable to Moody's in order to obtain a written confirmation that the collateral arrangement will not negatively impact the existing ratings of the Senior Notes or (b) procure the transfer of all rights and obligations of the Swap Counterparty under the Interest Rate Swap to a replacement third party with the Moody's Required Ratings or (c) procure another person with the Moody's Required Ratings to become co-obligor under the Interest Rate Swap.

If at any time the short-term unguaranteed, unsecured and unsubordinated debt obligations of the Swap Counterparty cease to be rated at least P-1 by Moody's or the long-term unguaranteed, unsecured and unsubordinated debt obligations of the Swap Counterparty cease to be rated at least A2 by Moody's and, upon the prior occurrence of a Moody's downgrade, the Swap Counterparty had (aa) posted collateral in the manner set out in (a) above, then the Swap Counterparty will, within 30 days of the occurrence of such downgrade, at its own cost, increase the amount of collateral to (a) 102 per cent. of the mark-to-market current value of the Interest Rate Swap and update the mark-to-market value of this Agreement on a weekly basis plus (b) an amount equal to the Floating Rate Calculation Amount (as defined in the confirmation, assuming any figure associated with the performance of the Portfolio to be zero) multiplied by (i) the average life of the Interest Rate Swap and (ii) 0.20 per cent. and post such collateral in a manner acceptable to Moody's in order to obtain a written confirmation that the collateral arrangement will not negatively affect the existing ratings of the Senior Notes; and (bb) not posted collateral in the manner set out in (a) above, then the Swap

Counterparty will, within 30 days of the occurrence of such intermediate Moody's Downgrade, at its own cost, either post collateral as provided in (aa) above or procure:

- (x) the transfer of all rights and obligations of the Swap Counterparty with respect to the Interest Rate Swap to a replacement third party with the Moody's Required Ratings, or
- (y) another person with the Moody's Required Ratings to become obligor in respect of the obligations of the Swap Counterparty under the Interest Rate Swap.

If at any time the short-term unguaranteed, unsecured and unsubordinated debt obligations of the Swap Counterparty cease to be rated at least P-2 by Moody's or the long-term unguaranteed, unsecured and unsubordinated debt obligations of the Swap Counterparty cease to be rated at least Baa2 by Moody's and, upon the prior occurrence of a Moody's downgrade, the Swap Counterparty had posted collateral as set out above, then the Swap Counterparty will (a) on the next Business Day, increase the amount of collateral to 102 per cent. of the mark-to-market current value of the Interest Rate Swap and update the mark-to-market value of the Interest Rate Swap on a weekly basis plus an amount equal to the Floating Rate Calculation Amount (as defined in the Confirmation, assuming any figure associated with the performance of the Portfolio to be zero) multiplied by (i) the average life of the Interest Rate Swap and (ii) 0.40 per cent. and, within 30 days of the occurrence of such downgrade in a manner acceptable to Moody's at its own cost either (a) procure the transfer of all rights and obligations of the Swap Counterparty under the Interest Rate Swap to a replacement third party with the Moody's Required Ratings or (b) procure another person with the Moody's Required Ratings to become co-obligor under the Interest Rate Swap.

If at any time the short-term unguaranteed, unsecured and unsubordinated debt obligations of the Swap Counterparty cease to be rated at least A-1 by S&P (the "**S&P Required Rating**") then the Swap Counterparty has two options: (i) at its own cost, to transfer of all rights and obligations under the Interest Rate Swap to an adequate replacement third party with a S&P Required Rating; or (ii) at its own cost, to pledge collateral or to deliver a guarantee from a third party with an S&P Required Rating, in each case (i) and (ii) above within 30 days after the occurrence of such S&P downgrade and in accordance with the two documents published by S&P and headed respectively "Global Interest Rate and Swap Counterparty Rating Criteria Expanded" and "Global Interest Rate and Currency Swaps: Calculating the Collateral Required Amount", each dated 17 December 2003.

Any replacement Swap Counterparty appointed as set out above will be required to become an Issuer Secured Creditor and to accede to the Intercreditor Agreement.

### **Issuer Collection Account, Issuer Main Account and Principal Paying Agent Account**

The Issuer is required, from the Issue Date, to maintain the Issuer Collection Account, the Issuer Main Account and the Principal Paying Agent Account with an Eligible Institution or, alternatively, to ensure that the payment obligations of the Italian Operating Bank (in respect of the Issuer Collection Account) of the Main Operating Bank (in respect of the Issuer Main Account) and of the Principal Paying Agent (in respect of the Principal Paying Agent Account) are at all times guaranteed by an Eligible Institution.

If at any time the bank with whom the Issuer Main Account or the Principal Paying Agent Account is maintained ceases to be an Eligible Institution and no guarantee in respect of such account granted by an Eligible Institution exists, the Issuer will be obliged to procure that a replacement Issuer Main Account or the Principal Paying Agent Account, as the case may be, is opened with an Eligible Institution.

In addition, under the terms of the Servicing Agreement, in the event that:

- (a) the Bank Account Guarantee is not renewed or it is terminated early by the Bank Account Guarantee Provider and the Italian Operating Bank does not qualify as an Eligible Institution, BNL shall:
  - (i) 35 days before the expiry or the termination, as the case may be of the Bank Account Guarantee, advance to the Issuer an amount equal to the amounts to be paid, assuming a pre-payment rate equal

to 8 per cent. (the “**Pre-Payment Rate**”) by the Borrowers under the Mortgage Loan Receivables comprised in the Portfolio during the period between the expiry date of the Bank Account Guarantee and the last day of the calendar month following such date (“**First Reference Period**”) by crediting such amount to an account of the Issuer to be opened with a bank that qualifies as an Eligible Institution (the “**New Collection Account**”); or

- (ii) 5 days before the first day of each calendar month following the First Reference Period (each a “**Reference Month**”), advance to the Issuer an amount equal to the amounts to be paid by the Borrowers under the Mortgage Loan Receivables comprised in the Portfolio during such Reference Month, increased by the Pre-Payment Rate, by crediting such amount to the New Collection Account;
- (b) the obligations of the Italian Operating Bank under the Issuer Collection Account cease to be guaranteed by a Bank Account Guarantee Provider that is an Eligible Institution and the Italian Operating Bank does not qualify as an Eligible Institution, BNL shall:
- (i) by the 10<sup>th</sup> day (the “**First Advance Date**”) from the date such event occurred, advance to the Issuer an amount equal to the amounts to be paid by the Borrowers under the Mortgage Loan Receivables comprised in the Portfolio during the period between the First Advance Date and the last day of the calendar month following such First Advance Date (the “**First Guaranteed Period**”), increased by the Pre-Payment Rate, by crediting such amount to the New Collection Account; and
  - (ii) 5 days before the first day of each month following the First Guaranteed Period (each a “**Guaranteed Month**”) advance to the Issuer an amount equal to the amounts to be paid by the Borrowers under the Mortgage Loan Receivables comprised in the Portfolio during such Guaranteed Month, increased by the Pre-Payment Rate, by crediting such amount to the New Collection Account.

On the first Business Day of the First Reference Period, each Reference Month, the First Guarantee Period and each Guarantee Month, as the case may be, BNL, subject to BNL itself having made the advance for the current Reference Month or the Guarantee Month in course, as the case may be, the amount of the advance credited to the New Collection Account in relation to the previous period shall be repaid to BNL (plus interest accrued thereon) against payment by the Issuer of the Collections actually collected by the Servicer in the corresponding period to the Issuer Main Account.

Should BNL fail to make an advance when due in accordance with (a) or (b) above, BNL as Servicer pursuant to the Servicing Agreement shall within the following five calendar days instruct each Borrower to make all payments in respect of the Mortgage Loan Receivables directly to the New Collection Account or the Issuer Main Account.

The Issuer is required to transfer daily all amounts collected by the Servicer in respect of the Mortgage Loan Receivables (excluding Recoveries) to the Issuer Collection Account and on the following Business Day from the Issuer Collection Account to the Issuer Main Account.

The Issuer will only be permitted to withdraw moneys from the Issuer Main Account and the Principal Paying Agent Account for the purpose of applying such moneys in accordance with Condition 5 of each Class of Notes and the provisions of the Intercreditor Agreement (see section entitled “*Description of the Security and Priority Arrangements*”).

### **Bank Account Guarantee**

On or prior to the Issue Date, the Bank Account Guarantee Provider will issue a guarantee in favour of the Issuer guaranteeing the payment obligations of BNL, as Italian Operating Bank, in respect of the Issuer Collection Account. The guarantee will be issued for an amount up to euro 65 million, will be granted for an initial term of 364 days and may be renewed for such amount as the Bank Account Guarantee Provider and the Italian Operating Bank may agree.

The Bank Account Guarantee may be terminated in certain circumstances, such as when (i) either of BNL’s capital adequacy ratio (*patrimonio di vigilanza*) or BNL’s base capital ratio (*patrimonio di base*) falls below specific level; or

(ii) BNL's long term rating for its unsecured, unsubordinated and unguaranteed debt obligations has fallen below Baa3 by Moody's or BBB- by S&P.

Should the Bank Account Guarantee be terminated for any reason or should it not be renewed on expiration, the Servicer will be required to make certain advances pursuant to the terms of the Servicing Agreement (see sections entitled "*Credit Structure – Issuer Collection Account, Issuer Main Account and Principal Paying Agent Account*", "*Cash Management – Cash Flows*").

The Bank Account Guarantee will be governed by Italian law.

## AVERAGE LIFE OF THE SENIOR NOTES

The average life and the maturity of the Senior Notes cannot be predicted as the actual amounts which will be received by the Issuer from or in respect of the Portfolio and a number of other relevant factors are unknown. However, calculations as to the expected maturity and average life of the Senior Notes can be made on the basis of certain assumptions as set out below.

### Factors affecting the average life of the Senior Notes

The average life of the Senior Notes will be affected, *inter alia*, by the following factors:

- (a) the amount and timing of late payment or non-payment by Borrowers resulting in Defaulted Mortgage Loans and Delinquent Mortgage Loans; and
- (b) timing of the receipts of principal under the Portfolio.

In the event that prepayments or defaults under any of the Mortgage Loans result in payments of principal in advance of their related maturity dates, a shortfall in amounts available to meet interest payable in respect of the Senior Notes may result. To the extent such shortfall, if any, is not covered by the Liquidity Facility Provider and by the payments made under the Interest Rate Swap, such shortfall will be borne first by the Class D Notes, secondly by the Class C Notes, thirdly by the Class B Notes and fourthly by the Class A Notes, in accordance with the Interest Priority of Payments.

### Assumptions

The tables below have been prepared on the basis of certain assumptions regarding the characteristics of the Mortgage Loans and the performance thereof which are, *inter alia*, that:

- (a) as at the Effective Date, the Mortgage Loans have the following characteristics:

	<i>Aggregate Principal Amount Outstanding (Euro)</i>	<i>Average Remaining Expected Maturity (years)</i>	<i>Average Interest Rate (% per annum)</i>
Mortgage Loans	<u>1,259,373,188.74</u>	<u>12.4</u>	<u>5.81</u>

- (b) the scheduled payments for each Mortgage Loan have been based on its outstanding principal amount, interest rate and remaining term to maturity, such that the Mortgage Loans will amortise in amounts sufficient for repayment thereof over their remaining term to maturity;
- (c) the scheduled payments for each Mortgage Loan have been reduced not only by the scheduled amortisation and assumed prepayments but also by the outstanding principal amount of any Mortgage Loan assumed to have already been in default as a result of the application of CDR (as defined below) in previous months;
- (d) the amounts lost on each Mortgage Loan which are in default is equal to 1.00 per cent. of the outstanding principal amount of the Defaulted Mortgage Loan, this percentage being referred herein as the “**Severity Percentage**”;
- (e) on each Payment Date, 3 month Euribor is 2.10 per cent.; and
- (f) the Notes will be issued on 19 April 2004.

The actual characteristics and performances of the Mortgage Loans may differ from the assumptions used in constructing the tables set forth below, which are hypothetical in nature and are provided only to give a general sense of how the principal cash flows might behave under varying prepayment scenarios.

For example it is unlikely: that the Mortgage Loans will prepay at the same constant pre-payment rate (“**CPR**”) until maturity; and that the assumed CDR (as defined below) will be experienced on the Portfolio.

Any difference between such assumptions and the actual characteristics and performance of the Mortgage Loans, or actual prepayment or loss experience, will affect the percentages of the initial amount outstanding over time and the expected average lives of the Senior Notes.

Subject to the foregoing assumptions, the following tables indicate the expected average life of the Class A1 Notes and of the Class A2 Notes, on the assumption that the option to redeem the Senior Notes will be exercised by the Issuer at the Clean-Up Option Date. The following tables also set forth the percentages of the principal amount outstanding of the Class A1 Notes and the Class A2 Notes at four different CPRs. Further on the basis of the foregoing assumptions, no Class B Notes and Class C Notes will be redeemed before the relevant Clean-Up Option Date.

**Average Life and Outstanding Note Balance Percentage Class A1 Notes**

<b>CPR Assumption</b>	<b>0.0%</b>	<b>4.0%</b>	<b>10.0%</b>	<b>15.0%</b>
April 2004	100.00%	100.00%	100.00%	100.00%
January 2005	100.00%	100.00%	100.00%	100.00%
January 2006	64.85%	49.34%	27.05%	9.41%
January 2007	45.32%	23.91%	0.00%	0.00%
January 2008	24.87%	0.00%	0.00%	0.00%
January 2009	4.31%	0.00%	0.00%	0.00%
January 2010	0.00%	0.00%	0.00%	0.00%
January 2011	0.00%	0.00%	0.00%	0.00%
Expected Maturity .....	<b>June 2009</b>	<b>December 2007</b>	<b>December 2006</b>	<b>June 2006</b>
Average Life	<b>2.9 yrs</b>	<b>2.2 yrs</b>	<b>1.8 yrs</b>	<b>1.6 yrs</b>

**Average Life and Outstanding Note Balance Percentage Class A2 Notes**

<b>CPR Assumption</b>	<b>0.0%</b>	<b>4.0%</b>	<b>10.0%</b>	<b>15.0%</b>
April 2004	100.00%	100.00%	100.00%	100.00%
January 2005	100.00%	100.00%	100.00%	100.00%
January 2006	100.00%	100.00%	100.00%	100.00%
January 2007	100.00%	100.00%	96.23%	80.64%
January 2008	100.00%	99.57%	75.94%	59.38%
January 2009	100.00%	83.11%	58.57%	42.42%
January 2010	88.57%	67.96%	43.95%	29.08%
January 2011	74.20%	53.98%	31.63%	18.63%
January 2012	59.80%	40.99%	21.23%	10.45%
January 2013	48.31%	31.06%	13.86%	0.00%
January 2014	38.94%	23.28%	0.00%	0.00%
January 2015	29.89%	16.26%	0.00%	0.00%
January 2016	21.04%	9.88%	0.00%	0.00%
January 2017	12.39%	0.00%	0.00%	0.00%
January 2018	0.00%	0.00%	0.00%	0.00%
January 2019	0.00%	0.00%	0.00%	0.00%
Expected Maturity (Clean-up Call)	<b>September 2017</b>	<b>March 2016</b>	<b>December 2013</b>	<b>June 2012</b>
Average Life	<b>9.2 yrs</b>	<b>7.6 yrs</b>	<b>5.9 yrs</b>	<b>4.8 yrs</b>

CDR (Cumulative Default Rate) = 2.50%

Severity Percentage = 1.00%

## DESCRIPTION OF THE SECURITY AND THE PRIORITY ARRANGEMENTS

*The description of the Intercreditor Agreement, the Pledge Agreement, the Luxembourg Pledge Agreement and the Deed of Charge set out below is a summary of the main features of those agreements and is qualified by reference to the detailed provisions of those agreements. Prospective Senior Noteholders may inspect a copy of the Intercreditor Agreement, the Pledge Agreement, the Luxembourg Pledge Agreement and the Deed of Charge upon request at the registered offices of the Issuer and the specified office of the Luxembourg Agent.*

### ***Segregation of the Portfolio***

By operation of Italian law, the Issuer's right, title and interest in and to the Portfolio and the relevant Collections will be segregated from all other assets of the Issuer and amounts deriving therefrom will only be available, both prior to and following, a winding up of the Issuer, to satisfy the obligations of the Issuer to the holders of the Notes and to the other Issuer Secured Creditors and Connected Third Party Creditors. As the rights of the Issuer Secured Creditors by operation of Italian law are similar to those of a holder of a perfected security interest, the Issuer will not create any Security Interest over its right, title and interest in and to the Portfolio. Following an Enforcement Notice being served on the Issuer, the Issuer Secured Creditors have the right to require the Issuer to sell the Portfolio and to apply the proceeds of such a sale towards the satisfaction of the Issuer's obligations.

### ***Intercreditor Agreement***

On or prior to the Issue Date, the Issuer, the Originator, the Representative of the Noteholders for itself and in the name and on behalf of the Noteholders, the Servicer, the Calculation Agent, the Swap Calculation Agent, the Italian Operating Bank, the Main Operating Bank, the Principal Paying Agent, the Luxembourg Agent, the Liquidity Facility Provider, the Corporate Servicer and the Swap Counterparty will enter into an Intercreditor Agreement pursuant to which the parties thereof shall agree on the cash flow allocation of the proceeds in respect of the Portfolio and the Representative of the Noteholders shall be granted certain rights in relation to the Portfolio.

The Intercreditor Agreement will be governed by and construed in accordance with Italian law.

### ***Rights over the Portfolio***

Under the Intercreditor Agreement, the Issuer will appoint the Representative of the Noteholders as its agent (*mandatario con rappresentanza*) to exercise, upon the service of an Enforcement Notice, in the name and on behalf of the Issuer and in the interest and for the benefit of the Noteholders and the other Issuer Secured Creditors, all and any of the Issuer's rights deriving from each of the Transaction Documents to which the Issuer is a party, including, *inter alia*, the right to dispose of the Portfolio, to give directions and instructions to the Originator, the Servicer, the Italian Operating Bank, the Main Operating Bank, the Corporate Servicer, the Calculation Agent, the Swap Calculation Agent, the Liquidity Facility Provider, the Principal Paying Agent, the Luxembourg Agent and the Swap Counterparty, and to operate the Issuer Accounts. With respect to any decision or actions taken by the Representative of the Noteholders, it will be agreed pursuant to the Intercreditor Agreement to give the Servicer prior notice thereof to allow the Servicer to verify that the actions comply with applicable law.

The Intercreditor Agreement further provides that, upon the occurrence of a Specified Event, the Representative of the Noteholders will have the right to exercise, in the name and on behalf of the Issuer and in the interest and for the benefit of the Noteholders and the other Issuer Secured Creditors, the rights of the Issuer under the Transaction Documents, and to exercise discretions, authorities or powers, in respect of such the Specified Event related to.

### ***Priority of Payments***

Prior to the service of an Enforcement Notice, the occurrence of a Credit Trigger Event or the occurrence of an Issuer Insolvency Event, the Issuer will, on each Payment Date, apply all Interest Available Funds to the items and in the order of priority set out in the Interest Priority of Payments, apply all Principal Available Funds to the items and in the order of priority set out in the Principal Priority of Payments, in each case, as set out in Senior Condition 5.

Following the occurrence of a Credit Trigger Event relating to a certain class of Notes, Interest Available Funds after satisfaction of the items ranking in priority to the interest of the relevant Class of Notes pursuant to the Interest Priority of Payments shall constitute Principal Available Funds and will be applied in accordance with the Principal Priority of Payments.

Following the service on the Issuer of an Enforcement Notice or the occurrence of an Issuer Insolvency Event, the Issuer will apply all amounts received by it and/or the Representative of the Noteholders in respect of the Portfolio and the Issuer Security to the items and in the order of priority set out in the Enforcement Priority of Payments.

Under the Intercreditor Agreement the Issuer will grant to the Originator an option to repurchase the Portfolio on any date falling on or after the Collection Date in which the Collateral Portfolio is equal to or less than 10% of the Initial Principal Amount of the Mortgage Loans, for a price not less than the Principal Amount Outstanding under the Notes (or to the extent that the Class D Noteholders so consent, at a price not less than the Principal Amount Outstanding under the Senior Notes plus any interest accrued and unpaid up to the date fixed for the redemption of the Senior Notes), plus any interest accrued and unpaid up to the date fixed for the redemption of the Senior Notes or the Notes, as the case may be, any amount due and payable under the Liquidity Facility and any amounts required under the relevant Priority of Payments to be paid in priority to, or *pari passu* with, the Notes or the Senior Notes of each Class, as the case may be, as indicated in the relevant Payment Report (the “**Option Price**”). The Originator will lose its right to exercise such option under the Intercreditor Agreement if the Option Price proves to be higher than the aggregate between: (i) the market value of any Defaulted Mortgage Loan and/or any Delinquent Mortgage Loan comprised in the Portfolio, as the case may be, as determined by a third party expert jointly selected by the Representative of the Noteholders, the Issuer and the Originator; and (ii) the then Outstanding Principal, plus the Unpaid Principal Instalments, the Unpaid Interest Instalments and the Accrued Interest of any Mortgage Loan which do not qualify as a Defaulted Mortgage Loan and/or a Delinquent Mortgage Loan.

### ***Enforcement Rights***

Pursuant to the Intercreditor Agreement, all the Issuer Secured Creditors other than the Noteholders will appoint the Representative of the Noteholders, as their agent (*mandatario con rappresentanza*), so that the Representative of the Noteholders may, in their name and behalf and also in the interests of and for the benefit of the Noteholders (who shall make a similar appointment pursuant to the Subscription Agreements and the Conditions), *inter alia*, enter into the Pledge Agreement, the Luxembourg Pledge Agreement and the Deed of Charge and, with effect from the date when the Notes have become due and payable following an Enforcement Notice being served on the Issuer, exercise all of the Issuer Secured Creditor’s right, title and interest in and to and in respect of the assets charged under the Pledge Agreement, the Luxembourg Pledge Agreement and the Deed of Charge and do any act, matter or thing which it considers necessary for the protection of the Issuer Secured Creditors’ rights under any of the Transaction Documents including the power to receive from the Issuer any and all monies payable by the Issuer to any Issuer Secured Creditor and take legal proceedings against the Issuer.

### ***Conflicts***

In the exercise of its powers, authorities, duties and discretions, the Representative of the Noteholders shall have regard to the interests of the holders of each Class of Notes as regards all powers, authorities, duties and discretion of the Representative of the Noteholders as if they formed a single Class (except where expressly provided otherwise) but, if, in the Representative of the Noteholders’ opinion, there is a conflict between the interests of the holders of any Class of Notes, it shall have regard only to the interest of the holders of the Most Senior Class of Notes. In the exercise of its powers, authorities, duties and discretion, the Representative of the Noteholders shall also have regard to the interests of the Issuer Secured Creditors other than the Noteholders but, in any such case, shall have regard only (except where expressly provided otherwise) (i) to the interest of the holders of the Most Senior Class of Notes if there is a conflict between the interests of the Noteholders and the interests of any other Issuer Secured Creditor and (ii) to the interest of the Issuer Secured Creditor to whom any amounts are owed appearing highest in the relevant Priority of Payments, if there is no conflict between the interests of such Issuer Secured Creditor and the interests of the Noteholders.

### ***Non-Petition***

Under the terms of the Intercreditor Agreement and the Conditions, each of the Issuer Secured Creditors, including the Senior Noteholders, will agree that only the Representative of the Noteholders is entitled to enforce the Issuer Security. No Issuer Secured Creditor or Noteholder may take any steps for the purposes of obtaining payment of any amount expressed to be payable to it or enforcing any other obligation of the Issuer under the Senior Conditions and/or the Transaction Documents except in the limited circumstances permitted under the Senior Conditions and the Intercreditor Agreement.

No Issuer Secured Creditor or Noteholder may exercise any right of set-off (*compensazione*) against the Issuer under the Senior Notes and/or the Transaction Documents or otherwise.

Pursuant to the Intercreditor Agreement and the Conditions, no Issuer Secured Creditor or Noteholder may take any steps for the purpose of commencing any Insolvency Proceedings against the Issuer, except two years following redemption in full of all notes issued by the Issuer from time to time.

### ***Negative Pledge***

The Issuer covenants in Condition 4 and in the Intercreditor Agreement, that for so long as any amount remains outstanding in respect of the Notes, save with the prior written consent of the Representative of the Noteholders, or as expressly provided in any of the Transaction Documents, it shall not and, as the case may be, shall not (to the extent permitted by Italian law) call shareholders meetings to the create or permit to subsist any Security Interest whatsoever over any of its assets or sell, lend or otherwise dispose of all or any part of its assets and undertakings, present or future.

### ***Limited Recourse***

Under the Intercreditor Agreement, each of the Issuer Secured Creditors will agree and acknowledge that its claims in respect of the obligations owed to it by the Issuer shall (whether before or after the service of an Enforcement Notice or the occurrence of an Issuer Insolvency Event) be subordinated to the claims of those creditors whose claims rank or are expressed to rank in priority to the claims of such Issuer Secured Creditor pursuant to the terms of the Intercreditor Agreement, the Conditions or by operation of law. Each Issuer Secured Creditor will further agree and acknowledge that the obligation of the Issuer to make payments to the Issuer Secured Creditors under the Transaction Documents will be limited to the amounts received by the Issuer in respect of the Portfolio, the Issuer Security and the Transaction Documents.

### ***Pledge Agreement***

The Issuer will grant in favour of the Noteholders and the other Issuer Secured Creditors a pledge over all the Issuer's monetary rights other than the Portfolio and the relevant Collections in, to and under:

- (a) the Agency Agreement;
- (b) the Bank Account Guarantee;
- (c) the Cash Management Agreement;
- (d) the Class D Notes Subscription Agreement;
- (e) the Corporate Services Agreement;
- (f) the Senior Notes Subscription Agreement;
- (g) the Servicing Agreement;
- (h) the Transfer Agreement; and
- (i) the Liquidity Facility,

all as more particularly described in the Pledge Agreement.

The Pledge Agreement will be governed by, and construed in accordance with, Italian law. The Courts of Milan will have exclusive jurisdiction in relation to any disputes arising in connection with the Pledge Agreement. The exercise of the rights under the Pledge Agreement shall be conditional upon the service of an Enforcement Notice or the occurrence of an Issuer Insolvency Event.

### ***Luxembourg Pledge Agreement***

Under the terms of the Luxembourg Pledge Agreement to be entered into on or prior to the Issue Date, the Issuer will grant in favour of the Representative of the Noteholders and the other Issuer Secured Creditors, a Luxembourg law pledge over all amounts standing to the credit from time to time of the Issuer Main Account. The exercise of rights under the Luxembourg Pledge Agreement shall be made in accordance with the terms of the Intercreditor Agreement and the Senior Conditions.

### ***Deed of Charge***

In order to ensure that the Issuer's rights under the Interest Rate Swap are not available to any creditor of the Issuer other than the Issuer Secured Creditors, as security for its obligations towards the Issuer Secured Creditors, the Issuer will create security in favour of the Noteholders and the other Issuer Secured Creditors over its assets situated in England and Wales relating to Securitisation. In particular, pursuant to the Deed of Charge, the Issuer will, with full title guarantee, by way of first fixed security charge, convey, assign and transfer to the Representative of the Noteholders on trust for itself, the Noteholders and any other Issuer Secured Creditors all its right, title, interest and benefit, present and future, in, to and under the Interest Rate Swap as more particularly described in the Deed of Charge.

The exercise of rights under the Deed of Charge shall be conditional upon the service of an Enforcement Notice or the occurrence of an Issuer Insolvency Event. The Deed of Charge is governed by English law.

## TERMS AND CONDITIONS (*REGOLAMENTO*) OF THE SENIOR NOTES

### General

The euro 507,150,000 Class A1-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028 (the “**Class A1 Notes**”), euro 706,800,000 Class A2-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028 (the “**Class A2 Notes**”) and together with the Class A1 Notes, the “**Class A Notes**”), the euro 15,850,000 Class B-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028 (the “**Class B Notes**”), the euro 31,700,000 Class C-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028 (the “**Class C Notes**”) and, together with the Class A Notes and the Class B Notes, the “**Senior Notes**”) and the euro 7,250,000 Class D -Series 2 Residential Mortgage Backed Variable Return Notes due 2028 (the “**Class D Notes**”) and, together with the Class A Notes, the Class B Notes and the Class C Notes, the “**Notes**”) are issued on 19 April 2004 (the “**Issue Date**”) by Vela Home S.r.l., a limited liability company under the laws of the Republic of Italy, VAT No. 03678290267, with registered capital of euro 10,000 (fully paid-up), whose registered office is at Via V. Alfieri 1, Conegliano (Treviso), registered with the *Registro delle Imprese di Treviso* with number 03678290267, incorporated in accordance with Article 3 of Law No. 130 of 30 April 1999 (the “**Securitisation Law**”) and registered with the *Ufficio Italiano Cambi* in accordance with Article 106 of Legislative Decree No. 385 of 1 September 1993 (the “**Italian Banking Act**”) under number 33750 and registered in the special register held by the Bank of Italy pursuant to Article 107 of the Italian Banking Act (the “**Issuer**”) to finance the purchase of a portfolio of residential mortgage loan receivables and connected rights (the “**Portfolio**” or the “**Mortgage Loan Receivables**”) arising from residential mortgage loans (the “**Mortgage Loans**”) from Banca Nazionale del Lavoro S.p.A. (the “**Originator**” or “**BNL**”).

This entire introductory section headed “General” shall constitute an integral and essential part of the terms and conditions of the Senior Notes set out below (the “**Senior Conditions**”). The Senior Notes are subject to the terms of the Transaction Documents.

Any reference in these Senior Conditions to (i) a “**Class**” of Notes or a “**Class**” of holders of Notes shall be a reference to the Class A1 Notes, Class A2 Notes, Class B Notes, Class C Notes or the Class D Notes as the case may be, or to the respective holders thereof; and (ii) an agreement or document shall be construed as a reference to such agreement or document as the same may have been, or may from time to time be, amended or supplemented.

Any reference in these Senior Conditions to a person acting in a specified capacity pursuant to a Transaction Document shall include that person’s successors, permitted assigns and any further or other person and all persons for the time being acting in such capacity pursuant to such Transaction Document.

The principal source of payment of amounts due and payable in respect of the Notes will be collections and recoveries made in respect of the Portfolio purchased by the Issuer from the Originator pursuant to a transfer agreement entered into on 23 March 2004 between the Issuer and the Originator (the “**Transfer Agreement**”) under the provisions of the Securitisation Law.

Pursuant to the provisions of Article 3, paragraph 2 of the Securitisation Law, the Portfolio is segregated under Italian law from all other assets of the Issuer and amounts deriving therefrom will only be available, both prior to and following a winding up of the Issuer, to satisfy the obligations of the Issuer to the Noteholders, to pay costs, fees or expenses due to the Issuer’s creditors under the Transaction Documents (as defined below) and to pay any other creditor of the Issuer in respect of costs, fees or expenses of the Issuer to such other creditor in relation to the securitisation of the Portfolio made by the Issuer through the issuance of the Notes (the “**Securitisation**”). Amounts deriving from the Portfolio will not be available to any other creditors of the Issuer.

By a subscription agreement entered into on 15 April 2004 between the Issuer, Finanziaria Internazionale Securitisation Group S.p.A. (the “**Representative of the Noteholders**”), The Royal Bank of Scotland plc (in its capacity as “**Joint Lead Manager**”), BNL (in its capacity as “**Joint Lead Manager**” and together with the other Joint Lead Manager, the “**Managers**”) and the Originator, the Managers have agreed to subscribe for the Class A1 Notes, the Class A2 Notes, the Class B Notes and the Class C

Notes (the “**Senior Notes Subscription Agreement**”), and by a subscription agreement entered into on 15 April 2004 between the Issuer, the Representative of the Noteholders and BNL (in such capacity the “**Class D Notes Subscriber**”), the Class D Notes Subscriber has agreed to subscribe for the Class D Notes (the “**Class D Notes Subscription Agreement**” and together with the Senior Notes Subscription Agreement, the “**Subscription Agreements**”). Under the Subscription Agreements, the Managers and the Class D Notes Subscriber, as subscribers of the Notes, have appointed the Representative of the Noteholders as representative for the holders of the Class A1 Notes (the “**Class A1 Noteholders**”), the Class A2 Notes (the “**Class A2 Noteholders**”), the Class B Notes (the “**Class B Noteholders**”), the Class C Notes (the “**Class C Noteholders**” and, together with the Class A1 Noteholders, the Class A2 Noteholders and the Class B Noteholders, the “**Senior Noteholders**”) and the Class D Notes (the “**Class D Noteholders**” and, together with the Senior Noteholders hereinafter collectively referred to as the “**Noteholders**”).

By a servicing agreement entered into on 23 March 2004 (the “**Servicing Agreement**”), between the Issuer and Banca Nazionale del Lavoro S.p.A. (the “**Servicer**”), the Servicer has agreed to administer, service and collect amounts in respect of the Portfolio on behalf of the Issuer. The Servicer shall ensure proper segregation of the Issuer’s accounting and property from its own activities and be responsible for verifying that the transactions to be carried out within the Securitisation comply with the provisions of the Securitisation Law and the related implementing provisions and are consistent with the contents of this Offering Circular. Under the Servicing Agreement, the Servicer may outsource to third parties at its own expense and under its responsibility and constant control both the cash collection activities and the data management activities relating to the Mortgage Loans.

By a cash management agreement entered into on or about the Issue Date (the “**Cash Management Agreement**”) between the Issuer, the Representative of the Noteholders, Securitisation Services S.p.A. as calculation agent (the “**Calculation Agent**”), BNP Paribas, Luxembourg Branch as Main Operating Bank (the “**Main Operating Bank**”) the Principal Paying Agent (as defined below) and Banca Nazionale del Lavoro S.p.A. as Italian operating bank (the “**Italian Operating Bank**”), (i) the Italian Operating Bank has agreed to hold and operate the Issuer Collection Account (as defined below) and to provide the Issuer with account keeping services in relation to moneys from time to time standing to the credit of the Issuer Collection Account; (ii) the Main Operating Bank has agreed to hold and operate the Issuer Main Account (as defined below) and to provide the Issuer with account keeping services in relation to moneys from time to time standing to the credit of the Issuer Main Account; (iii) the Principal Paying Agent has agreed to hold and operate the Principal Paying Agent Account and (iv) the Calculation Agent has agreed to provide certain calculation, notification and reporting services to the Issuer.

By a 364 day bank account guarantee entered into on or about the Issue Date (the “**Bank Account Guarantee**”) between the Issuer, the Representative of the Noteholders, the Italian Operating Bank and The Royal Bank of Scotland plc, Milan Branch, as bank account guarantee provider (the “**Bank Account Guarantee Provider**”), the Bank Account Guarantee Provider has agreed to guarantee the obligations of the Italian Operating Bank to the Issuer under the Cash Management Agreement in relation to the Issuer Collection Account up to a maximum guaranteed amount of euro 65 million.

By a liquidity facility agreement entered into on or about the Issue Date (the “**Liquidity Facility**”), between the Issuer, the Representative of the Noteholders and The Royal Bank of Scotland plc, Milan branch, as liquidity facility provider (the “**Liquidity Facility Provider**”), the Liquidity Facility Provider has agreed to make available to the Issuer a 364 day committed revolving facility, in a maximum amount equal to euro 35 million, to meet shortfalls (if any) in the payments of interest to the Senior Noteholders and of certain other expenses to creditors of the Issuer ranking in priority with respect thereto.

Pursuant to the terms of an agreement entered into on or about the Issue Date (the “**Agency Agreement**”) between the Issuer, the Representative of the Noteholders, The Royal Bank of Scotland plc, BNP Paribas Securities Services, Milan Branch as principal paying agent (the “**Principal Paying Agent**”) and BNP Paribas Securities Services, Luxembourg Branch (the “**Luxembourg Agent**”), the Principal Paying Agent and the Luxembourg Agent have agreed to provide certain agency and payment services to the Issuer in relation to the Notes and the listing of the Senior Notes on the Luxembourg Stock Exchange. In particular, on each Payment Date, the Principal Paying Agent shall arrange for the payments of principal and interest in respect of the Notes of each Class.

By an interest rate swap entered on or about the Issue Date (the “**Interest Rate Swap**”), between the Issuer and The Royal Bank of Scotland plc (the “**Swap Counterparty**”), the Issuer has entered into an interest rate swap with the Swap Counterparty to hedge the interest rate exposure of the Issuer in relation to its floating rate interest obligations under the Class A Notes, the Class B Notes and the Class C Notes.

By a corporate services agreement entered into on 23 March 2004 (the “**Corporate Services Agreement**”), between the Issuer and Securitisation Services S.p.A. as Corporate Servicer (the “**Corporate Servicer**”), the Corporate Servicer has agreed to provide certain corporate administration services to the Issuer.

By an intercreditor agreement entered into on or about the Issue Date (the “**Intercreditor Agreement**”), between the Issuer, the Originator, the Representative of the Noteholders for itself and as representative of the Noteholders, the Servicer, the Calculation Agent, the Italian Operating Bank, the Main Operating Bank, the Principal Paying Agent, the Luxembourg Agent, the Corporate Servicer, the Liquidity Facility Provider, the Swap Calculation Agent and the Swap Counterparty, the parties thereto have agreed on the cash flow allocation of the proceeds in respect of the Portfolio and the Representative of the Noteholders has been granted certain rights in relation to the Portfolio.

Under the terms of the Intercreditor Agreement, the Issuer has, among other things, granted an irrevocable mandate under Article 1723, second paragraph of the Italian Civil Code to the Representative of the Noteholders, pursuant to which, subject to an Enforcement Notice being served upon the Issuer by the Representative of the Noteholders following the occurrence of an Enforcement Event (as defined below), the Representative of the Noteholders shall be authorised to exercise in the name of the Issuer all the Issuer’s contractual rights arising out of the Transaction Documents (as defined below) to which the Issuer is a party and in respect of the Portfolio, including the right to sell it in whole, in the interest of the Noteholders and the Issuer Secured Creditors.

By a shareholders agreement entered into on 30 April 2003 and an amendment agreement to the shareholders agreement to be entered into on or prior to the Issue Date (together, the “**Shareholders Agreement**”), between, *inter alios*, the Issuer, BNL Partecipazioni S.p.A. (“**BNL Partecipazioni**”), SVM Securitisation Vehicles Management S.r.l. (“**SVM**”) and the Representative of the Noteholders: (i) SVM has granted to the minority holder (now BNL Partecipazioni S.p.A.) the option to purchase SVM’s 91 per cent. stake in the Issuer’s share capital (the “**SVM Holding**”) only after the date on which the Senior Notes and any other senior notes issued by the Issuer in a prior or in a subsequent securitisation have been repaid in full; (ii) BNL Partecipazioni has granted to SVM the option to sell to BNL Partecipazioni the SVM Holding after the date on which the Senior Notes and any other senior notes issued by the Issuer have been repaid in full; (iii) SVM and BNL Partecipazioni have assumed certain undertakings with respect, *inter alia*, the exercise of their voting rights in the Issuer to which they will be entitled to, and (iv) have undertaken to dispose of their interests in the Issuer only in limited circumstances.

By a pledge agreement entered into by the Issuer on or about the Issue Date (the “**Pledge Agreement**”), the Issuer has pledged, *inter alia*, in favour of the Noteholders and the other Issuer Secured Creditors, all monetary claims and rights and all the amounts payable from time to time to the Issuer pursuant to the Agency Agreement, the Cash Management Agreement, the Class D Subscription Agreement, the Bank Account Guarantee, the Liquidity Facility, the Corporate Services Agreement, the Senior Notes Subscription Agreement, the Servicing Agreement and the Transfer Agreement with the exclusion of the Portfolio and the relevant Collections.

By a Luxembourg law governed pledge agreement entered into by the Issuer on or about the Issue Date (the “**Luxembourg Pledge Agreement**”) the Issuer has pledged in favour of the Noteholders and the other Issuer Creditors the amounts from time to time standing to the credit of the Issuer Main Account.

By an English law governed deed of charge executed by the Issuer on or about the Issue Date (the “**Deed of Charge**”), the Issuer has charged in favour of the Noteholders and the other Issuer Secured Creditors all of the Issuers’ rights under the Interest Rate Swap.

A euro-denominated account has been established in the name of the Issuer (the “**Issuer Collection Account**”) which will be held with the Branch of Via Bissolati, Rome, of the Italian Operating Bank.

A euro-denominated account has been established in the name of the Issuer (the “**Issuer Main Account**”) which will be held with the Main Operating Bank.

A euro-denominated account has been established in the name of the Issuer (the “**Principal Paying Agent Account**”) which will be held with the Principal Paying Agent for the deposit of all amounts required to be paid to the Noteholders.

The Issuer has also established in its name a euro-denominated account, the “**Expenses Account**” which on the Issue Date will be held at Banca Antoniana Popolare Veneta, Conegliano Branch, for the deposit therein of the Issuer Maintenance Corporate Advance.

Copies of the Agency Agreement, the Bank Account Guarantee, the Cash Management Agreement, the Corporate Services Agreement, the Deed of Charge, the Intercreditor Agreement, the Interest Rate Swap, the Liquidity Facility, the Pledge Agreement, the Luxembourg Pledge Agreement, the Servicing Agreement, the Shareholders Agreement, the Subscription Agreements and the Transfer Agreement (together the “**Transaction Documents**”) are available for inspection at the registered office of the Issuer and the Luxembourg Agent.

## **1. Definitions and Construction**

For the purposes of these Senior Conditions:

“**Accrued Interest**” means, as of any relevant date and in relation to any Mortgage Loan Receivable that is not classified as a Defaulted Mortgage Loan or as a Delinquent Mortgage Loan, the portion of the Interest Instalment falling due on the next Scheduled Instalment Date which has accrued as at that date;

“**Annual Defaults Level**” means, as at any Collection Date, the ratio between (a) the aggregate outstanding principal amount of any Defaulted Mortgage Loan which defaulted during the four most recent Collection Periods; and (b) the average of the principal amount of all performing Mortgage Loans outstanding at the beginning of each of such four Collection Periods;

“**Bank of Italy Instructions**” means the *Istruzioni di Vigilanza per le Banche* and any other regulation issued by the Bank of Italy and applicable to banks;

“**Basic Terms Modification**” has the meaning provided in Senior Condition 13(d);

“**Borrower**” means in relation to each Mortgage Loan Receivable, each person which has entered into the Mortgage Loan Agreement under which such Mortgage Loan Receivable arises as a borrower thereunder or any successor to such person;

“**Business Day**” means a day (other than a Saturday and a Sunday) on which the Trans-European Automated Real Time Gross Settlement Express Transfer (TARGET) System (or any successor thereto) is open for business;

“**Calculation Date**” means the date falling four Business Days prior to any Payment Date;

“**Cash Reserve Amount**” means (i) on each Payment Date on which the Principal Amount Outstanding of the Senior Notes is *equal to* or *in excess* of 50 per cent. of the Principal Amount Outstanding of the Senior Notes as of the Issue Date, an amount equal to 0.50 per cent. of the Principal Amount Outstanding of the Senior Notes as of the Issue Date; and (ii) on each Payment Date in which the Principal Amount Outstanding of the Senior Notes is *less* than 50 per cent. of the Principal Amount Outstanding of the Senior Notes as of the Issue Date, an amount equal to 0.25 per cent. of the Principal Amount Outstanding of the Senior Notes as of the Issue Date, provided that should the Senior Notes be redeemed in full or should a Credit Trigger Event occur, the Cash Reserve Amount shall always be zero;

“**Class B Trigger Event**” occurs upon the Unpaid Principal Deficiency having exceeded 9 per cent.;

“**Class C Trigger Event**” occurs upon the Unpaid Principal Deficiency having exceeded 7.5 per cent.;

“**Class D Conditions**” means the terms and conditions of the Class D Notes as from time to time amended in accordance therewith;

“**Class D Trigger Event**” occurs upon any and each of the following events having occurred:

- (a) the Annual Defaults Level has exceeded 2.2 per cent.; or
- (b) the Unpaid Principal Deficiency has exceeded 2 per cent.; or
- (c) the Delinquency Level has exceeded 8 per cent.;

“**Clean-Up Option Date**” means the Payment Date immediately following the Collection Date in which the aggregate principal amount outstanding of the Portfolio is equal to or less than 10% of the Initial Principal Amount of the Mortgage Loans;

“**Collateral Portfolio**” means, on any given date the sum of all Outstanding Principal of all the Mortgage Loan Receivables that are not classified as Defaulted Mortgage Loans, plus (i) the sum of the Unpaid Principal Instalments for all Mortgage Loan Receivables in arrear that are not Delinquent Mortgage Loans; and (ii) the Accrued Interest as of that date;

“**Collateral Security**” means any guarantee or security (*garanzia personale o reale*) (other than a Mortgage), granted, or existing in any other way, to BNL in order to secure or guarantee:

- (a) the reimbursement of the Mortgage Loans Receivables; and
- (b) the obligations arising under the Mortgage Loan Agreements;

“**Collection Date**” means the 31 March, 30 June, 30 September and 31 December of each year;

“**Collection Period**” means each period commencing on (and excluding) a Collection Date and ending on (and including) the next succeeding Collection Date but, in the case of the first Collection Period, the period commencing on (and including) the Effective Date and ending on and including 30 June 2004;

“**Collections**” means all cash amounts received by the Servicer in relation to the Mortgage Loan Receivables, the Mortgages and the related Collateral Security;

“**Commitment Fee**” means the fee due to the Liquidity Facility Provider pursuant to the Liquidity Facility;

“**Conditions**” means the Senior Conditions and/or the Class D Conditions, as the context may require;

“**Connected Third Party Creditor**” means any creditor of the Issuer (other than the Issuer Secured Creditors and the Managers) in respect of costs, fees, expenses or other amounts (including taxes) incurred by the Issuer to such creditor or required by law to be paid to such creditor in each case in connection with the Securitisation and including any amounts payable to maintain the rating and listing of the Senior Notes and comply with applicable law;

“**Credit Trigger Event**” means any of the Class B Trigger Event, the Class C Trigger Event or the Class D Trigger Event, as applicable;

“**Criteria**” means the criteria set out in the Transfer Agreement on the basis of which the Mortgage Loan Receivables and the Mortgage Loan Agreements from which they arise, are identified as a “block” pursuant to Articles 1 and 4 of the Securitisation Law;

**“Defaulted Mortgage Loan”** means any Mortgage Loan which:

- (a) has been classified as a Delinquent Mortgage Loan for more than six months of which the unpaid amount for the first unpaid instalment exceeds euro 50.00; or
- (b) which has been classified as a “defaulted loan” (*credito in sofferenza*) pursuant to the Bank of Italy Instructions,

whichever comes first;

**“Deferred Interest Amount”** has the meaning given in Senior Condition 6 (h);

**“Delinquency Amount”** means in relation to any Delinquent Mortgage Loan any principal amount which has not been paid when due;

**“Delinquency Level”** means, as at any Collection Date, the ratio, expressed as a percentage, between:

- (a) the aggregate Outstanding Principal of all Delinquent Mortgage Loans that are not Defaulted Mortgage Loans as at such Collection Date; and
- (b) the outstanding principal amount of the Mortgage Loans as at such Collection Date;

**“Delinquent Mortgage Loan”** means on each Collection Date any Mortgage Loan in respect of which the instalments have not been paid between 30 and 180 calendar days of the respective due dates relating thereto and are outstanding on the relevant Collection Date;

**“Effective Date”** means 22 March 2004;

**“Enforcement Event”** has the meaning given in Senior Condition 11;

**“Enforcement Notice”** means a notice served by the Representative of the Noteholders on the Issuer pursuant to Senior Condition 11(b) declaring the Senior Notes to be due and payable in full following the occurrence of an Enforcement Event;

**“Enforcement Priority of Payments”** means the priority of payments set out in Senior Condition 5.4;

**“€”** or **“euro”** and the sub-division thereof **“cents”**, means the single currency introduced in the member States of the European Community which was adopted in accordance with the Treaty of Rome of 25 March 1957, as amended by, *inter alia*, the Single European Act 1986, the Treaty of European Union of 7 February 1992, establishing the European Union and the European Council of Madrid of 16 December 1995;

**“Euro-zone”** means the region comprised of member States of the European Union that adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25 March 1957) as amended by the Treaty on European Union (signed in Maastricht on 7 February 1992);

**“Further Securitisation”** means the purchase and securitisation by the Issuer of further monetary claims by way of a separate transaction in addition to the Portfolio;

**“Initial Expenses Amount”** means euro 913,743.12;

**“Initial Interest Accrued Amount”** means euro 8,463,068.14;

**“Initial Period”** means the period commencing on (and including) the Issue Date and ending on (and excluding) the date falling 18 calendar months after the Issue Date;

**“Initial Principal Amount of the Mortgage Loans”** means euro 1,259,373,188.74;

“**Insolvency Proceedings**” means bankruptcy (*fallimento*) or any other insolvency (*procedura concorsuale*) or analogous proceedings from time to time, including, but not limited to an arrangement with creditors prior to bankruptcy (*concordato preventivo*), an adjustment of creditors’ claims (*concordato fallimentare*), temporary receivership (*amministrazione controllata*), compulsory administrative liquidation (*liquidazione coatta amministrativa*), extraordinary administration (*amministrazione straordinaria*) and the extraordinary administration of large companies in a state of insolvency (*amministrazione straordinaria delle grandi imprese in crisi o in stato di insolvenza*);

“**Instalment**” means with respect to each Mortgage Loan Agreement, each instalment due from the relevant Borrower thereunder and which consists of an Interest Instalment and a Principal Instalment;

“**Insurance Policies**” means any policies of insurance taken out in connection with or as a condition of, the making of a Mortgage Loan or Real Estate Asset, including without limitation, policies in respect of which the insured rights include the death of any Borrower or Surety or any damage to any Real Estate Assets subject to any Mortgage;

“**Interest Available Funds**” means in respect of any Payment Date, the aggregate of:

- (a) all Interest Receipts in respect of the preceding Collection Period;
- (b) any amount received by the Issuer on the immediately preceding Swap Payment Date pursuant to the Interest Rate Swap;
- (c) any amount retained in the Issuer Main Account as Cash Reserve Amount; and
- (d) any Liquidity Facility Drawn Amount;

“**Interest Determination Date**” means, in relation to an Interest Period, the second Business Day prior to the Payment Date on which such Interest Period commences, save in relation to the Initial Interest Period in respect of which the relevant Interest Determination Date will be the second Business Day prior to the Issue Date;

“**Interest Instalment**” means, the interest component of each Instalment;

“**Interest Payment Amount**” has the meaning given in Senior Condition 6(c)(ii);

“**Interest Period**” means each period from (and including) a Payment Date to (but excluding) the next following Payment Date, provided that the first Interest Period (the “**Initial Interest Period**”) shall begin on (and include) the Issue Date and end on (but exclude) the Payment Date falling in July 2004;

“**Interest Priority of Payments**” means the priority of payments set out in Senior Condition 5.1;

“**Interest Receipts**” means in respect of any Collection Period:

- (a) all amounts collected by the Servicer in respect of the Mortgage Loans Receivables which qualify as interest, default interest, fees and pre-payment penalties and transferred to the Issuer Main Account as at the Quarterly Report Date falling after the end of such Collection Period;
- (b) all Recoveries transferred to the Issuer Main Account;
- (c) all amounts of net interest accrued on the Issuer Main Account, on the Issuer Collection Account, on the Principal Paying Agent Account and credited to the Issuer Main Account; and
- (d) all other items and payments received by the Issuer which do not qualify as Principal Receipts credited to the Issuer Main Account;

less, in relation to each Collection Period, an amount equal to the Accrued Interest as of the first date of such Collection Period (which shall be added to the Principal Receipts);

plus, in relation to each Collection Period, an amount equal to the Accrued Interest as of the last date of such Collection Period (which shall be taken from the Principal Receipts);

and provided that in case of the first Collection Period an amount equal to the Initial Interest Accrued Amount and an amount equal to the Initial Expenses Amount shall be subtracted from the Interest Receipts and shall be added to the Principal Receipts;

**“Investors’ Report”** means the report which the Calculation Agent is required to deliver pursuant to the Cash Management Agreement containing information relating to the Portfolio, the Collections and the Notes;

**“Issue Date”** means the date on which the Notes are issued;

**“Issuer Accounts”** means the Issuer Main Account, the Issuer Collection Account, the Principal Paying Agent Account and the Expenses Account;

**“Issuer Insolvency Event”** has the meaning given to it in Senior Condition 11(c);

**“Issuer Maintenance Corporate Advance”** means the aggregate of (i) an amount of euro 2,500 to be retained by the Issuer on each Payment Date in the Expenses Account up to an aggregate total amount of euro 40,000; and (ii)  $A \div B$ ; where A is equal to all costs and expenses incurred by the Issuer in the day to day running of its business and for the preservation of its corporate existence which are not specifically related to the Securitisation and which are due and payable on such Payment Date or will be due and payable before the following Payment Date, including, without limitation, the fees, costs, expenses and all other amounts then due and payable to directors, statutory auditors, external auditors and accountants and B is equal to the number of existing securitisation transactions entered into by the Issuer from time to time;

**“Issuer Secured Creditors”** means the Noteholders, the Representative of the Noteholders, the Principal Paying Agent, the Luxembourg Agent, the Servicer, the Originator, the Italian Operating Bank, the Main Operating Bank, the Calculation Agent, the Corporate Servicer, the Liquidity Facility Provider, the Swap Counterparty and the Swap Calculation Agent;

**“Issuer Security”** means the Security Interest created under the Pledge Agreement, the Luxembourg Pledge Agreement and the Deed of Charge or from time to time granted to the Issuer Secured Creditors as security for or guaranteeing any obligations of the Issuer under the Transaction Documents and the Conditions;

**“Law 239”** means Italian Legislative Decree No. 239 of 1 April 1996 (as amended and supplemented);

**“Law 239 Withholding”** means any withholding or deduction for or on account of *“imposta sostitutiva”* under Law 239;

**“Legal Maturity Date”** means the Payment Date falling in July 2028;

**“Liquidity Facility Drawdown Date”** means two Business Days prior to each Payment Date;

**“Liquidity Facility Drawn Amount”** means any amount to be advanced at the relevant Liquidity Facility Drawdown Date to cover a Shortfall as determined at the relevant Calculation Date;

**“Loan Servicing and Collection Procedures”** means the procedures for the collection and recovery of Mortgage Loan Receivables, as set out in schedule 4.1(b) to the Servicing Agreement as amended from time to time in accordance with the Servicing Agreement;

**“Monte Titoli”** means Monte Titoli S.p.A.;

**“Moody’s”** means Moody’s Investors Service Inc. or any successor thereto;

“**Mortgage**” means any Italian law *ipoteca* created pursuant to a Mortgage Loan Agreement in respect of a Real Estate Asset;

“**Mortgage Loan**” means each mortgage loan granted to a Borrower, on the basis of a Mortgage Loan Agreement pursuant to which the Issuer has a Mortgage Loan Receivable (or portion thereof) in respect of the Borrower;

“**Mortgage Loan Agreement**” means each mortgage loan agreement identifiable on the basis of the Criteria;

“**Mortgage Loan Receivable**” means all rights and claims of the Issuer in relation to a Mortgage Loan Agreement existing or arising from (and excluding) the Effective Date including, without limitation:

- (a) all rights and claims in relation to the repayment of the outstanding principal;
- (b) all rights and claims in relation to the payment of interest (including default interest) accrued on the Mortgage Loans and not collected up to (but excluding) the Effective Date;
- (c) all rights and claims in relation to the payment of interest (including default interest) accruing on the Mortgage Loans from (and including) the Effective Date; and
- (d) all rights and claims in relation to payment of any amount in respect of damages suffered and costs, expenses, taxes and ancillary amounts incurred;

together with:

- (i) all rights and claims in relation to each Mortgage and the Collateral Security relating to the relevant Mortgage Loan Agreement;
- (ii) all rights and claims under and in respect of the Insurance Policies; and
- (iii) the privileges and priority rights (*cause di prelazione*) transferable pursuant to the Securitisation Law supporting the aforesaid rights and claims, as well as any other rights, claims and actions (including any action for damages), substantial and procedural action and defences inherent or otherwise ancillary to the aforesaid rights and claims including, without limitation, the remedy of termination (*risoluzione per inadempimento*) and the right to declare the Borrowers and the Sureties *decaduti dal beneficio del termine*;

and “**Mortgage Loan Receivables**” means all of them;

“**Most Senior Class of Notes**” means:

- (i) if any Class A1 Notes are outstanding and provided that the Relevant Collection Date as defined in Senior Condition 5.2 (a) has not occurred, the Class A1 Notes;
- (ii) if any Class A1 Notes and Class A2 Notes are outstanding and the Relevant Collection Date as defined in Senior Condition 5.2 (a) has occurred, *pari passu* and *pro rata* the Class A1 Notes and Class A2 Notes;
- (iii) if any Class A2 Notes are outstanding and no Class A1 Notes are outstanding, the Class A2 Notes;
- (iv) if any Class B Notes are outstanding and no Class A Notes are outstanding, the Class B Notes;
- (v) if any Class C Notes are outstanding and no Class A Notes and Class B Notes are outstanding, the Class C Notes; and
- (vi) if any Class D Notes are outstanding and no Senior Notes are outstanding, the Class D Notes;

“**Outstanding Principal**” means, on any given date and in relation to any Mortgage Loan Receivable, the sum of all Principal Instalments due on any subsequent Scheduled Instalment Date;

“**Payment Date**” means 27 January, 27 April, 27 July and 27 October in each year or if such day is not a Business Day, the immediately succeeding Business Day provided that the first Payment Date will be the Payment Date falling in July 2004;

**“Portfolio”** means the portfolio of Mortgage Loan Receivables purchased by the Issuer from the Originator pursuant to the Transfer Agreement;

**“Potential Capital Funds”** means in respect of each Class at any Calculation Date preceding a Payment Date occurring during the Initial Period the amount of the Principal Available Funds to be retained in the Issuer Main Account as provision for the redemption of the Notes and recorded in the Potential Capital Funds Ledger in respect of that Class on the immediately succeeding Payment Date in accordance with Senior Condition 5.2;

**“Potential Capital Funds Ledger”** means the ledger maintained by the Calculation Agent, on which the aggregate Potential Capital Funds in respect of each Class shall be recorded;

**“Principal Amount Outstanding”** of a Note or a Class of Notes on any date shall be the principal amount of such Note or Class of Notes upon issue less the aggregate amount of all principal payments in respect of that Note or Class of Notes that have been paid prior to such date;

**“Principal Available Funds”** means, in respect of any Payment Date, the aggregate of:

- (a) Principal Receipts in respect of the preceding Collection Period;
- (b) any Interest Available Funds to be credited to the Principal Deficiency Ledger on such Payment Date pursuant to Senior Condition 5.1(h);
- (c) on the Payment Date immediately following the expiry of the Initial Period only, any Potential Capital Funds which had been retained by the Issuer in the Issuer Main Account and recorded in the Potential Capital Funds Ledger during the Initial Period in accordance with Senior Condition 5.2;
- (d) following the occurrence of a Credit Trigger Event any Interest Available Funds to be applied as Principal Available Funds on such Payment Date in accordance with the Principal Priority of Payments pursuant to Senior Condition 5.1(f), (g) and (j); and
- (e) all amounts received from the sale of all or part of the Portfolio should such sale occur;

**“Principal Deficiency Ledger”** shall be a ledger maintained by the Calculation Agent, which shall be established by or on behalf of the Issuer in order to record any Defaulted Mortgage Loans and any Delinquency Amount in respect of any Delinquent Mortgage Loan in accordance with the provisions of Senior Condition 5.3;

**“Principal Instalment”** means the principal component of each Instalment;

**“Principal Payment”** has the meaning given to it in Senior Condition 7(b)(iii);

**“Principal Priority of Payments”** means the priority of payments set out in Senior Condition 5.2;

**“Principal Receipts”** means in respect of any Collection Period:

- (a) all amounts collected by the Servicer in respect of principal under the Mortgage Loan Receivables, excluding Recoveries, and transferred to the Issuer Main Account as at the Quarterly Report Date falling after the end of such Collection Period; and
- (b) all amounts received by the Issuer from the Originator pursuant to the Transfer Agreement and credited to the Issuer Main Account and which do not qualify as Interest Receipts;

plus, in relation to each Collection Period, an amount equal to the Accrued Interest as of the first date of such Collection Period (which shall be taken from the Interest Receipts);

less, in relation to each Collection Period, an amount equal to the Accrued Interest as of the last date of such Collection Period (which shall be added to the Interest Receipts); and

provided that in case of the first Collection Period an amount equal to the Initial Interest Accrued Amount and an amount equal to the Initial Expenses Amount shall be subtracted from the Interest Receipts and shall be added to the Principal Receipts;

“**Priority of Payments**” means each of the Interest Priority of Payments, the Principal Priority of Payments and the Enforcement Priority of Payments;

“**Prior Securitisation**” means the securitisation transaction entered into by the Issuer on 30 April 2003 through the issue of five classes of notes;

“**Quarterly Report Date**” means the date falling seven Business Days prior to any Payment Date;

“**Rate of Interest**” means the rate of interest applicable to the Notes calculated as provided in Senior Condition 6(b);

“**Rating Agencies**” means S&P and Moody’s;

“**Real Estate Asset**” means any real property over which a Mortgage has been granted in order to secure the repayment of any loan and the performance of the obligations arising pursuant to the relevant Mortgage Loan Agreement;

“**Recoveries**” means any amounts received or recovered by the Servicer in relation to any Defaulted Mortgage Loans and any Delinquency Amount received or recovered by the Servicer in relation to any Delinquent Mortgage Loans;

“**Reference Banks**” means the London Branch of four major banks appointed by the Issuer subject to the consent of the Representative of the Noteholders, which are, as at the Issue Date, The Royal Bank of Scotland plc, Citibank N.A., Deutsche Bank A.G. and Sanpaolo IMI S.p.A.;

“**Relevant Margin**” means:

- (a) 0.12 per cent. per annum up to and including the Clean-Up Option date and thereafter 0.24 per cent., per annum, in each case in respect of the Class A1 Notes;
- (b) 0.18 per cent. per annum up to and including the Clean-Up Option date and thereafter 0.36 per cent., per annum, in each case in respect of the Class A2 Notes;
- (c) 0.36 per cent. per annum up to and including the Clean-Up Option date and thereafter 0.72 per cent., per annum, in each case in respect of the Class B Notes; and
- (d) 1.10 per cent. per annum up to and including the Clean-Up Option date and thereafter 2.20 per cent., per annum, in each case in respect of the Class C Notes;

“**Resolution No. 11768**” means Resolution No. 11768 of 23 December 1998 of *Commissione Nazionale per la Società e la Borsa (CONSOB)*, as amended;

“**S&P**” means Standard & Poor’s Rating Services, a division of the McGraw-Hill Companies, Inc. or any successor thereto;

“**Scheduled Instalment Date**” means any date on which payment is due pursuant to each Mortgage Loan Agreement;

“**Screen Rate**” has the meaning given in Senior Condition 6(b)(ii)(A);

“**Security Interest**” means any mortgage, charge, pledge, lien, right of set-off, special privilege (*privilegio speciale*), assignment by way of security, retention of title or any other security interest whatsoever or any other agreement or arrangement having the effect of conferring security;

“**Shortfall**” means, on any Calculation Date, an amount equal to the positive difference between:

- (a) the amounts to be paid by the Issuer on the next Payment Date in order to satisfy in full its payment obligations as set out under items (a) to (g) (included) of Senior Condition 5.1 prior to the occurrence of a Class C Trigger, items (a) to (f) (included) of Senior Condition 5.1 after the occurrence of a Class C Trigger but prior to the occurrence of a Class B Trigger, and items (a) to (e) (included) of Senior Condition 5.1 after the occurrence of a Class B Trigger; and
- (b) the Interest Available Funds in relation to the next Payment Date (excluding any Liquidity Facility Revolving Advance to be made on the Liquidity Facility Drawdown Date preceding such Payment Date);

“**Stock Exchange**” means the Luxembourg Stock Exchange;

“**Surety**” means any person, other than the Borrowers, who has granted a Collateral Security or has undertaken the obligations of a Borrower arising under a Mortgage Loan Agreement whether pursuant to that Mortgage Loan Agreement or to a Collateral Security document and Sureties shall be construed accordingly;

“**Swap Payment Date**” means each Payment Date for the payments from the Issuer to the Swap Counterparty and two Business Days prior to each Payment Date for the payments from the Swap Counterparty to the Issuer;

“**Swap Unwind Costs**” means all costs associated with the termination of the Interest Rate Swap;

“**Unpaid Principal Deficiency**” means, as at any Collection Date, the ratio, expressed as a percentage, between: (a) the negative sum, if any, between item (a) and item (b) of Senior Condition 5.3 and (b) the Initial Principal Amount of the Mortgage Loans; and

“**Unpaid Principal Instalments**” means the sum of all Principal Instalments due but unpaid as at the relevant date.

## 2. Form, Denomination, Title

The Senior Notes are issued in non-divisible denominations of euro 50,000 each.

The Senior Notes are issued in bearer and dematerialised form on the terms and subject to the conditions of these Senior Conditions and are held through (*accentrare presso*) Monte Titoli, in accordance with Article 28 of Italian Legislative Decree No. 213 of 24 June 1998 (“**Decree 213/98**”) and Resolution No. 11768. The Senior Notes may be held through intermediaries, as defined in Article 25 of Resolution No. 11522 of 1 July 1998 of CONSOB, as amended (the “**Monte Titoli Account Holders**”). Title to the Senior Notes will be evidenced by book entries in accordance with Decree 213/98 and Resolution No. 11768. No physical document will be issued in respect of the Senior Notes.

Ownership of the Senior Notes by a United States person may be subject to United States tax law restrictions. Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code.

## 3. Status, Segregation and Security

- (a) The Senior Notes constitute direct and limited recourse obligations of the Issuer. The obligation of the Issuer to make payments under the Senior Notes is limited to the amounts received or recovered in respect of the Portfolio, the Issuer Security and the Transaction Documents. Each holder of the Senior Notes further acknowledges by virtue of the transfer to it of the relevant Senior Note that the limited recourse nature of the Senior Notes produces the effect of a “*contratto aleatorio*” and accepts the consequences thereof, including the consequences of Article 1469 of the Italian Civil Code.
- (b) The Notes are secured over certain assets of the Issuer. By operation of the Securitisation Law, the Portfolio and the relevant Collections are segregated under Italian law from all other assets of the Issuer and amounts deriving therefrom will only be available to satisfy the obligations of the Issuer to the Noteholders, the Issuer Secured Creditors and Connected Third Party Creditors in the order of priority set out in these Senior

Conditions and the Intercreditor Agreement. In addition, the Notes are secured over certain assets of the Issuer pursuant to the Pledge Agreement, the Luxembourg Pledge Agreement and the Deed of Charge.

- (c) Each Noteholder shall have agreed, by virtue of the transfer to it of the relevant Note, to have granted to the Representative of the Noteholders the right:
- (i) to exercise in such manner as the Representative of the Noteholders in its sole opinion deems appropriate, on behalf of such Noteholder, all of that Noteholder's rights under the Securitisation Law and the Transaction Documents in respect of the Portfolio and all amounts and/or other assets of the Issuer deriving from the Portfolio not subject to the Issuer Security; and
  - (ii) as its agent, to enforce its rights as an Issuer Secured Creditor for and on its behalf under the Pledge Agreement, the Luxembourg Pledge Agreement and the Deed of Charge and in relation to the Issuer Security.
- (d) The Notes of each Class will rank *pari passu* without preference or priority amongst themselves.

In respect of payments of interest on the Notes either before the service of an Enforcement Notice or the occurrence of an Issuer Insolvency Event or following such service or occurrence, the Class A1 Notes and the Class A2 Notes will rank *pari passu* amongst themselves but in priority to the Class B Notes, the Class C Notes and the Class D Notes, the Class B Notes will rank in priority to the Class C Notes and the Class D Notes and the Class C Notes will rank in priority to the Class D Notes but, in each case, subordinate to the claims of certain other creditors of the Issuer as more fully specified below or provided by mandatory provisions of law. In respect of repayments of principal on the Notes before the service of an Enforcement Notice on the Issuer, the occurrence of an Issuer Insolvency Event or the occurrence of the Relevant Collection Date as defined in Senior Condition 5.2 (a), the Class A1 Notes will rank in priority to the Class A2 Notes, the Class B Notes, the Class C Notes and the Class D Notes; the Class A2 Notes will rank in priority to the Class B Notes, the Class C Notes and the Class D Notes; the Class B Notes will rank in priority to the Class C Notes and the Class D Notes and the Class C Notes will rank in priority to the Class D Notes. After the occurrence of an Issuer Insolvency Event, the service of an Enforcement Notice on the Issuer or the occurrence of the Relevant Collection Date as defined in Senior Condition 5.2 (a), the Class A1 Notes and the Class A2 Notes will rank *pari passu* amongst themselves and in the priority to the Class B Notes, the Class C Notes and the Class D Notes; the Class B Notes will rank in priority to the Class C Notes and the Class D Notes, and the Class C notes will rank in priority to the Class D Notes, and in each case subordinate to the claims of certain other creditors of the Issuer as more fully specified below or provided by mandatory provisions of law.

- (e) The rights, claims and remedies of the holders of the Notes of each Class shall at all times (whether before or after the service of an Enforcement Notice or the occurrence of an Issuer Insolvency Event) be subordinated to the rights, claims and remedies of the holders of all the Notes, all other Issuer Secured Creditors and all Connected Third Party Creditors whose rights, claims and remedies in respect of:
- (i) the obligations owed by the Issuer to such creditor(s); and/or
  - (ii) the Issuer Security; and/or
  - (iii) the Portfolio,

rank by operation of law or are expressed pursuant to the Intercreditor Agreement and these Senior Conditions to rank in priority to the rights, claims and remedies of the holders of such Class of Notes.

None of the Noteholders will have any right or entitlement to the Issuer's assets other than the proceeds of the Issuer Security, the Transaction Documents and the Portfolio.

- (f)
  - (i) The Intercreditor Agreement contains provisions requiring the Representative of Noteholders to have regard to the interests of the holders of the Notes as regards the exercise of all powers, duties, and discretions of the Representative of Noteholders (except where expressly provided otherwise), but requiring the Representative of the Noteholders, if, in the Representative of the Noteholders' opinion, there is a conflict between the interests of the holders of any Class of Notes, to have regard only to the interest of the holders of the Most Senior Class of Notes.
  - (ii) The Intercreditor Agreement contains provisions requiring the Representative of the Noteholders to also have regard to the interests of the Issuer Secured Creditors (other than the Noteholders) as regards the exercise of all powers, duties and discretions of the Representative of the Noteholders but, in any such case, to have regard only (except where specifically provided otherwise) to:
    - (A) the interests of the holders of the Most Senior Class of Notes if, in the Representative of the Noteholders' opinion, there is a conflict between the interests of the Noteholders of any Class, as the case may be, and the interests of any other Issuer Secured Creditor (or any combination of them); and
    - (B) subject to sub-paragraph (A) above, the interests of the Issuer Secured Creditor to whom any amounts are owed appearing highest in the relevant Priority of Payments.

The rights arising from the Pledge Agreement, the Luxembourg Pledge Agreement and the Deed of Charge in favour of the Noteholders are incorporated in each of the Senior Notes and are transferred together with the transfer of any Senior Note at the transfer time of such Senior Note. Each holder of any of the Senior Notes will have the benefit of such rights.

#### **4. Covenants**

Subject to the provision below, for so long as any amount remains outstanding in respect of the Notes of any Class, the Issuer, save with the prior written consent of the Representative of the Noteholders, or as expressly provided in these Senior Conditions or in any of the Transaction Documents, shall not and, as the case may be, shall not (to the extent permitted by Italian law) call shareholders meetings to:

(a) *Negative pledge and non-disposal*

create or permit to subsist any Security Interest whatsoever over any of its assets or sell, lend or otherwise dispose of all or any part of its assets and undertakings, present or future;

(b) *Restrictions on activities*

- (i) engage in any activity whatsoever which is not incidental to or necessary in connection with any of the activities which the Transaction Documents provide for or contemplate in relation to the Issuer; or
- (ii) have any subsidiaries, *società controllata* (as defined in Article 2359 of the Italian Civil Code) or any employees or premises; or
- (iii) at any time approve or agree or consent to any act or thing whatsoever which in the opinion of the Representative of the Noteholders is materially prejudicial to the interests of the Noteholders or any Class thereof under the Transaction Documents and not to do, or permit to be done, any act or thing in relation thereto which in the opinion of the Representative of the Noteholders is materially prejudicial to the interests of the Noteholders under the Transaction Documents;

(c) *Dividends or Distributions*

pay any dividend or make any other distribution or repayment to its shareholders, or issue any further shares other than when so required by applicable law;

(d) *Borrowings*

incur any indebtedness in respect of borrowed money whatsoever or give any guarantee in respect of indebtedness or of any obligation of any person;

(e) *Merger*

merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person;

(f) *No variation or waiver*

permit the Transaction Documents to which it is a party to be amended, terminated or discharged, or exercise any powers of consent or waiver pursuant to the terms of Transaction Documents to which it is a party, or permit any party to any of the Transaction Documents to which it is a party, to be released from such obligations;

(g) *Bank Accounts*

have an interest in any bank account other than the Issuer Accounts;

(h) *Statutory documents*

amend its by-laws other than when so required by applicable law.

Nothing in this Senior Condition 4 shall prevent or restrict the Issuer from carrying out:

- (i) any activity which is incidental to maintaining its corporate existence and complying with law, regulations and the guidelines of any regulatory authority applicable to it; or
- (ii) one or more other securitisation transactions or, without limiting the generality of the foregoing, implementing, entering into, making or executing any document, deed or agreement in connection with any other securitisation transaction, in each case, provided that the Rating Agencies are informed of any such further securitisation and that any such securitisation transaction would not adversely affect the then current rating of any of the Senior Notes.

## **5. Order of Priority**

### **5.1 Pre-Enforcement—Interest Priority of Payments**

Prior to the service of an Enforcement Notice or the occurrence of an Issuer Insolvency Event, on each Payment Date and, in respect of items (d) and (k) on the Swap Payment Date immediately preceding such Payment Date, the Interest Available Funds shall be applied in making the following payments if due on such date or in making provisions for such payments to be made when due, in the following order of priority (in each case, only if and to the extent that payments or provision for payments of a higher priority have been made in full):

(a) *first*, to pay, *pari passu* and *pro rata* according to the respective amounts thereof:

- (i) the aggregate, to be paid into the Expenses Account, of: (A) the Issuer Maintenance Corporate Advance; and (B) all costs and expenses incurred by the Issuer in the day to day running of its business which are specifically related to the Securitisation and which are paid out of the Expenses Account;

- (ii) all amounts, including any taxes, required to be paid to preserve the corporate existence of the Issuer and to comply with applicable law divided by the number of existing securitisation transactions entered into by the Issuer from time to time;
- (iii) all other amounts required to be paid by applicable law to Connected Third Party Creditors; and

in the case of (ii) above, if and only to the extent that such amounts have not been paid out of the Expenses Account;

(b) *second*, to pay *pari passu* and *pro rata* according to the respective amounts thereof:

- (i) the fees, costs and expenses of, and all other amounts due and payable to, the Representative of the Noteholders;
- (ii) the fees, costs and expenses of, and all other amounts due and payable to the Principal Paying Agent and the Luxembourg Agent;
- (iii) the fees, costs and expenses of, and all other amounts due and payable to, the Main Operating Bank, the Italian Operating Bank and the Calculation Agent;
- (iv) the fees, costs and expenses of, and all other amounts due and payable to, the Servicer; and
- (v) the fees, costs and expenses of, and all other amounts due and payable to, the Corporate Servicer;

(c) *third*, to pay any amount of interest, principal and the Commitment Fee due and payable to the Liquidity Facility Provider under the Liquidity Facility;

(d) *fourth*, on each Swap Payment Date, to pay to the Swap Counterparty all amounts due and payable under the Interest Rate Swap excluding any Swap Unwinding Costs arising due to an event of default or a termination event in each case attributable to the Swap Counterparty;

(e) *fifth*, *pari passu* and *pro rata* according to the respective amounts thereof, to pay interest due and payable on the Class A1 Notes and the Class A2 Notes as at such Payment Date;

(f) *sixth*, *pro rata* according to the respective amounts thereof, to pay interest due and payable on the Class B Notes as at such Payment Date provided that if a Class B Trigger Event has occurred no interest shall be paid on the Class B Notes and the Interest Available Funds remaining after satisfaction of all items (a) to (e) above shall be applied as Principal Available Funds on such Payment Date and thereafter in accordance with the Principal Priority of Payments;

(g) *seventh*, *pro rata* according to the respective amounts thereof, to pay interest due and payable on the Class C Notes as at such Payment Date provided that if a Class C Trigger Event has occurred no interest shall be paid on the Class C Notes and the Interest Available Funds remaining after satisfaction of all items (a) to (f) above shall be applied as Principal Available Funds on such Payment Date and thereafter in accordance with the Principal Priority of Payments;

(h) *eighth*, to be applied as Principal Available Funds on such Payment Date to the extent and in the amount required to reduce the debit balance (if any) of the Principal Deficiency Ledger to zero;

(i) *ninth*, to be retained in the Issuer Main Account up to the Cash Reserve Amount provided that no such retention shall be made upon the occurrence of a Credit Trigger Event and for any time thereafter;

(j) *tenth*, if a Class D Trigger Event has occurred the Interest Available Funds remaining after satisfaction of all items (a) to (i) above shall be applied as Principal Available Funds on such Payment Date and thereafter in accordance with the Principal Priority of Payments;

- (k) *eleventh*, on each Swap Payment Date, to pay to the Swap Counterparty any Swap Unwinding Costs arising due to an event of default or a termination in each case attributable to the Swap Counterparty due and payable under the Interest Rate Swap;
- (l) *twelfth*, to pay the Liquidity Facility Provider all other amounts due and payable under the Liquidity Facility;
- (m) *thirteenth*, to pay any amounts due and payable to the Originator pursuant to the Transfer Agreement;
- (n) *fourteenth*, *pro rata* according to the respective amounts thereof, to pay interest due and payable on the Class D Notes as at such Payment Date,

provided that once a Credit Trigger Event has occurred it cannot subsequently be rectified in order to restore the application of funds to a position that applies prior to such Credit Trigger Event occurring.

## 5.2 Pre-Enforcement – Principal Priority of Payments

Prior to the service of an Enforcement Notice or the occurrence of an Issuer Insolvency Event, the Principal Available Funds shall be applied on each Payment Date in making or providing for the following payments, in the following order of priority (in each case, only if and to the extent that payments or provisions for payments of a higher priority have been made in full):

- (a) *first*, to retain in the Issuer Main Account the Potential Capital Funds in respect of the Class A1 Notes only on each Payment Date which occurs during the Initial Period and, on any Payment Date falling after the expiry of the Initial Period, to repay principal on the Class A1 Notes only *provided that* should the Unpaid Principal Deficiency ever exceed 0.50 per cent., as at any Collection Date (such date, the “**Relevant Collection Date**”), the Principal Available Funds shall be applied on each Payment Date as follows: to retain in the Issuer Main Account, on each Payment Date which occurs during the Initial Period following the Relevant Collection Date and on any Payment Date thereafter up to the end of the Initial Period, the Potential Capital Funds in respect of the Class A1 Notes and the Class A2 Notes and, on any Payment Date falling after the expiry of the Initial Period and following the Relevant Collection Date and on any Payment Date thereafter, to repay principal *pari passu* and *pro rata* on the Class A1 Notes and the Class A2 Notes;
- (b) *second*, subject to (a) above, on each Payment Date which occurs during the Initial Period, to retain in the Issuer Main Account the Potential Capital Funds in respect of the Class A2 Notes and, on any Payment Date falling after the expiry of the Initial Period, to repay principal on the Class A2 Notes;
- (c) *third*, unless already paid under Senior Condition 5.1, to pay any amounts due and payable under item (f) of Senior Condition 5.1;
- (d) *fourth*, on each Payment Date which occurs during the Initial Period, to retain in the Issuer Main Account the Potential Capital Funds in respect of the Class B Notes and, on any Payment Date falling after the expiry of the Initial Period to repay principal on the Class B Notes;
- (e) *fifth*, unless already paid under Senior Condition 5.1, to pay any amounts due and payable under item (g) of Senior Condition 5.1;
- (f) *sixth*, on each Payment Date which occurs during the Initial Period, to retain in the Issuer Main Account the Potential Capital Funds in respect of the Class C Notes and, on any Payment Date falling after the expiry of the Initial Period to repay principal on the Class C Notes;
- (g) *seventh*, unless already paid as Interest Available Funds, to pay any amounts due and payable under items (k) to (m) of Senior Condition 5.1 above;
- (h) *eighth*, on any Payment Date which occurs during the Initial Period, to retain in the Issuer Main Account the Potential Capital Funds in respect of the Class D Notes and, on any Payment Date falling after the expiry of the

Initial Period, to repay principal on the Class D Notes, up to an amount to ensure that the Principal Amount Outstanding of the Class D Notes after repayment does not exceed the aggregate principal amount outstanding of the Mortgage Loans comprised in the Portfolio as at the Collection Date immediately preceding such Payment Date; and

- (i) *ninth*, to apply any remainder as a premium on the Class D Notes.

### **5.3 Principal Deficiency Ledger**

On each Calculation Date the following items shall be entered on the Principal Deficiency Ledger to the extent not already recorded:

- (a) as a debit, an amount equal to the difference between the Principal Amount Outstanding of the Notes at the immediately preceding Payment Date (after the payments on the Notes required to be made on such Payment Date having been made); and
  - (i) the Collateral Portfolio at the end of the relevant Collection Period;
  - (ii) the aggregate of the Potential Capital Funds, if any, as recorded on all preceding Payment Dates;
  - (iii) the Principal Receipts for the relevant Collection Period; and
  - (iv) any amount standing to the debit of the Principal Deficiency Ledger, if any, taken as an absolute figure, as at the immediately preceding Payment Date (after the payments on the Notes required to be made on such Payment Date having been made); and
- (b) up to when the balance on the Principal Deficiency Ledger reaches zero, as a credit:
  - (i) prior to the occurrence of a Class D Trigger, the amount to be transferred, on the Payment Date immediately succeeding such Calculation Date, to Principal Available Funds in accordance with Senior Condition 5.1(h);
  - (ii) after the occurrence of a Class D Trigger and thereafter, the amount to be transferred, on the Payment Date immediately succeeding such Calculation Date, to Principal Available Funds in accordance with Senior Condition 5.1(j);
  - (iii) after the occurrence of a Class C Trigger and thereafter, the amount to be transferred, on the Payment Date immediately succeeding such Calculation Date, to Principal Available Funds in accordance with Senior Condition 5.1(g); and
  - (iv) after the occurrence of a Class B Trigger and thereafter, the amount to be transferred, on the Payment Date immediately succeeding such Calculation Date, to Principal Available Funds in accordance with Senior Condition 5.1(f).

### **5.4 Application of Funds – Enforcement Priority of Payments**

Following the service of an Enforcement Notice or the occurrence of an Issuer Insolvency Event, all amounts received or recovered by the Issuer and/or the Representative of the Noteholders in respect of the Portfolio and/or the Transaction Documents will be applied in the following order of priority in each case, only if and to the extent that payments or provision for payments of a higher priority have been made in full:

- (a) *first*, if an Issuer Insolvency Event only has occurred, all amounts due and payable in respect of obligations, including taxes, which must be paid in accordance with applicable law in priority to any other amount due and payable by the Issuer and if no Issuer Insolvency Event has occurred to pay into the Expenses Account the aggregate of: (i) the Issuer Maintenance Corporate Advance; and (ii) all costs and expenses incurred by the

Issuer in the day to day running of its business which are specifically related to the Securitisation and which are paid into the Expenses Account;

- (b) *second*, to pay *pari passu* and *pro rata* according to the respective amounts thereof;
  - (i) fees, costs and expenses of, and all other amounts, including any taxes, due and payable to, any Connected Third Party Creditor;
  - (ii) the fees, costs and expenses of, and all other amounts due and payable to, the Representative of the Noteholders and to a receiver, or equivalent officer, of the Issuer;
  - (iii) the fees, costs and expenses of, and all other amounts due and payable to, the Principal Paying Agent and the Luxembourg Agent;
  - (iv) the fees, costs and expenses of, and all other amounts due and payable to, the Main Operating Bank, the Italian Operating Bank and the Calculation Agent;
  - (v) the fees, costs and expenses of, and all other amounts due and payable to, the Corporate Servicer;
  - (vi) all fees, costs and expenses and all other amounts required to be paid to the Servicer pursuant to the Servicing Agreement as at that date; and
  - (vii) the Commitment Fee to the Liquidity Facility Provider under the Liquidity Facility;
- (c) *third*, to pay any amount of interest and principal due and payable to the Liquidity Facility Provider (other than the Commitment Fee) under the Liquidity Facility;
- (d) *fourth*, to pay any amounts due to the Swap Counterparty excluding any Swap Unwinding Costs arising due to an event of default or a termination event in each case attributable to the Swap Counterparty;
- (e) *fifth*, to pay *pari passu* and *pro rata* interest, due and payable on the Class A1 Notes and the Class A2 Notes;
- (f) *sixth*, to pay *pari passu* and *pro rata* the then Principal Amount Outstanding of the Class A1 Notes and the Class A2 Notes;
- (g) *seventh*, to pay interest due and payable on the Class B Notes;
- (h) *eighth*, to pay the then Principal Amount Outstanding on the Class B Notes;
- (i) *ninth*, to pay interest due and payable on the Class C Notes;
- (j) *tenth*, to pay the then Principal Amount Outstanding on the Class C Notes;
- (k) *eleventh*, to pay any amounts due to the Swap Counterparty that constitute Swap Unwinding Costs arising due to an event of default or a termination event in each case attributable to the Swap Counterparty;
- (l) *twelfth*, to pay the Liquidity Facility Provider all other amounts due and payable under the Liquidity Facility;
- (m) *thirteenth*, to pay to the Originator any amount payable by the Issuer pursuant to the Transfer Agreement;
- (n) *fourteenth*, to pay the then Principal Amount Outstanding on the Class D Notes; and
- (o) *fifteenth*, to apply any remainder as a premium on the Class D Notes.

## 6. Interest

### (a) *Interest, Payment Dates and Interest Periods*

Each Senior Note bears interest on its Principal Amount Outstanding from (and including) the Issue Date. Subject to Senior Condition 6(h), interest in respect of the Senior Notes is payable in euro in arrear on each Payment Date. The first Payment Date shall be the Payment Date falling in July 2004 in respect of the Initial Interest Period.

Interest in respect of any Interest Period or any other period will be calculated on the basis of the actual number of days elapsed and a 360 day year.

### (b) *Rate of Interest*

The annual rate of interest payable from time to time in respect of the Senior Notes (the “**Rate of Interest**”) will be determined by the Principal Paying Agent two Business Days prior to each Payment Date in respect of the Interest Period commencing on that date and in respect of the first Interest Period two Business Days prior to the Issue Date (each an “**Interest Determination Date**”).

The Rate of Interest for each Interest Period for each Class of the Senior Notes shall be the aggregate of:

- (i) the Relevant Margin for such Class of Senior Notes; and
- (ii) (A) the arithmetic mean of the offered quotations to leading banks (rounded to four decimal places with the mid-point rounded up) for three month euro deposits in the Euro-zone Inter-bank market (“**Euribor**”) which appears on Reuters Screen Page EURIBOR01 (or (aa) such other page as may replace Reuters Screen Page EURIBOR01 on that service for the purpose of displaying such information or (bb) if that service ceases to display such information, such page as displays such information on an equivalent service (or, if more than one, that one which is approved in writing by the Representative of the Noteholders to replace the Reuters Screen Page EURIBOR01) (in each case, the “**Screen Rate**”) at or about 11.00 a.m. (CET time) on the relevant Interest Determination Date or, in the case of the first Interest Determination Date only, the linear interpolation (rounded to four decimal places with the mid-point rounded upwards) between the Screen Rate for three month euro deposits and the Screen Rate for four month euro deposits (each an “**Additional Screen Rate**”) (each determined as aforesaid) calculated as the basis of the actual number of days in excess of three months in such Interest Period; or
- (B) if the Screen Rate (or, in the case of the first Interest Determination Date only, the Additional Screen Rate) is unavailable at such time for three month euro deposits (or in the case of the Additional Screen Rate, three and four month euro deposits), then the rate for the relevant Interest Period shall be the arithmetic mean (rounded to four decimal places with the mid-point rounded up) of the rates notified to the Principal Paying Agent at its request by each of the Reference Banks as the rate at which three month euro deposits (or, in the case of the first Interest Determination Date, the linear interpolated rate between the rate for three month euro deposits and for four month euro deposits) in a representative amount are offered by each Reference Bank to leading banks in the Euro-zone Inter-bank market at or about 11.00 a.m. (London Time) on the relevant Interest Determination Date. If on any such Interest Determination Date, three or two only of the Reference Banks provide such offered quotations to the Principal Paying Agent the relevant rate shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest Determination Date, only one of the Reference Banks provides the Principal Paying Agent with such an offered quotation, the Principal Paying Agent shall forthwith consult with the Representative of the Noteholders and the Issuer for the purposes of agreeing one additional bank to provide such a quotation or quotations to the Principal Paying Agent (which bank is in the opinion of the Representative of the Noteholders suitable for such purpose) and the rate for the Interest Period in

question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed. If no such bank or banks is or are so agreed or such bank or banks as so agreed does or do not provide such a quotation or quotations, then the rate for the relevant Interest Period shall be the rate in effect for the last preceding Interest Period to which sub-paragraph (A) of this Senior Condition 6(b) (ii) shall have applied.

To the extent permitted by law, there shall be no maximum or minimum Rate of Interest.

(c) *Determination of Rates of Interest and Calculation of Interest Payments*

On each Interest Determination Date, the Issuer shall determine or shall cause the Principal Paying Agent to determine:

- (i) the Rate of Interest applicable to the Interest Period beginning on the Payment Date immediately following such Interest Determination Date (or in the case of the first Interest Period, beginning on and including the Issue Date) in respect of each Class of the Senior Notes; and
- (ii) the euro amount (the “**Interest Payment Amount**”) payable on each Class of Senior Notes in respect of the Interest Period beginning on the Payment Date immediately following such Interest Determination Date. The Interest Payment Amount payable on each Class of Senior Notes in respect of any Interest Period shall be calculated by applying the relevant Rate of Interest to the Principal Amount Outstanding of each minimum denomination amount in the relevant Class of Senior Notes on the relevant Payment Date (or, in the case of the Initial Interest Period, the Issue Date) at the commencement of such Interest Period (after deducting therefrom any Principal Payment due on that Payment Date (whether or not paid)), multiplying the product of such calculation by the actual number of days in the relevant Interest Period and dividing by 360, rounding the resulting amount to five decimal places and multiplying the resulting factor by the number of minimum denomination amounts in the relevant Class of Senior Notes.

(d) *Publication of the Rate of Interest and the Interest Payment Amount*

The Principal Paying Agent will cause the Rate of Interest, the Interest Payment Amount applicable to each Class of Senior Notes for each Interest Period and the Payment Date in respect of such Interest Payment Amount to be notified promptly after determination to the Issuer, the Representative of the Noteholders, the Calculation Agent, the Swap Calculation Agent, the Swap Counterparty, the Luxembourg Agent, Monte Titoli, and, for so long as the relevant Class of Senior Notes is listed on the Stock Exchange, the Stock Exchange, and will cause the same to be published in accordance with Senior Condition 16 on or as soon as possible after the relevant Interest Determination Date. The Interest Payment Amount and the Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) in the event of an extension or shortening of the Interest Period or in the event of manifest error following which amendment notice will be given to that effect in accordance with Senior Condition 16.

(e) *Determination or calculation by Representative of the Noteholders*

If the Principal Paying Agent or the Issuer, as the case may be, does not at any time for any reason determine the Rate of Interest and/or calculate the Interest Payment Amount for one or more Classes of Senior Notes in accordance with the foregoing provisions of this Senior Condition 6, the Representative of the Noteholders shall:

- (i) determine the Rate of Interest for the relevant Class of Senior Notes at such rate as (having regard to the procedure described above) it shall consider fair and reasonable pursuant to Article 1349, first paragraph, of the Italian Civil Code in all the circumstances; and/or (as the case may be)
- (ii) calculate the Interest Payment Amount for the relevant Class of Senior Notes in the manner specified in Senior Condition 6(c) above and in the case of the Class B Notes, the Class C Notes and the Class D Notes, the Deferred Interest Amount (if any);

and shall cause each such determination to be published in accordance with Senior Condition 6(d).

(f) *Notification to be final*

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Senior Condition 6, whether by the Reference Banks (or any of them), the Principal Paying Agent, the Issuer or the Representative of the Noteholders shall, in the absence of manifest error, be binding on the Reference Banks (or any of them), the Principal Paying Agent, the Issuer or the Representative of the Noteholders and on all the Senior Noteholders and (in the absence of wilful default, bad faith or gross negligence) no liability to the Senior Noteholders shall attach to the Reference Banks, the Principal Paying Agent, the Issuer or the Representative of the Noteholders in connection with the exercise or non-exercise by them or any of them of their powers duties and discretions hereunder.

(g) *Reference Banks and Principal Paying Agent*

The Issuer shall ensure that, so long as any of the Senior Notes remains outstanding, there shall at all times be four “Reference Banks” and a Principal Paying Agent. In the event of the principal London office of any of the Reference Banks being unable or unwilling to continue to act as a Reference Bank, the Issuer shall appoint such other bank as may have been previously approved in writing by the Representative of the Noteholders to act as such in its place. Pursuant to the Agency Agreement, the Principal Paying Agent may not resign until a successor approved in writing by the Issuer and the Representative of the Noteholders has been appointed. The Issuer shall procure that any change in the identity of the Principal Paying Agent will be published as soon as reasonably practicable in accordance with Senior Condition 16.

(h) *Interest Deferral*

In the event that the funds available to the Issuer on any Payment Date (in accordance with Senior Condition 5.1) are not sufficient to satisfy in full the Interest Payment Amount in respect of:

- (i) the Class B Notes or the Class C Notes (after interest on the Class A Notes has been satisfied in full); or
- (ii) the Class C Notes (where the Class A Notes have been redeemed in full and interest on the Class B Notes has been satisfied in full);

then, the funds available (the “**Actual Interest Amount**”) shall be paid on such Payment Date to satisfy interest on:

- (a) in the case of (i) above, the Class B Notes or the Class C Notes; or
- (b) in the case of (ii) above, the Class C Notes.

The difference between the Interest Payment Amount and the Actual Interest Amount is the amount of interest to be deferred (the “**Deferred Interest Amount**”) under this Senior Condition 6(h). The Deferred Interest Amount shall be due and payable on a *pro rata* basis for each Note within each Class on the immediately succeeding Payment Date.

## 7. **Redemption, Purchase and Cancellation**

(a) *Final Redemption*

Unless previously redeemed in full as provided in this Senior Condition 7, the Issuer shall (subject to available funds and subject to Senior Condition 18) redeem the Senior Notes at their Principal Amount Outstanding on the Payment Date falling in July 2028 (the “**Legal Maturity Date**”). All Senior Notes will, immediately following the Legal Maturity Date, be deemed to be discharged in full and any amount in respect of principal, interest or other amounts due and payable in respect of the Senior Notes will (unless payment of any such amounts is improperly withheld or refused) be finally and definitively cancelled.

The Issuer may not redeem the Senior Notes in whole or in part prior to the Legal Maturity Date except as provided below in Senior Condition 7(b), (c) or (d), but without prejudice to Senior Condition 12.

(b) *Mandatory Pro rata Redemption in whole or in part*

- (i) If, on any Calculation Date, preceding each Payment Date falling after the expiry of the Initial Period but prior to the service of an Enforcement Notice or the occurrence of an Issuer Insolvency Event, there are sufficient Principal Available Funds, following payment of amounts required to be paid in priority to the relevant Class (the “**Available Capital Funds**”), then the Issuer shall apply the relevant Available Capital Funds in redeeming the Senior Notes of the relevant Class in whole or in part on the succeeding Payment Date in accordance with Senior Condition 5.2. Prior to the expiry of the Initial Period, no Principal Available Funds will be applied by the Issuer in redeeming the Senior Notes in accordance with this Senior Condition 7(b) but such Principal Available Funds shall be retained by the Issuer as Potential Capital Funds in the Issuer Main Account and recorded on the Potential Capital Funds Ledger as provided in Senior Conditions 5.2;
- (ii) The Issuer shall give or cause to be given, not less than two Business Days’ prior to the relevant Payment Date (the “**Principal Notification Date**”), notice of such redemption and the *pro rata* amount thereof to the Noteholders of the relevant Class in accordance with Senior Condition 16 and to the Stock Exchange; and
- (iii) The principal amount redeemable in respect of each Senior Note (the “**Principal Payment**”) on any Payment Date shall be a *pro rata* share of the Available Capital Funds of the relevant Class on such date, calculated by multiplying the Available Capital Funds of the relevant Class on such date by a fraction, the numerator of which is the then Principal Amount Outstanding of such Senior Note and the denominator of which is the then aggregate Principal Amount Outstanding of all the Senior Notes of the same Class (rounded down to the nearest cent), provided always that no such Principal Payment may exceed the Principal Amount Outstanding of the relevant Senior Note.

(c) *Redemption for taxation reasons*

The Issuer may on any Payment Date redeem in whole but not in part the Senior Notes at their Principal Amount Outstanding together with accrued but unpaid interest up to and including such Payment Date having:

- (i) given not less than 30 days’ prior notice in writing to the Representative of the Noteholders and to the Senior Noteholders in accordance with Senior Condition 16;
- (ii) satisfied the Representative of the Noteholders that on the Payment Date following the notice of redemption the Issuer would be required to deduct or withhold (other than in respect of a Law 239 Withholding) from any payment of principal or interest on the Senior Notes any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Republic of Italy or any sub-division thereof or any authority thereof or therein; and
- (iii) satisfied the Representative of the Noteholders, to the effect that on the relevant Payment Date it will have the necessary funds, not subject to the interest of any other person, to redeem in full the Senior Notes and to discharge any amounts required under Senior Condition 5 to be paid in priority to or *pari passu* with the Senior Notes.

Should the Issuer elect to redeem the Senior Notes pursuant to this Senior Condition 7(c), the Issuer shall be entitled to sell the Portfolio to a third party at a price not less than the Principal Amount Outstanding of the Notes (or, if and to the extent that the Class D Noteholders have passed a resolution at a Class D Noteholders’ meeting waiving their rights to redemption, at a price not less than the then Principal Amount Outstanding of the Senior Notes) together with any interest accrued thereon and other amounts to be paid in priority and unpaid up to the date fixed for redemption of the Notes (or the Senior Notes, as the case may be).

(d) *Optional Redemption*

The Issuer may redeem all, but not some, of the Senior Notes at their Principal Amount Outstanding, unless previously redeemed in full, on any Payment Date falling on or after the Clean-Up Option Date. Any such redemption shall be effected by the Issuer on giving not less than 30 days' prior notice in writing to the Representative of the Noteholders and the Senior Noteholders in accordance with Condition 16 and provided that the Issuer has produced evidence acceptable to the Representative of the Noteholders that it will have the funds, not subject to interests of any other person, to discharge all its outstanding liabilities in respect of the Senior Notes and any amounts required under the relevant Priority of Payments to be paid in priority to or *pari passu* with the Senior Notes of each Class.

(e) *Available Capital Funds, Principal Payments, Principal Amount Outstanding*

On each Calculation Date, the Issuer shall determine or shall cause to be determined by the Calculation Agent:

- (i) the Available Capital Funds, in respect of each Class of Senior Notes (if any);
- (ii) the Principal Payment (if any) due on the next following Payment Date in respect of each Senior Note; and
- (iii) the Principal Amount Outstanding of each Senior Note on the next following Payment Date (after deducting any Principal Payment due to be made on that Payment Date).

Each determination by or on behalf of the Issuer of the Principal Available Funds, any Principal Payment and the Principal Amount Outstanding shall in each case (in the absence of manifest error) be final and binding on all persons.

The Issuer will, on each Calculation Date beginning with the Calculation Date which occurs immediately prior to the Payment Date falling after the expiry of the Initial Period, cause each determination of a Principal Payment (if any) and the Principal Amount Outstanding to be notified forthwith by the Calculation Agent to the Representative of the Noteholders, the Principal Paying Agent, the Luxembourg Agent and (for so long as the Senior Notes of the relevant Class are listed on the Stock Exchange) the Stock Exchange and will cause notice of each determination of a Principal Payment and the Principal Amount Outstanding to be given in accordance with Senior Condition 16.

If the Issuer does not at any time for any reason determine the Available Capital Funds, the Principal Payment or the Principal Amount Outstanding in accordance with the preceding provisions of this paragraph, such Available Capital Funds, Principal Payment and/or Principal Amount Outstanding may be determined by the Representative of the Noteholders in accordance with this paragraph and each such determination or calculation shall be deemed to have been made by the Issuer and shall in each case (in the absence of manifest error) be final and binding on all persons.

(f) *Notice of Redemption*

Any such notice as is referred to in Senior Conditions 7(b), (c), or (d) above shall be irrevocable and, upon the expiration of such notice, the Issuer shall be bound to redeem the Senior Notes at amounts specified in this Senior Condition 7.

(g) *No purchase by Issuer*

The Issuer shall not purchase any of the Senior Notes.

(h) *Cancellation*

All Senior Notes redeemed in full will be cancelled upon redemption and may not be resold or reissued.

## **8. Payments**

- (a) Payment of principal and interest in respect of the Senior Notes will be credited by Monte Titoli S.p.A. to the account of those Monte Titoli Account Holders whose accounts with Monte Titoli are credited with those Senior Notes and thereafter credited by such Monte Titoli Account Holders from such aforementioned

accounts to the accounts of the beneficial owners of those Senior Notes or through Euroclear Bank S.A./N.V. as operator of the Euroclear system (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream, Luxembourg**”) to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Senior Notes, in accordance with the rules and procedures of Monte Titoli, Euroclear or Clearstream, Luxembourg, as the case may be.

- (b) Payments of principal and interest in respect of the Senior Notes are subject in all cases to any fiscal or other laws and regulations applicable thereto.
- (c) If the due date for payment of any amount of interest or principal in respect of any Senior Note is not a local business day, then the relevant Noteholder will not be entitled to payment until the immediately succeeding local business day and no further payments of additional amounts by way of interest, principal or otherwise shall be due in respect of such Senior Note. In this paragraph, the expression “local business day” means a day on which banks are generally open for business to the public in the place where the account of the relevant payee is held.

## **9. Taxation**

All payments in respect of the Senior Notes will be made without withholding or deduction for or on account of any taxes of whatsoever nature other than a Law 239 Withholding or any other withholding or deduction required to be made by applicable law. The Issuer shall not be obliged to pay any additional amount to any Noteholder on account of such withholding or deduction.

## **10. Prescription**

Claims against the Issuer for payments in respect of the Senior Notes shall be prescribed and become time-barred unless made within 10 years (in the case of principal) or 5 years (in the case of interest) from the date the relevant payment in respect of them becomes due and payable.

## **11. Enforcement Event**

- (a) The occurrence of any of the following events shall constitute an “**Enforcement Event**”:

- (i) *Non-payment of interest*

Default is made in respect of any payment of the Interest Payment Amount on:

- (A) any Class A1 Note in full on the Payment Date with reference to which it has been determined provided that the Relevant Collection Date as defined in Senior Condition 5.2(a) has not occurred, which default shall have continued unremedied for a period of three Business Days; or
- (B) once the Relevant Collection Date as defined in Senior Condition 5.2(a) has occurred, any Class A1 Note and Class A2 Note in full on the Payment Date with reference to which it has been determined, which default shall have continued unremedied for a period of three Business Days; or
- (C) once the Class A1 Notes have been redeemed in full, any Class A2 Note in full on the Payment Date with reference to which it has been determined, which default shall have continued unremedied for a period of three Business Days; or
- (D) once the Class A Notes have been redeemed in full, any Class B Note in full on the Payment Date with reference to which it has been determined, which default shall have continued unremedied for a period of three Business Days; or
- (E) once the Class A Notes and the Class B Notes have been redeemed in full, any Class C Note in full on the Payment Date with reference to which it has been determined, which default shall have continued unremedied for a period of three Business Days; or

(ii) *Breach of obligations*

Default is made by the Issuer in the performance or observance of any obligation binding upon it or the Issuer breaches any representation or warranty made by it, in each case under the Senior Notes, any other Transaction Document to which it is a party (other than the obligation for the payment of interest on the Class A Notes, the Class B Notes and the Class C Notes pursuant to Senior Condition 11(a)(i) above) or any certificate, document or financial or other statement furnished under or in connection with a Transaction Document to which it is a party and, in any such case (except when the Representative of the Noteholders certifies that, in its opinion, such default is incapable of remedy, in which case no notice will be required) such default or breach shall have continued unremedied for a period of 30 days following the service by the Representative of the Noteholders on the Issuer of notice requiring the same to be remedied; or

(iii) *Liquidation and insolvency*

- (A) an order is made or an effective resolution is passed for the winding up of the Issuer or any of the events under Article 2448 of the Italian Civil Code occurs with respect to the Issuer; or
- (B) the Issuer takes any action for an adjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors (other than the Issuer Secured Creditors) or applies for any Insolvency Proceedings; or

(iv) *Unlawfulness*

It is or will become unlawful in any respect deemed by the Representative of the Noteholders to be material for the Issuer to perform or comply with any of its obligations under or in respect of the Senior Notes or any Transaction Document to which it is a party,

provided that, in the case of each of the events described in paragraph (a)(ii) of this Senior Condition 11, no Enforcement Event shall occur unless a resolution is passed, in accordance with Senior Condition 13, of the holders of the Most Senior Class of Notes, declaring such event to be an Enforcement Event.

- (b) If an Enforcement Event occurs, the Representative of the Noteholders at its discretion may, and, if so directed by a resolution, passed in accordance with Senior Condition 13 of the holders of the Most Senior Class of Notes or if so requested in writing by the holders of at least 25% of the aggregate of the Principal Amount Outstanding of the Most Senior Class of Notes, shall give notice (an “**Enforcement Notice**”) to the Issuer that the Senior Notes shall forthwith become due and repayable at their Principal Amount Outstanding together with accrued interest (if any) provided that in the case of the events described in paragraph (a) (ii) of this Condition 11 the relevant resolution to be so passed shall be passed or requested by at least the majority of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes.
- (c) Upon the Representative of the Noteholders giving an Enforcement Notice declaring the Senior Notes to be due and repayable, or upon the Issuer becoming subject to any Insolvency Proceedings (an “**Issuer Insolvency Event**”), the Senior Notes shall (subject to Senior Condition 18) immediately become due and repayable at their Principal Amount Outstanding together with accrued interest (if any), as provided in Senior Condition 5.4.

## 12. **Enforcement**

At any time after the Senior Notes have become due and repayable following the service of an Enforcement Notice or the occurrence of an Issuer Insolvency Event the Representative of the Noteholders may, at its discretion, and without further notice take such steps and/or institute such proceedings against the Issuer as it thinks fit (i) to direct the Issuer to take any action in relation to the Portfolio and to enforce the Issuer Security and (ii) to enforce repayment of the Senior

Notes and payment of accrued interest thereon and any other amounts owed but unpaid by the Issuer, but it shall not be bound to take any such proceedings or steps unless it shall have been directed by a resolution, passed in accordance with Senior Condition 13, of the holders of the Most Senior Class of Notes or shall be requested in writing by the holders of at least 25% of the aggregate of the Principal Amount Outstanding of the Most Senior Class of Notes and, in all cases, it shall have been indemnified and/or secured to its satisfaction provided that if no Issuer Insolvency Event has occurred, the Representative of the Noteholders shall become entitled, pursuant to the mandate in the Intercreditor Agreement, to dispose of the Portfolio.

Each Senior Noteholder, by acquiring title to the relevant Senior Note, is deemed to agree and acknowledge that:

- (i) the Representative of the Noteholders (whose actions are therefore ratified pursuant to Article 1399 of the Italian Civil Code by each Noteholder by virtue of the acquisition of title to the relevant Senior Notes) has entered into the Deed of Charge, the Luxembourg Pledge Agreement and the Pledge Agreement for itself and as agent in the name of and on behalf of each Noteholder from time to time and each of the other Issuer Secured Creditors;
- (ii) subject to Senior Condition 13(i) and the Intercreditor Agreement the Representative of the Noteholders, in its capacity as agent in the name and on behalf of the Noteholders, shall be the only person entitled to institute proceedings against the Issuer and/or to enforce or to exercise any rights in connection with the Issuer Security or to take any steps against the Issuer or any of the other parties to the Transaction Documents for the purposes of enforcing the rights of the Noteholders under the Notes and/or with respect to the other Transaction Documents and recovering any amounts owing under the Notes;
- (iii) the Representative of the Noteholders shall have exclusive right under the Deed of Charge, the Luxembourg Pledge Agreement and the Pledge Agreement to make demands, to give notices, to exercise or refrain from exercising any rights and to take or refrain from taking any action (including, without limitation, the release or substitution of security) in accordance with the Deed of Charge, the Luxembourg Pledge Agreement and the Pledge Agreement.

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of Senior Condition 11 or this Senior Condition 12 by the Representative of the Noteholders shall (in the absence of manifest error) be binding on the Issuer and all Senior Noteholders and (in the absence of wilful default, or gross negligence) no liability to the Senior Noteholders or the Issuer shall attach to the Representative of the Noteholders in connection with the exercise or non-exercise by it of its authorities, powers, duties and discretions hereunder or under the other Transaction Documents, as the case may be.

### **13. Meetings of Noteholders**

#### **(a) *Convening a Meeting***

The Representative of the Noteholders or the Issuer at any time may, and the Representative of the Noteholders, upon a request in writing of Noteholders holding not less than ten per cent. of the aggregate Principal Amount Outstanding of the Notes of any Class then outstanding, shall, convene a meeting of the Noteholders of the relevant Class. Whenever the Issuer is about to convene any such meeting it shall forthwith give notice in writing to the Representative of the Noteholders. Every such meeting shall be held at such place as the Representative of the Noteholders may appoint or approve, provided that it is in a EU member state. At least 21 clear days' notice (*clear days* meaning exclusive of the day on which the notice is given and the day on which the relevant meeting is to be held) specifying the day, time, place and agenda of the meeting shall be given by the Issuer or by the Representative of the Noteholders to the relevant Class of Noteholders in the manner provided by Senior Condition 16 of the relevant Class of Notes. The notice may also set the day for the second call, being not less than 14 clear days and nor more than 42 clear days after the day fixed for the first call. A copy of the notice shall be given to the Representative of the Noteholders unless the meeting shall be convened by the Representative of the Noteholders and to the Issuer unless the meeting shall be convened by the Issuer. Such notice shall specify the terms of any resolution to be proposed at such meeting.

**(b) Chairman**

A person (who may, but need not, be a Noteholder) nominated in writing by the Representative of the Noteholders shall be entitled to take the chair at every such meeting (including at any adjourned meeting) but if no such nomination is made or if at any meeting the person nominated shall not be present within 15 minutes after the time fixed for the meeting, the relevant Class of Noteholders present shall elect one of their member to be chairman and, failing such choice, the Issuer may appoint a chairman.

**(c) Admission**

Noteholders and proxies showing a certificate of admission issued by the Monte Titoli Account Holder under the Monte Titoli system pursuant to Resolution No. 11768, or showing a blocking certificate issued by Euroclear or Clearstream, Luxembourg, pursuant to their respective rules, or by any intermediary holding the Notes of the relevant Class on behalf of a Noteholder certifying that certain specified Notes have been blocked in an account and that such Notes will continue to be so blocked until the conclusion of the meeting specified in such document, can attend and vote at any meeting. The Issuer, the Representative of the Noteholders and their respective financial and legal advisers and such other person as may be resolved by the meeting may attend and speak at a meeting.

The chairman may, with the consent of (and shall if directed by) any meeting, adjourn (*rinvio*) the same from time to time and from place to place.

The Representative of the Noteholders may without the consent of the Noteholders prescribe such further regulations regarding attendance and voting at the meetings of Noteholders.

The minutes of all resolutions shall be entered in a book to be held by the Representative of the Noteholders.

**(d) Quorum**

On the first call, the quorum at any meeting of the Noteholders of any Class shall be one or more persons holding or representing a clear majority (*maggioranza assoluta*) of the aggregate Principal Amount Outstanding of Notes of the relevant Class. If a quorum is not present the meeting it shall be re-convened for a second call. On the second call, the quorum shall be one or more persons being or representing Noteholders of the relevant Class irrespective of the aggregate Principal Amount Outstanding of the relevant Class so held or represented, except that, at any meeting the business of which includes the sanctioning of a modification of the following terms:

- (i) modification of the date fixed for final maturity of the relevant Class;
- (ii) reduction or cancellation of the principal amount payable on the relevant Class or the priority of redemption of the relevant Class;
- (iii) alteration of the amount of interest and other amounts, if any, payable on the relevant Class or modification of the method of calculating the amount of interest or such other amounts payable on the relevant Class or modification of the date of payment of any interest or such other amount payable of the relevant Class;
- (iv) alteration of the currency in which payments under the relevant Class;
- (v) alteration of the majority required to pass a resolution or the manner in which such majority is constituted; and
- (vi) alteration of this provision,

(any such modification being a “**Basic Terms Modification**”), the necessary quorum to validly hold a meeting shall be persons holding or representing 75 per cent., or on the second call of such meeting 25 per cent., or more of the aggregate Principal Amount Outstanding of the Notes of the relevant Class then outstanding. No business (other than choosing a Chairman in accordance with paragraph (b) above), shall be transacted at any such meeting unless the requisite quorum is present at the commencement of business.

**(e) Majorities**

At any meeting every person who is so present shall have one vote in respect of each euro 1,000 in principal amount of Notes of the relevant Class represented by the certificates of admission or blocking certificates so produced or in respect of which he is a proxy or the representative.

Any resolution must be passed with a majority consisting of not less than three-fourths of the votes represented at the relevant meeting.

**(f) Written resolution**

A resolution in writing executed by or on behalf of the holders of a clear majority (*maggioranza assoluta*) or, in the case of a Basic Term Modifications, 75 per cent. of the aggregate Principal Amount Outstanding of each Class shall be as effective as a resolution passed at a meeting of the relevant Class of Noteholders duly convened and held and may consist of several instruments in like form each executed by or on behalf of one or more of such holders.

**(g) Powers of the meetings of the Noteholders**

The meeting of the Noteholders of any Class shall have the following powers:

- (i) instruct the Representative of the Noteholders to take any action or make any determination as it is entitled to do in accordance with the terms of the Conditions of the relevant Class of Notes and/or the other Transaction Documents (including, without limitation, to serve an Enforcement Notice following the occurrence of an Enforcement Event or to enforce the Issuer Security);
- (ii) approve or consent to any proposal or matter for which the approval or consent of the Noteholders of the relevant Class is required in accordance with the terms of the Conditions of the relevant Class of Notes and/or the other Transaction Documents (including, without limitation, any matter which, in the opinion of the Representative of the Noteholders, is materially prejudicial to the interests of the Noteholders of that Class);
- (iii) make any determination of any matter for which the determination of the Noteholders of the relevant Class is required in accordance with the terms of the Conditions of the relevant Class of Notes and/or the other Transaction Documents;
- (iv) assent to any alteration of the provisions of the Notes of the relevant Class and of any of the Transaction Documents which shall be proposed by the Issuer and/or the Representative of the Noteholders;
- (v) authorise any person or any Noteholder of that Class (other than the Representative of the Noteholders or its permitted agents and employees) to take any action on behalf of or separately from the Noteholders of that Class with respect to the Issuer, its assets, the Portfolio, the Issuer Security, the Transaction Documents or any party thereto;
- (vi) instruct the Representative of the Noteholders to exercise its discretion hereunder in relation to any of the Transaction Documents if the Representative of the Noteholders submits a request for instructions to the Noteholders on how to exercise such discretion;
- (vii) authorise the Representative of the Noteholders to concur in and execute and do all such documents, acts and things as may be necessary to carry out and give effect to any resolution of a meeting of the Noteholders;
- (viii) sanction, a resolution passed at a meeting of any other Class of Noteholders;
- (ix) appoint and remove the Representative of the Noteholders;
- (x) approve a Basic Terms Modification;

- (xi) authorise any action which, in the opinion of the Representative of the Noteholders, might be materially prejudicial to the interests of the Noteholders of that Class;
- (xii) discharge or exonerate the Representative of the Noteholders from any liability in respect of any act or omission for which the Representative of the Noteholders may have become liable under or in relation to the Senior Conditions or any other Transaction Documents; and
- (xiii) approve the terms of any settlement of a dispute or litigation in which the Noteholders of that Class are involved as Noteholders of that Class.

**(h) *Limitations on Resolutions as between Classes of Notes***

- (i) A resolution duly passed at any meeting of the Noteholders of each Class shall be binding on all of the Noteholders of such Class irrespective of the effect upon them and whether or not they are present at the meeting.
- (ii) No resolution involving a Basic Terms Modification or any alteration of the Transaction Documents passed by the Noteholders of any Class shall be effective unless it is sanctioned by a resolution of the Noteholders of all other outstanding Classes of Notes.
- (iii) No direction of the Noteholders of any Class to the Representative of the Noteholders to take any action and no resolution passed at any meeting of a Class shall be effective for any purpose unless and until (A) either the Noteholders of all senior ranking Classes (in respect of payments of principal) under the Enforcement Priority of Payments not redeemed in full (each an “**Outstanding Senior Noteholder**”) have sanctioned such direction or resolution, or (B) the Representative of the Noteholders is of the opinion that the implementation of such direction or resolution would not be materially prejudicial to the interests of the Outstanding Senior Noteholders. For the purposes of this item (B), the Representative of the Noteholders may submit a request to the Noteholders of any Class to call a meeting of such Class to pass a resolution in order to give directions to the Representative of the Noteholders.

**(i) *Individual Actions and Remedies***

Without prejudice to the other provisions of these Conditions, each of the Noteholders acknowledges and agrees that:

- (a) only the Representative of the Noteholders shall enforce the security created by or pursuant to the Pledge Agreement, the Luxembourg Pledge Agreement and the Deed of Charge;
- (b) it shall not take any individual action or remedy against the Issuer for the purpose of:
  - (i) enforcing any obligation of the Issuer under the Conditions; or
  - (ii) enforcing the security created by or pursuant to the Pledge Agreement, the Luxembourg Pledge Agreement and the Deed of Charge;

unless the meeting of the Noteholders of the relevant Class (and of the Classes ranking senior to such Class) shall have previously passed a resolution not objecting to such action or remedy on the grounds that it is not convenient having regard to the interests of the Noteholders of the relevant Class at that time (and of the Classes ranking senior to such Class), and then, with regards to (b)(ii) above, only if the Representative of the Noteholders fails so to proceed pursuant to (a) above within a reasonable period. For the purpose of this Senior Condition, the Noteholder intending to take any such individual action or remedy shall notify the Representative of the Noteholders of its intention and the Representative of the Noteholders will, without delay, call a meeting of the Noteholders of the relevant Class (and of the Classes ranking senior to such Class) to consider the proposed action or remedy;

No individual action or remedy can be taken by a Noteholder of the relevant Class to enforce its rights unless in accordance with the provisions of this paragraph.

- (c) it shall not at any time exercise any right of set-off (*compensazione*), which is hereby expressly waived, in respect of its obligations it may have against the Issuer;
- (d) it shall not at any time exercise any right and action that the Issuer may be entitled to against third parties by way of a subrogation action under Article 2900 of the Italian Civil Code (*azione surrogatoria*); and
- (e) it shall not at any time exercise the right to subrogate any third party in the rights it may have against the Issuer pursuant to Article 1201 of the Italian Civil Code (*surrogazione per volontà del creditore*).

#### **14. Representative of the Noteholders**

- (a) The appointment of the Representative of the Noteholders is made by the Noteholders subject to and in accordance with these Conditions, except for the initial Representative of the Noteholders appointed at the time of issue of the Notes, who is appointed by the Managers and the Class D Notes Subscriber as initial subscribers of the Senior Notes and the Class D Notes, respectively. Each of the Noteholders acknowledges and agrees that the holding of the Notes constitutes full and unconditional acceptance of the appointment of the Representative of the Noteholders upon the terms of its appointment for the time being and subject to the relevant Senior Conditions. Each of the Noteholders acknowledges and agrees that the Representative of the Noteholders shall implement the resolutions taken by the Noteholders and generally protect the interests of the Noteholders against the Issuer. Each of the Noteholders acknowledges and agrees that the Representative of the Noteholders has been, and each successor Representative of the Noteholders shall be, appointed until the date on which the last of the holders of any of the Senior Notes has been paid in full and all amounts due to it from the Issuer by reason of its holding the Senior Notes are duly paid or the Senior Notes have been cancelled in accordance with these Senior Conditions and can be removed by the Noteholders at any time and may resign at any time upon giving notice to the Issuer without assigning any reason therefor and without being responsible for any costs incurred as a result of such resignation, as specified below, provided, however, that the then current Representative of the Noteholders shall remain in office until a successor has been appointed;
- (b) The Representative of the Noteholders can be removed by the Noteholders and may resign at any time, provided that a successor Representative of the Noteholders is appointed which shall be:
  - (i) a bank incorporated in any jurisdiction of the European Union or a bank incorporated in any other jurisdiction acting through Italian branch; or
  - (ii) a financial institution registered under Article 107 of the Italian Banking Act; or
  - (iii) a company incorporated in any jurisdiction of the European Union offering in such jurisdiction agency and trust services similar to those to be carried out by the Representative of the Noteholders pursuant to the Transaction Documents and belonging to a primary banking group; or
  - (iv) any other entity which may be permitted by any specific provisions of Italian law applicable to the securitisation of monetary rights and/or by any regulations, instructions, guidelines and/or specific approvals issued by the competent Italian supervising authorities.

Notice of any removal or appointment of the Representative of the Noteholders shall be given to the Stock Exchange.

- (c) With the exception of the appointment of the first Representative of the Noteholders, which may be made pursuant to the terms of the Subscription Agreements, and the appointment of a new Representative of the Noteholders in charge in accordance with the conditions set out below, the appointment of any new Representative of the Noteholders or the removal of any Representative of the Noteholders requires the approval of a resolution of each Class of Noteholders at that time outstanding provided that no such approval

may be required for the transfer by the Representative of the Noteholders of such role to any legal entity to which the Representative of the Noteholder is merged or converted or to which the business of the Representative of the Noteholders is transferred or to any legal entity resulting from any merger, conversion, consolidation or transfer of business to which the Representative of the Noteholders is a party that becomes the successor to such Representative of the Noteholders;

- (d) The Representative of the Noteholders may resign at any time upon giving not less than three calendar months' prior written notice to the Issuer without assigning any reason therefor and without being responsible for any costs incurred as a result of such resignation. The removal and resignation of any Representative of the Noteholders shall not become effective unless and until a new Representative of the Noteholders has been appointed in accordance with these Conditions and has accepted appointment. The appointment of such Representative of the Noteholders shall not be effective until such time as the Issuer and the other Issuer Secured Creditors have granted to such substitute Representative of the Noteholders the mandates granted to the previous Representative of the Noteholders under the Intercreditor Agreement and the other Transaction Documents and the powers and authority of the Representative of the Noteholders whose appointment has been or is to be terminated shall be limited to those necessary for the performance of the essential functions which are required to be complied with in connection with the Notes;
- (e) The Representative of the Noteholders may seek the prior approval of a meeting of Noteholders in relation to any action to be taken;
- (f) The Representative of the Noteholders shall act in the exercise of its powers by having regard to the general interests of the Noteholders, without having regard to single positions or interests and shall be indemnified for the role as performed according to the terms and conditions provided in the Transaction Documents. The Representative of the Noteholders shall constitute the representative of the Noteholders for all legal purposes. To the extent there is a conflict between the interest of Noteholders of different Classes, the Representative of the Noteholders shall act in the exercise of its powers hereunder by having regard to the interests of the Noteholders of the Most Senior Class of Notes;
- (g) The Representative of the Noteholders may also whenever he/it thinks it expedient in the interests of the Noteholders delegate to any person or persons all of his/its powers. The Representative of the Noteholders shall not be bound to supervise the proceedings and shall not be responsible for any loss incurred other than by any gross negligence or wilful default on the part of such delegate or sub-delegate. The Representative of the Noteholders shall as soon as reasonably practicable give notice to the Issuer of the appointment, renewal, extension and termination of any delegation and shall procure that any delegate shall also as soon as reasonably practicable give notice to the Issuer of any sub-delegate;
- (h) The Representative of the Noteholders shall be authorised to represent the Noteholders of each Class in judicial proceedings, including enforcement proceedings and Insolvency Proceedings against the Issuer in so far as they relate to the Notes and the other Transaction Documents;
- (i) The Representative of the Noteholders should not assume and shall not be liable for any obligations other than those expressly provided in the Transaction Documents and in the Conditions. In particular, under the terms of the Intercreditor Agreement, the Issuer Secured Creditors have agreed that the Representative of the Noteholders shall not be liable *vis-à-vis* the Issuer Secured Creditors for damages suffered by the Issuer Secured Creditors deriving from any activity carried out by the Representative of the Noteholders acting in its capacity as representative of the Noteholders and of the Issuer Secured Creditors save in circumstances where the Representative of the Noteholders acts with gross negligence (*colpa grave*) and/or wilful default (*dolo*) and/or fraud (*frode*);
- (j) Without limiting the generality of the foregoing, the Representative of the Noteholders:
  - (i) shall be entitled to act on the advice, certificate or opinion of or on any information obtained from any lawyer, accountant, banker, rating agency or other expert whether obtained by the Issuer, the

Representative of the Noteholders or otherwise, provided that, where such lawyer, accountant, banker, rating agency or other expert is appointed by the Representative of the Noteholders, such appointment is made with due care in all the circumstances, and, subject to the aforesaid, the Representative of the Noteholders shall not, in the absence of gross negligence (*colpa grave*) and/or wilful default (*dolo*) and/or fraud (*frode*), be liable for any damages, losses, liabilities or expenses incurred by any party as a result of the Representative of the Noteholders so acting;

- (ii) save as expressly otherwise provided for in the Conditions and in any other Transaction Documents, shall have absolute discretion as to the exercise, non exercise of or refraining from exercising any right, power or discretion vested in the Representative of the Noteholders by the Conditions or by operation of law and shall not be responsible for any loss, costs, damages, expenses or inconveniencies that may result from the exercise, non-exercise or refraining from exercise thereof insofar as the same are not incurred as a result of its fraud, gross negligence or wilful default;
- (iii) shall be entitled to accept as sufficient evidence of any fact or matter or effectiveness of any transaction, unless any of its officers in charge of the administration of the Conditions is aware or has express notice to the contrary, a certificate duly signed by the Issuer, and the Representative of the Noteholders shall not be bound in any such case to call for further evidence or be responsible for any loss that may be occasioned by the Representative of the Noteholders acting on such certificate;
- (iv) in relation to the matters in respect of which the Representative of the Noteholders is entitled to exercise its discretion hereunder, the Representative of the Noteholders is entitled to convene a meeting of the Noteholders of any Class of Notes in order to obtain from them instructions upon how the Representative of the Noteholders should exercise such discretion. Prior to undertaking such action, the Representative of the Noteholders shall be entitled to request at the meeting to be indemnified and/or provided with security subject to its approval against all actions, proceedings, claims and demands to which it may render itself liable and all costs, charges, damages, expenses and liabilities which it may incur by taking such action;
- (v) may determine whether or not an Enforcement Event is in its opinion materially prejudicial to the interests of the Noteholders and any such determination shall be conclusive and binding upon the Issuer, the Noteholders and the other Issuer Secured Creditors;
- (vi) in relation to the matters in respect of which the Noteholders are entitled to direct the Representative of the Noteholders, the Representative of the Noteholders shall not be liable for acting upon any resolution purporting to have been passed at any meeting of the Noteholders of the relevant Class of Notes in respect whereof minutes have been made and signed, even if afterwards it emerges that there was some defect in the constitution of the meeting or the passing of the resolution or that for any reason such resolution was not valid or binding upon the Noteholders;
- (vii) shall be entitled to assume, for the purposes of exercising any power, authority, duty or discretion under or in relation hereto that such exercise will not be materially prejudicial to the interests of the Senior Noteholders of a Class of Senior Notes if the Rating Agencies have confirmed that the then current rating of the Senior Notes would not be adversely affected by such exercise, or have otherwise given their consent.
- (viii) may call for and shall be at liberty to accept and place full reliance on as suitable evidence of the facts stated therein, a certificate or letter of confirmation as true and accurate and signed on behalf of any Monte Titoli Account Holder or common depository, as the case may be, as the Representative of the Noteholders considers appropriate, or any form of record made by any of them to the effect that at any particular time or throughout any particular period any party hereto is, was or will be shown in its records as entitled to a determined number of Notes;

- (ix) may determine whether or not a default in the performance by the Issuer of any obligation under the provisions of the Conditions or contained in the Notes or any other Transaction Documents is capable of remedy and, if the Representative of the Noteholders certifies that any such default is not capable of remedy, such certificate shall be conclusive and binding upon the Noteholders; and
- (x) shall be entitled to request and rely upon any certificate or letter of confirmation or explanation reasonably believed by it to be genuine of any party to the Intercreditor Agreement or any other Issuer Secured Creditor or any Rating Agency in respect of every matter and circumstance for which a certificate is expressly provided for hereunder or any other Transaction Document or in respect of the rating of the Senior Notes and it shall not be bound in any such case to call for further evidence or be responsible for any loss, liabilities, costs, damages, expenses or inconvenience that may be incurred by its failure to do so.

No provision of the Senior Conditions shall oblige the Representative of the Noteholders to carry out any action which may be illegal or contrary to applicable law or regulations or act at risk of its own funds or otherwise incur to any financial liability in the performance of any of its duties, or in the exercise of any of its rights or powers, if it has reasonable grounds to believe that reimbursement of such funds is not assured. The Representative of the Noteholders may refrain from taking or performing any action under the Conditions or any other Transaction Document if it has reasonable grounds to believe that it will not be reimbursed for any funds or indemnified by the Noteholders or the Issuer against any loss or liability which it may incur as a result of such action.

Furthermore each of the Noteholders expressly acknowledges and agrees that the Representative of the Noteholders:

- (k) shall not be under any obligation to take any steps to ascertain whether an Enforcement Event, Issuer Insolvency Event or any other event, condition or act, the occurrence of which would cause a right or remedy to become exercisable by the Representative of the Noteholders under the Senior Conditions or any other Transaction Document, has occurred; and, until it shall have actual knowledge or express notice to the contrary, the Representative of the Noteholders may assume that no such event has occurred;
- (l) shall not be required to monitor or supervise the performance of the Issuer and any other party to the Transaction Document of their obligations and, until it has actual knowledge or express notice to the contrary, the Representative of the Noteholders may assume that no breach has occurred;
- (m) shall not be deemed to be a person responsible for the collection, cash and payment services for the purposes of Article 2.6 of the Securitisation Law and the relevant implementing regulations in force from time to time including without limitation the Bank of Italy circular No. 216 of 5 August 1996, as amended and integrated on 15 October 2002;
- (n) shall not be required to take any action or step with a view to preserving the rights of the Noteholders or any other Issuer Secured Creditor under the Pledge Agreement, the Luxembourg Pledge Agreement or the Deed of Charge and, more in general, in relation to any Security Interest granted to guarantee any of the Issuer's obligations;
- (o) shall not be liable for, nor shall it be required, to assess the legality, validity, effectiveness and enforceability of the Conditions or any other Transaction Document or any other document or obligation or rights created or purported to be created thereby or pursuant thereto and if the obligations assumed by the Issuer and any other party to the Transaction Documents thereunder are legally valid and binding and enforceable against them in accordance with the respective terms, nor shall it be required to assess any breach or alleged breach by the Issuer or any other party to the Transaction Documents of any of the representations, warranties and covenants given or undertaken by them in the Conditions or any other Transaction Documents;

- (p) shall not be under any obligation to have regard to the consequences of any modification of the Senior Conditions or any of the Transaction Documents for individual Noteholders or any other party to the Transaction Documents;
- (q) shall not be responsible for the adequacy, suitability or sufficiency of the structure of the Securitisation (legally or otherwise) nor for any collection or recovery procedures operated by the Servicer in respect of the Portfolio and the relevant connected rights;
- (r) shall not be under the obligation to disclose to any Noteholder or other Issuer Secured Creditor or any other party (unless and to the extent so required under these Senior Conditions, the terms of any Transaction Documents or by applicable law) any information in respect of the Portfolio or, more in general of the Securitisation;
- (s) shall not be responsible for the receipt or application by the Issuer of any proceeds in relation to the Notes or the distribution of such proceeds to the persons entitled thereto;
- (t) shall not be responsible for the maintenance of any rating of the Notes by any rating agencies;
- (u) shall not be responsible for, or for investigating, any matter which is the subject of any recitals, warranties or representations of any party other than the Representative of the Noteholder contained herein or in any other Transaction Document; and
- (v) shall not be liable for any failure, omission or error in filing or registering in the right of title of the Issuer to the Portfolio whether such failure or error was known beforehand or discovered afterwards and irrespective of whether such failure or omission can be remedied nor for the failure by the Issuer to obtain or comply with any authorisation, licence or consent in connection with the purchase and administration of the Portfolio.

Pursuant to the terms of the Subscription Agreements, the Issuer shall pay to the Representative of the Noteholders an annual fee for its services as Representative of the Noteholders as from the Issue Date. Such fee shall be payable in accordance with the relevant Priority of Payments set out in the Conditions and in the Intercreditor Agreement.

Pursuant to the terms of the Intercreditor Agreement, the Issuer shall indemnify the Representative of the Noteholders in respect of all proceedings (including claims and liabilities in respect of taxes other than on its own overall net income), claims and demands and all costs, charges, expenses, and liabilities to which the Representative of the Noteholders (or any person appointed by it to whom any rights, power, authority or discretion may be delegated by it in the execution or purported execution of the rights, powers, authorities or discretions vested in it by or pursuant to the Conditions and any of the Transaction Documents to which the Representative of the Noteholders is a party) may be or become liable or which may be incurred to (or any such person as aforesaid) in respect of any matter or thing done, purported or omitted to be done in any way under the powers and authorities granted to it pursuant to these Conditions and any of the other Transaction Documents to which the Representative of the Noteholders is a party, including but not limited to legal and travelling expenses and any attorney's fees, stamps, issues, registrations, documentaries and other taxes or duties paid by the Representative of the Noteholders in connection with any action and/or legal proceedings brought against or contemplated by the Representative of the Noteholders pursuant to the Transaction Documents, or against the Issuer or any other person for enforcing any obligations under the Notes or any other of the Transaction Documents, other than as a result of the Representative of the Noteholders' (or any such person's as aforesaid) gross negligence (*colpa grave*), wilful default (*dolo*) or fraud (*frode*).

## **15. Listing**

Application has been made to list the Senior Notes on the Luxembourg Stock Exchange.

## **16. Notice to Senior Noteholders**

Any notice regarding the Senior Notes, as long as the Senior Notes are held through Monte Titoli, shall be deemed to have been duly given through the systems of Monte Titoli and, as long as the Senior Notes are listed on the Stock

Exchange and the rules of such exchange so require, if published in a leading daily newspaper having general circulation in Luxembourg (which is expected to be the *Luxembourg Wort*). The Representative of the Noteholders shall be at liberty to sanction some other method of giving notice to Senior Noteholders if, in its opinion, such other method is reasonable having regard to market practice other than that prevailing and to the rules of the stock exchange on which the Senior Notes are then listed and provided that notice of such other method is given to the holders of the Senior Notes in such manner as the Representative of the Noteholders shall require.

#### **17. Amendments, Waivers and Consents**

- (a) The Representative of the Noteholders, without the consent of the Noteholders of any Class may agree to any modification or amendment of the Conditions of any Class of Notes, or any of the Transaction Documents which in the Representative of the Noteholders' opinion (i) is to correct a manifest error (*errore materiale*), or if such modification or amendment is of a formal, minor or technical nature, or (ii) (except for a Basic Terms Modification), is not materially prejudicial to the interests of the Noteholders (or any Class of them). Any such modification or amendment shall be notified to the Stock Exchange;
- (b) The Representative of the Noteholders, without the consent of the Noteholders of any Class, may agree to (i) the waiver or authorisation of any Enforcement Event, any breach or proposed breach, or (ii) as required by the Issuer, the exercise of any discretion or giving of any consent, in each case, in relation to any Class of Notes, the Senior Conditions, or any of the Transaction Documents provided that in the sole opinion of the Representative of the Noteholders, such waiver or authorisation or exercise of discretion or giving of consent is not materially prejudicial to the interests of the Noteholders (or any Class of them);
- (c) Any amendment, modification, waiver, authorisation, exercise of discretion or giving of consent made pursuant to (a) and (b) above shall be binding on the Noteholders of each Class and, unless the Representative of the Noteholders agrees otherwise, shall be notified to the Noteholders of each Class in accordance with Senior Condition 16 of the relevant Class as soon as practicable thereafter;
- (d) In the event that, for the purposes of this Senior Condition, the Representative of the Noteholders is of the opinion that any matter is materially prejudicial to the interests of the Noteholders of any Class, only the consent of the affected Class of Noteholder shall be required thereto. The Representative of the Noteholders shall be entitled to assume, for the purpose of exercising any right, power, duty or discretion under or in relation to these Senior Conditions or any of the other Transaction Documents, that to do so will not be materially prejudicial to the interests of the Noteholders (or any Class of them) if the Rating Agencies have confirmed that the then current ratings of those Notes would not be adversely affected as a result;
- (e) Any consent or approval given by the Representative of the Noteholders under the Conditions of any Class and any other Transaction Document may be given on such terms and subject to such conditions (if any) as the Representative of the Noteholders determines necessary and notwithstanding anything to the contrary contained herein, or in the Transaction Document, such consent or approval may be given retrospectively; and
- (f) The provisions of this Senior Condition 17 are without prejudice to the obligations of the Representative of the Noteholders to the Issuer Secured Creditors under the Intercreditor Agreement and the other Transaction Documents.

#### **18. Limited Recourse**

If:

- (a) following the service of an Enforcement Notice or the occurrence of an Issuer Insolvency Event and following the enforcement of the Issuer Security and the exercise by the Representative of the Noteholders or any other person so entitled of its right to direct the Issuer to take any action in respect of the Portfolio and any asset or amount derived therefrom; or
- (b) no Enforcement Notice has been served or Issuer Insolvency Event occurred, on the Legal Maturity Date,

the aggregate funds available to the Issuer in accordance with the provisions of the relevant Priority of Payments for application in or towards any payment obligation (for the purposes of this Senior Condition 18, the “**Relevant Obligation**”) on the Senior Notes of any Class (for the purposes of this Senior Condition 18, the “**Relevant Notes**”) on any date which, but for the operation of this Senior Condition 18, would be due and payable, are not sufficient to pay in full such amount on the relevant date, then, notwithstanding any other provision in these Senior Conditions, only a *pro rata* share of the funds which are available to make payments in respect of the Relevant Obligation on the Relevant Notes shall be due and payable and the balance of the amount outstanding in respect of the Relevant Obligation on the Relevant Notes which, but for the operation of this Senior Condition 18, would be due and payable, shall not become due and payable and shall be definitively cancelled. The *pro rata* amount due and payable in respect of any Relevant Note shall be calculated by multiplying the amounts available to make payments in respect of the Relevant Obligation on the Relevant Note by a fraction, the numerator of which is the Principal Amount Outstanding of such Relevant Note and the denominator of which is the aggregate Principal Amount Outstanding of all the Relevant Notes (rounding down the resultant figure to the nearest euro cent).

**19. Non-petition**

Without prejudice to the other provisions of these Conditions, each of the Noteholders acknowledges and agrees that it shall not at any time take or join in taking any steps for the purpose of the commencement of any Insolvency Proceedings against the Issuer or petition for winding up of the Issuer or in connection with any reorganisation or arrangement or composition proceedings in respect of the Issuer, except two years following redemption in full of all notes issued by the Issuer from time to time.

**20. Governing Law**

The Senior Notes are governed by, and shall be construed in accordance with, Italian law.

**21. Jurisdiction**

For any disputes regarding the Senior Notes, the Milan Courts shall have exclusive jurisdiction.

**22. Miscellaneous**

Holding a Senior Note constitutes the full acceptance of all the provisions set out in these Senior Conditions and the Transaction Documents.

## TAXATION

*The following is a general description of certain Italian tax considerations relating to the Senior Notes based on current law and practice in Italy. It does not purport to be a complete analysis of all tax considerations relating to the Senior Notes. It relates to the position of persons who are the absolute beneficial owners of the Senior Notes and may not apply to certain classes of persons who are dealers in securities. Prospective purchasers of the Senior Notes should consult their tax advisers as to the consequences under the tax laws of the country in which they are resident for tax purposes and the tax laws of Italy of acquiring, holding and disposing of the Senior Notes and receiving payments of interest, principal and/or other amounts under the Senior Notes. This summary is based upon the law or practice as in effect on the date of this Offering Circular and is subject to any change in law or practice that may take effect after such date.*

*On 7 April 2003 the Italian Parliament approved a Law (“**Law No. 80**”) which sets forth the main guidelines for a wide reform of the Italian tax system. Legislative Decree No. 344 of 12 December 2003 (“**Decree No. 344**”), approved by the Italian Government on 27 November 2003, implements the guidelines provided in Law No. 80 with reference, inter alia, to the reform of the corporation income tax (“**IRES**”). According to Article 4 of Decree No. 344, the new provisions enter into force in 2004 and shall apply as of the tax year which starts on or after 1 January 2004.*

### **1. Italian income taxes**

#### **1.1 Interest, premiums and other proceeds payable on the Senior Notes**

According to the provisions of Article 6 of Law No. 130 of 30 April 1999, the Senior Notes are subject to the same tax regime provided for bonds and similar securities issued by listed companies, including the tax regime provided for by Law 239. Pursuant to the provisions of Law 239:

- (a) a substitute tax (*imposta sostitutiva*) levied at the rate of 12.5 per cent. is currently applicable to interest, premiums and any other proceeds (the “**Interest**”) in respect of the Senior Notes, if derived by Italian resident beneficial owners of the Senior Notes which are (i) individuals holding the Senior Notes not in connection with entrepreneurial activities (unless they have entrusted the management of their financial assets to an authorised intermediary and have opted for the so-called *risparmio gestito* – “**Asset Management Option**”), (ii) non commercial partnerships, (iii) non profit organisations, or (iv) holders of the Senior Notes which are exempt from corporate income tax;
- (b) no *imposta sostitutiva* is applicable where an Italian resident individual noteholder holds the Senior Notes in a discretionary investment portfolio managed by an Italian authorised financial intermediary and opts to be taxed at the flat rate of 12.5 per cent. on the appreciation of the investment portfolio accrued, even if not realised, at year-end (which appreciation includes any Interest accrued on the Senior Notes) pursuant to the so-called Asset Management Option (“*Risparmio Gestito*” regime) set forth by Article 7 of the Legislative Decree No. 461 of 21 November 1997 (“**Decree No. 461**”);
- (c) no *imposta sostitutiva* is applicable on Interest payable to Italian resident corporate entities or to permanent establishments in Italy of foreign corporations to which the Senior Notes are effectively connected, provided that the Senior Notes are timely deposited with an authorised financial intermediary. Interest on the Senior Notes must be included, on an accrual basis, in the aggregate taxable income of such noteholders for corporation tax purposes (IRES). For certain categories of corporate noteholders, Interest accrued on the Senior Notes must also be included in the net value of production subject to regional tax on productive activities (IRAP);
- (d) no *imposta sostitutiva* is applicable on Interest payable to Italian pension funds (subject to the regime provided by Articles 14, 14-ter and 14-quater, paragraph 1, of Legislative Decree No. 124 of 21 April 1993) and to Italian collective investment funds, provided that the Senior Notes are timely deposited with an authorised financial intermediary. Interest on the Senior Notes must be included in the calculation of the management result of the fund accrued at year-end, which is subject to a substitute tax at the rate of 11 per cent. in the case

of pension funds (the “**Pension Funds Tax**”) or at the rate of 12.5 per cent. in the case of Italian collective investment funds (the “**Mutual Funds Tax**”). Pursuant to Article 12 of Law Decree No. 269 of 30 September 2003, converted into law with amendments by Italian Law No. 326 of 24 November 2003 (“**Decree No. 269**”), the rate of the Mutual Funds Tax is decreased, as from 2 October 2003, to 5 per cent. if, according to the fund regulations, at least 2/3 of the fund’s assets are invested in stock of small or medium capitalisation companies listed on an EU regulated market;

- (e) no *imposta sostitutiva* is applicable on Interest payable to Italian real estate investment funds; and
- (f) no *imposta sostitutiva* is applicable on Interest payable to non-Italian resident beneficial owners of the Senior Notes without a permanent establishment in Italy to which the Senior Notes are effectively connected, provided that (a) such non-Italian resident beneficial owners of the Senior Notes are resident for tax purposes in a country that recognises the Italian tax authority’s right to a satisfactory exchange of information (as per the list provided in Ministerial Decree of 4 September 1996) (the “**Qualifying Countries**”) or are institutional investors incorporated in one of the Qualifying Countries and (b) all the requirements and procedures set forth by Decree No. 239 as to the deposit of the Senior Notes with certain qualified financial intermediaries and as to the filing of the self-declaration with the depository of the Senior Notes are timely satisfied. Decree No. 239 also provides for additional exemptions from the *imposta sostitutiva* for Interest payable to (i) international bodies and organisations established in accordance with international agreements ratified in Italy and (ii) Central Banks and entities also managing official State reserves.

In any other case, the *imposta sostitutiva* levied at the rate of 12.5 per cent. is applicable on Interest payable to non-Italian resident persons. The rate of the *imposta sostitutiva* may be decreased pursuant to the provisions of the applicable double tax treaty (if any).

To ensure payment without the application of the *imposta sostitutiva* investors in (f) above must be the beneficial owners of payments of interest on the Senior Notes and hold the Notes through an authorised intermediary.

The exemption procedure for investors who are non-resident in the Republic of Italy and are resident in Qualifying Countries identifies two categories of authorised intermediaries:

- (i) an Italian or non-Italian resident bank or financial institution (there is no requirement for the bank to be an EU resident) (the “**First Level Bank**”), acting as intermediary in the deposit of the Senior Notes held, directly or indirectly, by the Noteholder with a Second Level Bank as defined below; and
- (ii) an Italian resident bank or a *Società d’Intermediazione Mobiliare* (“**SIM**”, which are Italian financial intermediaries), or a permanent establishment in the Republic of Italy of a non-resident bank or SIM, acting as depository or sub-depository of the Notes appointed to maintain direct relationships, via telematic link, with the Italian Financial Administration (the “**Second Level Bank**”). Organisations and companies non-resident in the Republic of Italy, acting through a system of centralised administration of securities and directly connected with the Department of Revenue of the Ministry of Finance (which include the Euroclear Operator and Clearstream, Luxembourg) are treated as Second Level Banks, provided that they appoint an Italian representative (an Italian resident bank or SIM, or permanent establishment in the Republic of Italy of a non-resident bank or SIM, or a company for the centralised management of financial instruments authorised pursuant to Article 80 of Legislative Decree No. 58 of 24 February 1998).

In the event that the non-Italian resident Noteholder deposits the Senior Notes directly with a Second Level Bank, the latter shall be treated both as a First Level Bank and a Second Level Bank.

The exemption of Noteholders who are non-resident in the Republic of Italy from *imposta sostitutiva* is conditional upon:

- (a) the deposit of the Senior Notes, either directly or indirectly, with an institution which qualifies as a Second Level Bank; and

- (b) the submission to the Italian Tax Authorities (via the Second Level Bank) prior to the delivery of the Senior Notes of a self-declaration (“*autocertificazione*” - the “**Declaration**”) in accordance with the provisions of Article 10 of Law Decree No. 350 of 25 September 2001 converted into law with amendments by Law No. 409 of 23 November 2001 and based on the indications given by the Italian Tax Authorities in Ministerial Decree of 12 December 2001 published in the Official Gazette of Italy No. 301 of 29 December 2001 and in the Ministerial Circulars No. 23/E of 1 March 2002, No. 20/E of 23 March 2003 and 61/E of 31 December 2003. The Declaration has no expiration (*i.e.* it is valid until revocation) and must state that the Noteholder is resident in a Qualifying Country and - *inter alia* - that it is the beneficial owner of the proceeds. No Declaration shall be filed by international bodies and organisations established in accordance with international agreements ratified in Italy.

Once the Declaration has been properly completed, the First Level Bank is obliged to send it to the Second Level Bank within 15 days from receipt, together with any necessary affidavit in the event that other intermediaries intervene between the Noteholder and the First Level Bank.

Second Level Banks are expected to file the data relating to the non-resident Noteholder together with data relating to the First Level Bank and to the transactions carried out, via telematic link, to the Italian fiscal authorities within the first transmission period after receipt of such data. The Italian fiscal authorities monitor and control such data and any discrepancies.

For Noteholders non-resident in the Republic of Italy, the Second Level Bank acts as the intermediary responsible for assessing the applicability of *imposta sostitutiva* and, consequently, for levying and paying it to the Italian fiscal tax in accordance with the procedure described in the paragraph above.

## **1.2 Capital gains on the disposal or redemption of the Senior Notes**

- (a) Capital gains on the sale or redemption of the Senior Notes realised by Italian individuals are subject to an *imposta sostitutiva* levied at the rate of 12.5 per cent. in the annual tax return unless (i) the Senior Notes are held in a discretionary investment portfolio managed by an Italian authorised financial intermediary (according to the rules of the “*Risparmio Gestito*” regime), or (ii) the Senior Notes are deposited with banks, SIMs or certain other authorised financial intermediaries (according to the rules of the “*Risparmio Amministrato*” regime). According to the rules of the *Risparmio Gestito* regime, the appreciation of the investment portfolio accrued, even if not realised, at year-end (which appreciation includes any capital gains on the Senior Notes) is subject to an *imposta sostitutiva* levied at the rate of 12.5 per cent. which is applied on behalf of the individual Noteholder by the managing professional intermediary. According to the rules of the *Risparmio Amministrato* regime, an *imposta sostitutiva* at the rate of 12.5 per cent. is levied, on behalf of the individual Noteholder by the professional intermediary with which the Senior Notes are deposited, on capital gains realised on each sale for consideration or redemption of the Senior Notes;
- (b) capital gains on the sale or redemption of the Senior Notes realised by Italian corporations or by Italian permanent establishments of non-Italian resident entities to which the Senior Notes are effectively connected, are not subject to any *imposta sostitutiva* or withholding tax when realised and must be included in the aggregate taxable income of the Noteholders for corporation tax purposes (IRES). For certain categories of corporate Noteholders, capital gains realised on the Senior Notes must also be included in the net value of production subject to regional tax on productive activities (IRAP);
- (c) capital gains on the sale or redemption of the Senior Notes realised by Italian pension funds (subject to the regime provided by Articles 14, 14-ter and 14-quater, paragraph 1, of Legislative Decree No. 124 of 21 April 1993) and by Italian collective investment funds, are not subject to any *imposta sostitutiva* or withholding tax when realised and must be included in the calculation of the management result of the fund accrued at year-end, which is subject to, respectively, the Pension Funds Tax and the Mutual Funds Tax; and
- (d) capital gains on sale or redemption of the Senior Notes realised by non-Italian resident Noteholders are excluded from Italian income taxes, being the Senior Notes listed on a regulated market.

### 1.3 Early Redemption Tax

In the event that the Senior Notes are redeemed in whole or in part prior to eighteen months from the Issue Date, the Issuer will be required to pay a tax equal to 20 per cent. of interest and premium (if any) accrued up to the time of the early redemption, pursuant to Article 26 (1) of Presidential Decree No. 600 of 29 September 1973.

## 2. Italian Inheritance and gift tax

According to Law No. 383 of 18 October 2001 (“**Law No. 383**”) inheritance tax and gift tax are abolished and no transfer taxes apply in case of donations and other gifts between persons other than spouses, direct family members and certain relatives within the fourth degree. Gifts made to persons other than those mentioned, are subject to transfer taxes, which are ordinarily applicable in case of transfers by way of consideration, if the value of the asset being transferred to each donee is greater than € 180,759.91.

Moreover, an anti-avoidance rule is provided for by Law No. 383 for any gift of assets (such as the Senior Notes) which, if sold for consideration, would give rise to capital gains subject to *imposta sostitutiva* provided for by Italian Legislative Decree No. 461 of 21 November 1997. In particular, if the donee sells the Senior Notes for consideration within 5 years from the receipt thereof as gift, the donee is required to pay the relevant *imposta sostitutiva* on capital gains as if the gift has never taken place.

## 3. Italian Transfer tax

Pursuant to Royal Decree No. 3278 of 30 December 1923 as amended and supplemented by Legislative Decree No. 435 of 21 November 1997, transfer tax (“*tassa sui contratti di Borsa*”) ordinarily applies on the transfer of the Senior Notes executed in Italy.

At the present date, transfer tax applies as follows:

- (a) € 0.0083 for each € 51.65 of the purchase price (or fraction thereof), if the transaction is entered into between private parties directly or by way of the intervention of intermediaries other than banks or authorised financial intermediaries as per Legislative Decree No. 58 of 24 February 1998 (“**Decree 58**”) or stockbrokers;
- (b) € 0.00465 for each € 51.65 of the purchase price (or fraction thereof), if the transaction is entered into between private parties and banks or other financial authorised intermediaries as per Decree 58 (the “**Authorised Intermediaries**”) or stockbrokers or through the intervention of the entities mentioned above; and
- (c) € 0.00465 for each € 51.65 of the purchase price (or fraction thereof), if the transaction is entered into between banks and other Authorised Intermediaries as per Decree 58 or stockbrokers.

In the cases listed above under (b) and (c), however, the amount of transfer tax cannot exceed € 929.62 for each transaction.

The above transfer tax does not apply, *inter alia*, to the following cases:

- (a) contracts concluded in recognised markets regarding the transfer of the Senior Notes, including contracts between Authorised Intermediaries and between an Authorised Intermediary and its principal; and
- (b) off-market transactions regarding securities listed on recognised markets, provided that such transactions occur:
  - (i) between Authorised Intermediaries;
  - (ii) between Authorised Intermediaries and non-Italian residents; or
  - (iii) between Authorised Intermediaries, on the one hand, and undertakings for collective investment in transferable securities (*O.I.C.V.M.*), on the other hand.

## 4. EU Directive on the Taxation of Savings Income

On 3 June 2003, the EU Council of Economic and Finance Ministers (ECOFIN) adopted a new directive regarding the taxation of savings income (Council Directive 2003/48/EC on taxation of savings income in the form of interest

payments). This directive is scheduled to be applied by Member States from 1 January 2005, provided that certain non-EU countries adopt similar measures from the same date. Under the directive, each Member State of the European Union will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State; however, Austria, Belgium and Luxembourg may instead apply a withholding system for a transitional period in relation to such payments. The transitional period is to commence on the date from which the directive is to be applied by Member States and to terminate at the end of the first tax year following agreement by certain non-EU countries to the exchange of information relating to such payments.

## SUBSCRIPTION AND SALE

The Managers have, pursuant to a subscription agreement dated 15 April 2004 between the Managers, the Issuer, the Representative of the Noteholders and the Originator in respect of the Senior Notes (the “**Senior Notes Subscription Agreement**”), agreed to subscribe and pay the Issuer for the Senior Notes at the issue price of 100 per cent. of their principal amount.

The Issuer will pay the Managers a management and underwriting commission as set out in the Subscription Agreement.

The Senior Notes Subscription Agreement is subject to a number of conditions and may be terminated by the Managers in certain circumstances prior to payment for the Senior Notes to the Issuer. The Issuer and BNL have given certain representations and warranties to RBS as Joint Lead Manager and have agreed to indemnify RBS as Joint Lead Manager against certain liabilities in connection with the issue of the Senior Notes.

Pursuant to a subscription agreement dated 15 April 2004 (the “**Class D Notes Subscription Agreement**” and, together with the Senior Note Subscription Agreement, the “**Subscription Agreements**”) between BNL (the “**Class D Notes Subscriber**”) and the Issuer, the Class D Note Subscriber has agreed to subscribe and pay the Issuer for the Class D Notes at the issue price of 100 per cent. of the principal amount of the Class D Notes. The Issuer has given certain representations and warranties to BNL in the Class D Notes Subscription Agreement.

In addition, pursuant to the Subscription Agreements, the Managers and the Class D Notes Subscriber in their capacity as holders of the Senior Notes and Class D Notes respectively, have appointed Finanziaria Internazionale Securitisation Group S.p.A. as representative of the holders of each Class of Notes. Under the terms of the Subscription Agreements, the Representative of the Noteholders shall be appointed for a period lasting on the date on which the last of the holders of any of the Senior Notes has been paid in full and all amounts due to it from the Issuer by reason of its holding the Senior Notes are duly paid or the Senior Notes have been cancelled in accordance with the Senior Conditions.

Set out below is a summary of the principal restrictions on the offer and sale of the Senior Notes and the distribution of documents relating to the Senior Notes.

### United States

The Senior Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meaning given to them by Regulation S under the Securities Act.

The Senior Notes in bearer and dematerialised form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Manager under the Senior Notes Subscription Agreement has represented and agreed that it has not offered and sold the Senior Notes and will not offer, sell or deliver Senior Notes, (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the date of commencement of the offering of the Senior Notes and the Issue Date (the “**Distribution Compliance Period**”), within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Rule 903 of Regulation S under the Securities Act and, accordingly, that neither the Managers, their affiliates nor any person acting on their behalf has engaged or will engage in any directed selling efforts with respect to the Senior Notes and each Manager and its affiliates and any person acting on its behalf has complied with and will comply with the offering restriction requirements of Regulation S under the Securities Act to the extent applicable. Each Manager under the Senior Notes Subscription Agreement has also agreed that, at or prior to

confirmation of sales of any Senior Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Senior Notes from it during the Distribution Compliance Period a confirmation or notice setting forth the restrictions on offers and sales of Senior Notes within the United States or to, or for the account or benefit, of U.S. persons.

In addition, until the end of the Distribution Compliance Period, an offer or sale of the Senior Notes within the United States by any dealer (whether or not participating in this offering) may violate the requirements of the Securities Act.

### **Italy**

Each Manager under the Senior Notes Subscription Agreement has acknowledged that no action has or will be taken by it which would allow a public offer (“*sollecitazione all’investimento*”) of the Senior Notes in the Republic of Italy or Luxembourg unless in compliance with the relevant Italian securities, tax and other applicable laws and regulations. Accordingly, each Manager has agreed that the Senior Notes may not be offered, sold or delivered by it and neither this document nor any other offering material relating to the Senior Notes will be distributed or made available by it to the public in the Republic of Italy. Individual sales of the Senior Notes to any persons in the Republic of Italy may only be made in accordance with Italian securities, tax and other applicable laws and regulations.

Each Manager under the Senior Notes Subscription Agreement has acknowledged that no application has been made by any person to obtain an authorisation from CONSOB for the public offering of the Senior Notes in the Republic of Italy.

Accordingly, each Manager has represented and agreed under the Senior Notes Subscription Agreement that it has not offered, sold or delivered, and will not offer, sell or deliver, and has not distributed and will not distribute and has not made and will not make available in the Republic of Italy any Senior Notes, this Offering Circular nor any other offering material relating to Senior Notes other than to professional investors (“*investitori professionali*”/ “*operatori qualificati*”) as defined in Article 31, paragraph 2, of CONSOB Regulation No. 11522 of 1 July 1998 (as amended) pursuant to Article 100, paragraph 1, letter b) and Article 30, paragraph 2, of Legislative Decree No. 58 of 24 February 1998 (the “**Financial Laws Consolidation Act**”) and in accordance with applicable Italian laws and regulations. Any offer of the Senior Notes to professional investors in the Republic of Italy shall be made only by banks, investment firms or financial companies enrolled in the special register provided for in Article 107 of the Italian Banking Act, to the extent duly authorised to engage in the placement and/or underwriting of financial instruments in the Republic of Italy in accordance with the relevant provisions of the Financial Laws Consolidation Act and in compliance with Article 129 of the Italian Banking Act.

### **United Kingdom**

Under the Senior Notes Subscription Agreement, each Manager has represented and agreed with the Issuer that:

- (a) it has not offered or sold and, prior to the expiry of the period of six months from the Issue Date, will not offer or sell any Senior Notes 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 in 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; and
- (b) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the “**FSMA**”) with respect to anything done by it in relation to the Senior Notes in, from or otherwise involving the United Kingdom, and
- (c) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of the Senior Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer.

## **General**

In addition, under the Senior Notes Subscription Agreement, each Manager has represented and agreed with the Issuer that no action has been or will be taken in any jurisdiction by it that would permit a public offering of the Senior Notes, or possession or distribution of this Offering Circular (in preliminary or final form) or any other offering or publicity material relating to the Senior Notes, in any country or jurisdiction where action for that purpose is required. Each Manager has represented and agreed under the Senior Notes Subscription Agreement that it will comply with and obtain any consent, approval or permission required under, all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Senior Notes or has in its possession or distributes this Offering Circular or any other offering or publicity material, in all cases at its own expense. It has also agreed that it will ensure that no obligations are imposed on the Issuer or any other Manager in any such jurisdiction as a result of any of the foregoing actions. Each Manager has represented and agreed under the Senior Notes Subscription Agreement that it will have any permission required by it for the acquisition, offer, sale or delivery by it of the Senior Notes under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery. No Manager is authorised to make any representation or use any information in connection with the issue, subscription and sale of the Senior Notes other than as contained in this Offering Circular or any amendment or supplement to it.

## GENERAL INFORMATION

1. The issue of the Notes has been authorised by the Board of Directors of the Issuer on 11 March 2004.
2. The Senior Notes have been accepted for clearance through Monte Titoli, Euroclear and Clearstream, Luxembourg and the common code number of the Class A1 Notes is 019070638, and the ISIN of the Class A1 Notes is IT0003647457; the common code number of the Class A2 Notes is 019070484, and the ISIN of the Class A2 Notes is IT0003647473; the common code number of the Class B Notes is 019070689, and the ISIN of the Class B Notes is IT0003647499; the common code number of the Class C Notes is 019080803, and the ISIN of the Class C Notes is IT0003647507. The Class D Notes have been accepted for clearance through Monte Titoli and the ISIN of the Class D Notes is IT0003647515.
3. Since 23 November 2001 (being the date of incorporation of the Issuer), there has been no material adverse change in the financial position or prospects of the Issuer and no significant change in the trading or financial position of the Issuer other than the Prior Securitisation. Since 31 December 2003, there has been no material adverse change in the financial position or prospects of BNL and no significant change in the trading or financial position of BNL.
4. The first financial statements of the Issuer have been drawn up to 31 December 2002. Subsequent financial statements of the Issuer have been drawn up to 31 December 2003 and have been approved by the board of directors of the Issuer and audited and are expected to be approved by the shareholders of the Issuer at the shareholders meeting scheduled for the end of April 2004. No interim financial statements of the Issuer will be produced by the Issuer.
5. None of the Issuer or BNL is involved in any legal or arbitration proceedings which may have, or have had during the twelve months preceding the date of this document, a significant effect on the Issuer's or BNL's respective financial position nor, so far as the Issuer or BNL is aware, are any such proceedings pending or threatened.
6. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.
7. Save as disclosed in this document, as at the date of this document, the Issuer has no outstanding loan capital, borrowings, indebtedness or contingent liabilities, nor has the Issuer created any mortgages or charges or given any guarantees.
8. The information set out in the sections entitled "*The Portfolio*", "*Banca Nazionale del Lavoro S.p.A.*", "*Loan Servicing and Collection Procedures*" and "*Mortgage Products, Origination and Underwriting Process*" has been compiled by reference to information provided by BNL. The information set out in the sections entitled "*The Royal Bank of Scotland plc*" has been compiled by reference to information provided by RBS.
9. The estimated annual fees and expenses payable by the Issuer in connection with the transaction described herein excluding the Servicing Fee and the Recovery Expenses amount to approximately euro 200,000.
10. Copies of the following documents will be available for inspection, and in the case of the financial reports referred to in 10(b) below for collection, during usual office hours on any weekday at the principal office of the Luxembourg Agent:
  - (a) the *statuto* and *atto costitutivo* of the Issuer;
  - (b) the latest annual and semi-annual audited financial reports of BNL and the latest annual financial reports of the Issuer. No interim financial statements will be produced by the Issuer;
  - (c) the Senior Notes Subscription Agreement;

- (d) the Class D Notes Subscription Agreement; and
- (e) the following documents (and the English translations thereof, where applicable):
  - (i) the Agency Agreement;
  - (ii) the Bank Account Guarantee;
  - (iii) the Cash Management Agreement;
  - (iv) the Corporate Services Agreement;
  - (v) the Deed of Charge;
  - (vi) the Intercreditor Agreement;
  - (vii) the Interest Rate Swap;
  - (viii) the Luxembourg Pledge Agreement;
  - (ix) the Pledge Agreement;
  - (x) the Transfer Agreement;
  - (xi) the Servicing Agreement;
  - (xii) the Shareholders Agreement; and
  - (xiii) the Liquidity Facility.

11. In connection with the application to list the Senior Notes on the Luxembourg Stock Exchange, the *statuto* and *atto costitutivo* (by-laws) of the Issuer and the legal notice relating to the issue of the Senior Notes have been lodged with the companies and commerce register (*registre de commerce et des sociétés*) where such documents may be examined and copies thereof may be obtained on request.

## GLOSSARY OF TERMS

**Accrued Interest** means, as of any relevant date and in relation to any Mortgage Loan Receivable that is not classified as a Defaulted Mortgage Loan or as a Delinquent Mortgage Loan, the portion of the Interest Instalment falling due on the next Scheduled Instalment Date which has accrued as at that date;

**Additional Mortgage Loan Receivables** means the Mortgage Loan Receivables which, despite not arising from agreements listed in Exhibit 3.5 as updated by virtue of the provisions of the Transfer Agreement, satisfy the Criteria;

**Agency Agreement** means the agency agreement entered into on or prior to the Issue Date between the Issuer, the Principal Paying Agent, the Luxembourg Agent and the Representative of the Noteholders;

**Annual Defaults Level** means, as at any Collection Date, the ratio between (a) the aggregate outstanding principal amount of any Defaulted Mortgage Loan which defaulted during the four most recent Collection Periods; and (b) the average of the principal amount of all performing Mortgage Loans outstanding at the beginning of each of such four Collection Periods;

**Available Capital Funds** means, for each Class of Notes, as at any Calculation Date preceding each Payment Date falling after the expiry of the Initial Period and prior to the service of an Enforcement Notice or the occurrence of an Issuer Insolvency Event, the aggregate amount of Principal Available Funds, as determined on such Calculation Date less the amounts required pursuant to Condition 5 to be paid in priority to the repayment of principal, in respect of the relevant Class of Notes;

**Bank Account Guarantee** means the 364 day guarantee issued by the Bank Account Guarantee Provider on or prior to the Issue Date guaranteeing the payment obligations of the Italian Operating Bank to the Issuer, in respect of the amounts standing on the Issuer Collection Account from time to time as may be received from time to time;

**Bank Account Guarantee Provider** means the entity as may be appointed from time to time as bank account guarantee provider under the Bank Account Guarantee, which is, at the Issue Date, RBS Milan Branch;

**Bank of Italy Instructions** means the *Istruzioni di Vigilanza per le Banche* and, any other regulation issued by the Bank of Italy and applicable to banks;

**Basic Terms Modification** has the meaning provided in Senior Condition 13(d);

**BNL** means Banca Nazionale del Lavoro S.p.A.;

**Borrower** means in relation to each Mortgage Loan Receivable, each person which has entered into the Mortgage Loan Agreement under which such Mortgage Loan Receivable arises as a borrower thereunder or any successor to such person;

**Business Day** means a day (other than a Saturday and a Sunday) on which the Trans-European Automated Real Time Gross Settlement Express Transfer (TARGET) System (or any successor thereto) is open for business;

**Calculation Agent** means the person appointed from time to time as calculation agent under the Cash Management Agreement, which is, as at the Issue Date, Securitisation Services S.p.A.;

**Calculation Date** means the date falling four Business Days prior to any Payment Date;

**Cash Reserve Amount** means (i) on each Payment Date on which the Principal Amount Outstanding of the Senior Notes is *equal to* or *in excess* of 50 per cent. of the Principal Amount Outstanding of the Senior Notes as of the Issue Date, an amount equal to 0.50 per cent. of the Principal Amount Outstanding of the Senior Notes as of the Issue Date; and (ii) on each Payment Date in which the Principal Amount Outstanding of the Senior Notes is *less* than 50 per cent. of the Principal Amount Outstanding of the Senior Notes as of the Issue Date, an amount equal to 0.25 per cent. of the Principal Amount Outstanding of the Senior Notes as of the Issue Date, provided that should the Senior Notes be redeemed in full or should a Credit Trigger Event occur, the Cash Reserve Amount shall always be zero;

**Cash Management Agreement** means the cash management agreement to be entered into on or prior to the Issue Date between the Issuer, the Operating Banks, the Calculation Agent and the Representative of the Noteholders;

**Class A Noteholders** means together the Class A1 Noteholders and the Class A2 Noteholders;

**Class A1 Noteholders** means the persons who are, for the time being, the holders of the Class A1 Notes, or any of them;

**Class A2 Noteholders** means the persons who are, for the time being, the holders of the Class A2 Notes, or any of them;

**Class A Notes** means together the Class A1 Notes and the Class A2 Notes;

**Class A1 Notes** means the euro 507,150,000 Class A1-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028 issued by the Issuer in connection with the Securitisation;

**Class A2 Notes** means the euro 706,800,000 Class A2-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028 issued by the Issuer in connection with the Securitisation;

**Class B Noteholders** means the persons who are, for the time being, the holders of the Class B Notes, or any of them;

**Class B Notes** means the euro 15,850,000 Class B-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028 issued by the Issuer in connection with the Securitisation;

**Class B Trigger Event** occurs upon the Unpaid Principal Deficiency having exceeded 9 per cent.;

**Class C Noteholders** means the persons who are, for the time being, the holders of the Class B Notes, or any of them;

**Class C Notes** means the euro 31,700,000 Class C-Series 2 Residential Mortgage Backed Floating Rate Notes due 2028 issued by the Issuer in connection with the Securitisation;

**Class C Trigger Event** occurs upon the Unpaid Principal Deficiency having exceeded 7.5 per cent.;

**Class D Conditions** means the terms and conditions of the Class D Notes as from time to time amended in accordance therewith;

**Class D Noteholders** means the persons who are, for the time being, the holders of the Class D Notes, or any of them and, as at the Issue Date, the Class D Note Subscriber;

**Class D Notes** means the euro 7,250,000 Class D-Series 2 Residential Mortgage Backed Variable Return Notes due 2028 issued by the Issuer in connection with the Securitisation;

**Class D Notes Subscriber** means BNL;

**Class D Notes Subscription Agreement** means the subscription agreement for the Class D Notes entered into on 15 April 2004 between the Issuer, the Class D Notes Subscriber and the Representative of the Noteholders;

**Class D Trigger Event** occurs upon any and each of the following events having occurred:

- (a) the Annual Defaults Level has exceeded 2.2 per cent.; or
- (b) the Unpaid Principal Deficiency has exceeded 2 per cent.; or
- (c) the Delinquency Level has exceeded 8 per cent.;

**Class of Notes** means the Class A1 Notes, the Class A2 Notes, the Class B Notes, the Class C Notes or the Class D Notes, as the case may be;

**Clean-Up Option Date** means the Payment Date immediately following the Collection Date in which the aggregate principal amount outstanding of the Portfolio is equal to or less than 10 per cent. of the Initial Principal Amount of the Mortgage Loans;

**Clearstream, Luxembourg** means Clearstream Banking, société anonyme, a limited liability company organised under Luxembourg law;

**Collateral Portfolio** means, on any given date the sum of all Outstanding Principal of all the Mortgage Loan Receivables that are not classified as Defaulted Mortgage Loans, plus (i) the sum of the Unpaid Principal Instalments for all Mortgage Loan Receivables in arrear that are not Delinquent Mortgage Loans; and (ii) the Accrued Interest as of that date;

**Collateral Security** means any guarantee or security (*garanzia personale o reale*) (other than a Mortgage), granted, or existing in any other way, to BNL in order to secure or guarantee:

- (a) the repayment of the Mortgage Loans Receivables; and
- (b) the obligations arising under the Mortgage Loan Agreements;

**Collection Date** means 31 March, 30 June, 30 September and 31 December of each year;

**Collection Period** means each period commencing on (and excluding) a Collection Date and ending on (and including) the next succeeding Collection Date but, in the case of the first Collection Period, the period commencing on, and including, the Effective Date and ending on, and including, 30 June 2004;

**Collections** means all cash amounts received by the Servicer in relation to the Mortgage Loan Receivables, the Mortgages and the related Collateral Security;

**Conditions** means the Senior Conditions and/or the Class D Conditions, as the context may require;

**Commitment Fee** means the fee due to the Liquidity Facility Provider pursuant to the Liquidity Facility;

**Connected Third Party Creditor** means any creditor of the Issuer (other than the Issuer Secured Creditors and the Managers) in respect of costs, fees, expenses or other amounts (including taxes) incurred by the Issuer to such creditor or required by law to be paid to such creditor in each case in connection with the Securitisation and including any amounts payable to maintain the rating and listing of the Senior Notes and comply with applicable law;

**CONSOB** means the *Commissione Nazionale per la Società e la Borsa*;

**Corporate Services Agreement** means the *contratto di gestione amministrativa* to be entered into on 16 April between the Corporate Servicer and the Issuer whereby the Corporate Servicer has agreed to provide certain administrative and accounting services to the Issuer;

**Corporate Servicer** means the person appointed as corporate administrator from time to time under the Corporate Services Agreement and, as at the Issue Date, Securitisation Services S.p.A.;

**Credit and Collection Policies** means the procedures for the collection and recovery of Mortgage Loan Receivables, as set out in schedule 4.1(b) to the Servicing Agreement as amended from time to time in accordance with the Servicing Agreement;

**Credit Trigger Event** means any of the Class B Trigger Event, the Class C Trigger Event or the Class D Trigger Event, as applicable;

**Criteria** means the criteria set out in the Transfer Agreement on the basis of which the Mortgage Loan Receivables, and the Mortgage Loan Agreements from which they arise, are identified as a “block” pursuant to Articles 1 and 4 of the Securitisation Law;

**Deed of Charge** means the deed of charge entered into on or prior to the Issue Date between the Issuer and the Representative of the Noteholders for itself and as agent for all the Issuer Secured Creditors;

**Defaulted Mortgage Loan** means any Mortgage Loan which;

- (a) has been classified as Delinquent Mortgage Loan for more than six months of which the unpaid amount for the first unpaid instalment exceeds euro 50.00; or
- (b) which has been classified as a “defaulted loan” (*credito in sofferenza*) pursuant to the Bank of Italy Instructions,

whichever comes first;

**Deferred Interest Amount** has the meaning given in Senior Condition 6(h);

**Delinquency Amount** means in relation to any Delinquent Mortgage Loan any principal amount which has not been paid when due;

**Delinquency Level** means as at any Collection Date, the ratio, expressed as a percentage, between:

- (a) the aggregate Outstanding Principal of all Delinquent Mortgage Loans that are not Defaulted Mortgage Loans as at such Collection Date; and
- (b) the outstanding principal amount of the Mortgage Loans as at such Collection Date;

**Delinquent Mortgage Loan** means on each Collection Date any Mortgage Loan in respect of which the instalments have not been paid between 30 and 180 calendar days of the respective due dates relating thereto and are outstanding on the relevant Collection Date;

**Effective Date** means 22 March 2004;

**Eligible Institution** means any bank approved by the Representative of the Noteholders with a short-term rating for its unsecured, unsubordinated and unguaranteed debt obligations equal or higher than P-1 from Moody's and A1+ from S&P and with a long-term rating for its unsecured, unsubordinated and unguaranteed debt obligations equal or higher than A1 from Moody's;

**Enforcement Event** has the meaning given in Senior Condition 11;

**Enforcement Notice** means a notice served by the Representative of the Noteholders on the Issuer pursuant to Senior Condition 11(b) declaring the Senior Notes to be due and payable in full following the occurrence of an Enforcement Event;

**Enforcement Priority of Payments** means the priority of payments set out in Senior Condition 5.4;

**EONIA** means the rate of interest for overnight deposits as calculated by the European Central Bank;

€ or **euro** and the sub-division thereof **cents**, means the single currency introduced in the member States of the European Community which was adopted in accordance with the Treaty of Rome of 25 March 1957, as amended by, *inter alia*, the Single European Act 1986, the Treaty of European Union of 7 February 1992, establishing the European Union and the European Council of Madrid of 16 December 1995;

**Euribor** has the meaning attributed thereto in Condition 6(b)(ii) of each Class of Notes;

**Euroclear** means Euroclear Bank S.A./N.V., as operator of the Euroclear system;

**Euro-zone** means the region comprised of member States of the European Union that adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25 March 1957) as amended by the Treaty on European Union (signed in Maastricht on 7 February 1992);

**Excluded Mortgage Loan Receivable** means each Mortgage Loan Receivable which, although arising from a Mortgage Loan Agreement listed in Exhibit 3.5 as updated by virtue of the provisions of the Transfer Agreement, does not satisfy the Criteria;

**Expenses Account** means an account in the name of the Issuer held with Banca Popolare Antoniana Veneta S.p.A., Conegliano Branch, for the deposit of the Issuer Maintenance Corporate Advance retained by the Issuer in accordance with the relevant Priority of Payments;

**Further Securitisation** means the purchase and securitisation by the Issuer of further monetary claims by way of a separate transaction in addition to the Portfolio;

**Instalment** means with respect to each Mortgage Loan Agreement, each instalment due from the relevant Borrower thereunder and which consists of an Interest Instalment and a Principal Instalment;

**Individual Purchase Price** means the portion of the Purchase Price allocated to a particular Mortgage Loan Receivable as set out in the Transfer Agreement;

**Initial Expenses Amount** means euro 913,743.12;

**Initial Interest Accrued Amount** means euro 8,463,068.14;

**Initial Period** means the period commencing on (and including) the Issue Date and ending on (and excluding) the date falling 18 calendar months after the Issue Date;

**Initial Principal Amount of the Mortgage Loans** means euro 1,259,373,188.74;

**Insolvency Proceedings** means bankruptcy (*fallimento*) or any other insolvency (*procedura concorsuale*) or analogous proceedings from time to time, including, but not limited to an arrangement with creditors prior to bankruptcy (*concordato preventivo*), an adjustment of creditors' claims (*concordato fallimentare*), temporary receivership (*amministrazione controllata*), compulsory administrative liquidation (*liquidazione coatta amministrativa*), extraordinary administration (*amministrazione straordinaria*) and the extraordinary administration of large companies in a state of insolvency (*amministrazione straordinaria delle grandi imprese in crisi o in stato di insolvenza*);

**Insurance Policies** means any policies of insurance taken out in connection with or as a condition of, the making of a Mortgage Loan or Real Estate Asset, including without limitation, policies in respect of which the insured rights include the death of any Borrower or Surety, if any, or any damage to any Real Estate Assets subject to any Mortgage;

**Intercreditor Agreement** means the intercreditor agreement to be entered into on the Issue Date between, *inter alios*, the Issuer, the Representative of the Noteholders (for itself and in the name and on behalf of the Noteholders of each Class of Notes), the Principal Paying Agent, the Luxembourg Agent, the Servicer, the Originator, the Italian Operating Bank, the Main Operating Bank, the Liquidity Facility Provider and the Swap Counterparty, as from time to time amended in accordance therewith;

**Interest Available Funds** means in respect of any Payment Date, the aggregate of:

- (a) all Interest Receipts in respect of the preceding Collection Period;
- (b) any amount received by the Issuer on the immediately preceding Swap Payment Date pursuant to the Interest Rate Swap;
- (c) any amount retained in the Issuer Main Account as Cash Reserve Amount; and
- (d) any Liquidity Facility Drawn Amount;

**Interest Determination Date** means, in relation to an Interest Period, the second Business Day prior to the Payment Date on which such Interest Period commences save in relation to the Initial Interest Period in respect of which the relevant Interest Determination Date will be the second Business Day prior to the Issue Date;

**Interest Instalment** means, the interest component of each Instalment;

**Interest Payment Amount** has the meaning given in Senior Condition 6 (c)(ii);

**Interest Period** means each period from (and including) a Payment Date to (but excluding) the next following Payment Date, provided that the first Interest Period (the "**Initial Interest Period**") shall begin on (and include) the Issue Date and end on (but exclude) the Payment Date falling in July 2004;

**Interest Priority of Payments** means the priority of payments set out in Senior Condition 5.1;

**Interest Rate Swap** means the interest rate swap agreement entered into on or prior to the Issue Date between the Issuer and the Swap Counterparty including the ISDA Master Agreement and any confirmation entered into pursuant thereto and any guarantee given from time to time in respect of the Swap Counterparty's obligations thereunder;

**Interest Receipts** means in respect of any Collection Period:

- (a) all amounts collected by the Servicer in respect of the Mortgage Loans Receivables which qualify as interest, default interest, fees and pre-payment penalties and transferred to the Issuer Main Account as at the Quarterly Report Date falling after the end of such Collection Period;
- (b) all Recoveries transferred to the Issuer Main Account;
- (c) all amounts of net interest accrued on the Issuer Main Account, on the Issuer Collection Account, on the Principal Paying Agent Account and credited to the Issuer Main Account; and
- (d) all other items and payments received by the Issuer which do not qualify as Principal Receipts credited to the Issuer Main Account;

less, in relation to each Collection Period, an amount equal to the Accrued Interest as of the first date of such Collection Period (which shall be added to the Principal Receipts);

plus, in relation to each Collection Period, an amount equal to the Accrued Interest as of the last date of such Collection Period (which shall be taken from the Principal Receipts); and

provided that in case of the first Collection Period an amount equal to the Initial Interest Accrued Amount and an amount equal to the Initial Expenses Amount shall be subtracted from the Interest Receipts and shall be added to the Principal Receipts;

**Investors' Report** means the report which the Calculation Agent is required to deliver pursuant to the Cash Management Agreement containing information relating to the Portfolio, the Collections and the Notes;

**Issue Date** means the date on which the Notes are issued;

**Issuer** means Vela Home S.r.l.;

**Issuer Accounts** means the Issuer Main Account, the Issuer Collection Account, the Expenses Account and the Principal Paying Agent Account;

**Issuer Collection Account** means the account in the name of the Issuer held at the Branch of Via Bissolati, Rome, of the Italian Operating Bank for the deposit of all amounts received from the Servicer pursuant to the Servicing Agreement;

**Issuer Insolvency Event** has the meaning given to it in Senior Condition 11(c);

**Issuer Main Account** means a euro denominated account in the name of the Issuer held at BNP Paribas, Luxembourg Branch, as at the Issue Date or, subsequently at a branch in Luxembourg of an Eligible Institution;

**Issuer Maintenance Corporate Advance** means the aggregate of: (i) an amount of euro 2,500 to be retained by the Issuer on each Payment Date in the Expenses Account up to an aggregate total amount of euro 40,000; and (ii)  $A \div B$ ; where A is equal to: all costs and expenses incurred by the Issuer in the day to day running of its business and for the preservation of its corporate existence which are not specifically related to the Securitisation and which are due and payable on such Payment Date or will be due and payable before the following Payment Date, including, without limitation, the fees, costs, expenses and all other amounts then due and payable to directors, statutory auditors, external auditors and accountants and B is equal to the number of existing securitisation transactions entered into by the Issuer from time to time;

**Issuer Secured Creditors** means the Noteholders, the Representative of the Noteholders, the Principal Paying Agent, the Luxembourg Agent, the Servicer, the Originator, the Italian Operating Bank, the Main Operating Bank, the Liquidity Facility Provider, the Calculation Agent, the Corporate Servicer, the Swap Counterparty and the Swap Calculation Agent;

**Issuer Security** means the Security Interest created under the Pledge Agreement, the Luxembourg Pledge Agreement and the Deed of Charge or from time to time granted to the Issuer Secured Creditors as security for or guaranteeing any obligations of the Issuer under the Transaction Documents and the Conditions;

**Italian Banking Act** means Italian Legislative Decree No. 385 of 1 September 1993;

**Italian Operating Bank** means the entity appointed as Italian Operating Bank from time to time under the Cash Management Agreement and, as at the Issue Date, BNL;

**ITL** or **Italian Lire** means Italian lire, the lawful currency of the Republic of Italy prior to 1 January 1999;

**Joint Lead Manager** means each of Banca Nazionale del Lavoro S.p.A. and RBS;

**Law 239** means Italian Legislative Decree No. 239 of 1 April 1996 (as amended and supplemented);

**Law 239 Withholding** means any withholding or deduction for or on account of “*imposta sostitutiva*” under Law 239;

**Legal Maturity Date** means the Payment Date falling in July 2028;

**Liquidity Facility** means the liquidity facility agreement entered into on or prior to the Issue Date between the Issuer, the Liquidity Facility Provider and the Representative of the Noteholders;

**Liquidity Facility Available Commitment** means euro 35 million;

**Liquidity Facility Drawdown Date** means two Business Days prior to each Payment Date;

**Liquidity Facility Drawn Amount** means any amount to be advanced at the relevant Liquidity Facility Drawdown Date to cover a Shortfall as determined at the relevant Calculation Date;

**Liquidity Facility Expiry Date** means the date that is 364 days from the date of execution of the Liquidity Facility and any extension of such date as provided in the Liquidity Facility;

**Liquidity Facility Final Date** means the Payment Date on which the Senior Notes will be redeemed in full;

**Liquidity Facility Provider** means the institution, acting through its Italian branch, acting from time to time as liquidity facility provider under the Liquidity Facility, which is, as at the Issue Date, RBS Milan Branch;

**Liquidity Facility Reserve Account** means an account opened in the name of the Issuer with the Reserve Account Bank into which the Liquidity Facility Reserve Advance will be credited;

**Liquidity Facility Reserve Advance** means the amount credited on the Liquidity Facility Reserve Account pursuant to Clause 3.3 of the Liquidity Facility;

**Liquidity Facility Revolving Advance** means the amount advanced by the Liquidity Facility Provider pursuant to clause 3.1 of the Liquidity Facility;

**Loan Servicing and Collection Procedures** means the procedures for the collection and recovery of Mortgage Loan Receivables, as set out in schedule 4.1(b) to the Servicing Agreement as amended from time to time in accordance with the Servicing Agreement;

**Luxembourg Agent** means the entity appointed as Luxembourg Agent from time to time under the Agency Agreement and, as at the Issue Date, BNP Paribas Securities Services, Luxembourg Branch;

**Luxembourg Pledge Agreement** means the pledge agreement governed by Luxembourg law over the amounts from time to time standing to the credit of the Issuer Main Account to be entered into on or prior to the Issue Date between the Issuer and the Representative of the Noteholders for itself and as agent for all the Issuer Secured Creditors;

**Main Operating Bank** means any Eligible Institution, in Luxembourg with which the Issuer Main Account is maintained and, as at the Issue Date, BNP Paribas, Luxembourg Branch;

**Managers** means together the Joint Lead Managers;

**Monte Titoli** means Monte Titoli S.p.A.;

**Monte Titoli Account Holders** means any authorised financial intermediary institution entitled to hold accounts on behalf of its customers with Monte Titoli;

**Monthly Report** means the report which the Servicer is required to deliver pursuant to clause 9.2 of the Servicing Agreement;

**Monthly Report Date** means the 13th day of each calendar month (or if such day is not a Business Day, the next succeeding Business Day) provided that in the case of the Monthly Report Date falling in the month in which there is also a Payment Date, the Monthly Report Date shall be constituted by the relevant Quarterly Report Date falling in such month and in the case of the first Monthly Report Date means 14 June 2004;

**Moody's** means Moody's Investors Service Inc. or any successor thereto;

**Mortgage** means any Italian law *ipoteca* created pursuant to a Mortgage Loan Agreement in respect of a Real Estate Asset;

**Mortgage Deed** means each instrument providing for the granting of a security in the form of an Italian law *ipoteca*;

**Mortgage Loan** means each mortgage loan granted to a Borrower, on the basis of a Mortgage Loan Agreement pursuant to which the Issuer has a Mortgage Loan Receivable (or portion thereof) in respect of the Borrower;

**Mortgage Loan Agreement** means each mortgage loan agreement identifiable on the basis of the Criteria;

**Mortgage Loan Receivable** means all rights and claims of the Issuer in relation to a Mortgage Loan Agreement existing or arising from (and excluding) the Effective Date including, without limitation:

- (a) all rights and claims in relation to the repayment of the outstanding principal;
- (b) all rights and claims in relation to the payment of interest (including default interest) accrued on the Mortgage Loans and not collected up to (but excluding) the Effective Date;
- (c) all rights and claims in relation to the payment of interest (including default interest) accruing on the Mortgage Loans from (and including) the Effective Date;
- (d) all rights and claims in relation to payment of any amount in respect of damages suffered and costs, expenses, taxes and ancillary amounts incurred;

together with:

- (i) all rights and claims in relation to each Mortgage and the Collateral Security relating to the relevant Mortgage Loan Agreement;
- (ii) all rights and claims under and in respect of the Insurance Policies; and
- (iii) the privileges and priority rights (*cause di prelazione*) transferable pursuant to the Securitisation Law supporting the aforesaid rights and claims, as well as any other rights, claims and actions (including any action for damages), substantial and procedural action and defences inherent or otherwise ancillary to the aforesaid rights and claims including, without limitation, the remedy of termination (*risoluzione per inadempimento*) and the right to declare the Borrowers and the Sureties *decaduti dal beneficio del termine*;

and **Mortgage Loan Receivables** means all of them;

**Most Senior Class of Notes** means:

- (i) if any Class A1 Notes are outstanding and provided that the Relevant Collection Date as defined in Senior Condition 5.2 (a) has not occurred, the Class A1 Notes;
- (ii) if any Class A1 Notes and Class A2 Notes are outstanding and the Relevant Collection Date as defined in Senior Condition 5.2(a) has occurred, *pari passu* and *pro rata* the Class A1 Notes and the Class A2 Notes;
- (iii) if any Class A2 Notes are outstanding, and no Class A1 Notes are outstanding, the Class A2 Notes;
- (iv) if any Class B Notes are outstanding and no Class A Notes are outstanding, the Class B Notes;
- (v) if any Class C Notes are outstanding and no Class A Notes and Class B Notes are outstanding, the Class C Notes; and
- (vi) if any Class D Notes are outstanding and no Senior Notes are outstanding, the Class D Notes;

**Noteholders** means the Senior Noteholders and/or the Class D Noteholders, as the context may require;

**Notes** means the Class A1 Notes, the Class A2 Notes, the Class B Notes, the Class C Notes, and the Class D Notes, or any of them;

**Offering Circular** means this Offering Circular in respect of the Senior Notes;

**Operating Banks** means the Italian Operating Bank, the Main Operating Bank and the Principal Paying Agent;

**Originator** means BNL;

**Outstanding Principal** means, on any given date and in relation to any Mortgage Loan Receivable, the sum of all Principal Instalments due on any subsequent Scheduled Instalment Date;

**Payment Date** means 27 January, 27 April, 27 July and 27 October in each year or if such day is not a Business Day, the immediately succeeding Business Day provided that the first Payment Date will be the Payment Date falling in July 2004;

**Payments Report** means the report prepared by the Calculation Agent pursuant to the Cash Management Agreement determining the allocation of the Interest Available Funds and Principal Available Funds, on each Payment Date;

**Pledge Agreement** means the pledge agreement to be entered into on or prior to the Issue Date between the Issuer and the Representative of the Noteholders for itself and as agent for all the Issuer Secured Creditors;

**Portfolio** means the portfolio of Mortgage Loan Receivables purchased by the Issuer from the Originator pursuant to the Transfer Agreement;

**Potential Capital Funds** means in respect of each Class at any Calculation Date preceding a Payment Date occurring during the Initial Period, the amount of the Principal Available Funds to be retained in the Issuer Main Account as provision for the redemption of the Notes and recorded in the Potential Capital Funds Ledger in respect of that Class on the immediately succeeding Payment Date in accordance with Senior Condition 5.2;

**Potential Capital Funds Ledger** means the ledger maintained by the Calculation Agent, on which the aggregate Potential Capital Funds in respect of each Class shall be recorded;

**Principal Amount Outstanding** of a Note or a Class of Notes on any date shall be the principal amount of such Note or Class of Notes upon issue less the aggregate amount of all principal payments in respect of that Note or Class of Notes that have been paid prior to such date;

**Principal Available Funds** means, in respect of any Payment Date, the aggregate of:

- (a) Principal Receipts in respect of the preceding Collection Period;
- (b) any Interest Available Funds to be credited to the Principal Deficiency Ledger on such Payment Date pursuant to Senior Condition 5.1(h);
- (c) on the Payment Date immediately following the expiry of the Initial Period only, any Potential Capital Funds which had been retained by the Issuer in the Issuer Main Account and recorded in the Potential Capital Funds Ledger during the Initial Period in accordance with Senior Condition 5.2;
- (d) following the occurrence of a Credit Trigger Event any Interest Available Funds to be applied as Principal Available Funds on such Payment Date in accordance with the Principal Priority of Payments pursuant to Senior Condition 5.1 (f), (g) and (j); and
- (e) all amounts received from the sale of all or part of the Portfolio should such sale occur;

**Principal Deficiency Ledger** shall be a ledger maintained by the Calculation Agent, which shall be established by or on behalf of the Issuer in order to record any Defaulted Mortgage Loans and any Delinquency Amount in respect of any Delinquent Mortgage Loan in accordance with the provisions of Senior Condition 5.3;

**Principal Instalment** means the principal component of each Instalment;

**Principal Paying Agent** means the person appointed as Principal Paying Agent from time to time under the Agency Agreement and, as at the Issue Date, BNP Paribas Securities Services, Milan Branch;

**Principal Paying Agent Account** means a euro denominated account in the name of the Issuer held at BNP Paribas Securities Services, Milan Branch for the deposit from time to time of all amounts required to be paid to the Noteholders;

**Principal Payment** has the meaning given to it in Senior Condition 7(b)(iii);

**Principal Priority of Payments** means the priority of payments set out in Senior Condition 5.2;

**Principal Receipts** means in respect of any Collection Period:

- (a) all amounts collected by the Servicer in respect of principal under the Mortgage Loan Receivables, excluding Recoveries, and transferred to the Issuer Main Account as at the Quarterly Report Date falling after the end of such Collection Period; and
- (b) all amounts received by the Issuer from the Originator pursuant to the Transfer Agreement and credited to the Issuer Main Account and which do not qualify as Interest Receipts;

plus, in relation to each Collection Period, an amount equal to the Accrued Interest as of the first date of such Collection Period (which shall be taken from the Interest Receipts);

less, in relation to each Collection Period, an amount equal to the Accrued Interest as of the last date of such Collection Period (which shall be added to the Interest Receipts); and

provided that in case of the first Collection Period an amount equal to the Initial Interest Accrued Amount and an amount equal to the Initial Expenses Amount shall be subtracted from the Interest Receipts and shall be added to the Principal Receipts;

**Priority of Payments** means each of the Interest Priority of Payments, the Principal Priority of Payments and the Enforcement Priority of Payments;

**Prior Securitisation** means the securitisation transaction entered into by the Issuer on 30 April 2003 through the issue of five classes of notes;

**Purchase Price** means the amount of euro 1,267,836,256.88;

**Quarterly Report** means the report which the Servicer is required to deliver pursuant to the Servicing Agreement;

**Quarterly Report Date** means the date falling seven Business Days prior to any Payment Date;

**Rate of Interest** means the rate of interest applicable to the Notes calculated as provided in Senior Condition 6(b);

**Rating Agencies** means S&P and Moody's;

**Rating Event** means the Liquidity Facility Provider ceasing to be an Eligible Institution;

**RBS** means The Royal Bank of Scotland plc;

**RBS Milan Branch** means The Royal Bank of Scotland plc, Milan Branch;

**Real Estate Asset** means any real property over which a Mortgage has been granted in order to secure the repayment of any loan and the performance of the obligations arising pursuant to the relevant Mortgage Loan Agreement;

**Recoveries** means any amounts received or recovered by the Servicer in relation to any Defaulted Mortgage Loans and any Delinquency Amount received or recovered by the Servicer in relation to any Delinquent Mortgage Loans;

**Recovery Expenses** means any costs and expenses incurred by the Servicer in the management of the recovery proceedings in relation to the Mortgage Loans;

**Reference Banks** means the London branch of four major banks appointed by the Issuer subject to the consent of the Representative of the Noteholders, which are, as at the Issue Date, RBS, Citibank, N.A., Deutsche Bank A.G. and Sanpaolo IMI S.p.A.;

**Relevant Margin** means:

- (a) 0.12 per cent. per annum up to and including the Clean-Up Option Date and thereafter 0.24 per cent., per annum, in each case in respect of the Class A1 Notes;
- (b) 0.18 per cent. per annum up to and including the Clean-Up Option Date and thereafter 0.36 per cent., per annum, in each case in respect of the Class A2 Notes;
- (c) 0.36 per cent. per annum up to and including the Clean-Up Option Date and thereafter 0.72 per cent., per annum, in each case in respect of the Class B Notes; and
- (d) 1.10 per cent. per annum up to and including the Clean-Up Option Date and thereafter 2.20 per cent., per annum, in each case in respect of the Class C Notes;

**Representative of the Noteholders** means the person appointed as Representative of the Noteholders from time to time under the Subscription Agreements and the relevant Conditions and, as at the Issue Date, Finanziaria Internazionale Securitisation Group S.p.A.;

**Reserve Account Bank** means a bank which qualifies as an Eligible Institution where the Liquidity Facility Reserve Advance will be credited pursuant to the Liquidity Facility;

**Resolution No. 11768** means Resolution No. 11768 of 23 December 1998 of *Commissione Nazionale per la Società e la Borsa* (CONSOB), as amended;

**S&P** means Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. or any successor thereto;

**Scheduled Instalment Date** means any date on which payment is due pursuant to each Mortgage Loan Agreement;

**Screen Rate** has the meaning given in Senior Condition 6(b)(ii)(A);

**Securitisation** means the securitisation of the Mortgage Loans Receivables by the Issuer pursuant to the Transaction Documents and the issue of the Notes in accordance with the Securitisation Law;

**Securitisation Law** means Law No. 130 of 30 April 1999 as published in the Italian Official Gazette No. 111 of 14 May 1999 (*legge sulla cartolarizzazione dei crediti*) and the relevant implementing regulations, as amended, supplemented and integrated from time to time;

**Security Interest** means any mortgage, charge, pledge, lien, right of set-off, special privilege (*privilegio speciale*), assignment by way of security, retention of title or any other security interest whatsoever or any other agreement or arrangement having the effect of conferring security;

**Senior Conditions** means the terms and conditions of the Senior Notes in the form contained in this Offering Circular as from time to time amended in accordance therewith;

**Senior Creditors** means the Representative of the Noteholders, the Principal Paying Agent, the Luxembourg Agent, the Calculation Agent, the Main Operating Bank, the Italian Operating Bank, the Servicer, the Swap Calculation Agent and the Corporate Servicer;

**Senior Noteholders** means the Class A1 Noteholders, the Class A2 Noteholders, the Class B Noteholders and the Class C Noteholders;

**Senior Notes** means the Class A1 Notes, the Class A2 Notes, the Class B Notes and the Class C Notes;

**Senior Notes Subscription Agreement** means the subscription agreement for the Senior Notes dated 15 April 2004 between the Issuer, the Representative of the Noteholders, the Originator and the Managers;

**Servicer** means the person appointed as Servicer from time to time under the Servicing Agreement and, as at the Issue Date, BNL;

**Servicing Agreement** means the servicing agreement entered into on 23 March 2004 between the Servicer and the Issuer;

**Servicing Fees** means the quarterly fee payable by the Issuer to the Servicer pursuant to the Servicing Agreement for the provision by the Servicer of the services provided for under the Servicing Agreement;

**Shareholders Agreement** means together the shareholders agreement entered into on 30 April 2003 and the amendment agreement to the shareholders agreement to be entered into on or prior to the Issue Date between, *inter alios*, the shareholders of the Issuer, the Issuer and the Representative of the Noteholders;

**Shortfall** means, on any Calculation Date, an amount equal to the positive difference between:

- (a) the amounts to be paid by the Issuer on the next Payment Date in order to satisfy in full its payment obligations as set out under items (a) to (g) (inclusive) of Senior Condition 5.1 prior to the occurrence of a Class C Trigger, items (a) to (f) (inclusive) of Senior Condition 5.1 after the occurrence of a Class C Trigger but prior to the occurrence of a Class B Trigger, and items (a) to (e) (inclusive) of Senior Condition 5.1 after the occurrence of a Class B Trigger; and

- (b) the Interest Available Funds in relation to the next Payment Date (excluding any Liquidity Facility Revolving Advance to be made on the Liquidity Facility Drawdown Date preceding such Payment Date);

**Sole Arranger** means Banca Nazionale del Lavoro S.p.A.;

**Specified Event** means, with respect to the rights of the Issuer arising out of a specific Transaction Document, the combination of:

- (i) the Issuer's failure to exercise or enforce any of the rights, entitlements or remedies, to exercise any discretion, authorities or powers, to give any direction or make any determination which may be available to the Issuer under the Transaction Documents; and
- (ii) the expiry of 15 Business Days after the date on which the Representative of the Noteholders may have given notice to the Issuer requesting the Issuer to exercise or enforce any such rights, entitlements or remedies, to exercise any such discretions, authorities or powers, to give any such direction or to make any such determination;

**Stock Exchange** means the Luxembourg Stock Exchange;

**Subscription Agreements** means the Senior Notes Subscription Agreement and the Class D Notes Subscription Agreement;

**Surety** means any person, other than the Borrowers, who has granted a Collateral Security or has undertaken the obligations of a Borrower arising under a Mortgage Loan Agreement whether pursuant to that Mortgage Loan Agreement or to a Collateral Security document and Sureties shall be construed accordingly;

**Swap Calculation Agent** means the person appointed from time to time as calculation agent under the Interest Rate Swap, which is, at the Issue Date Banca Nazionale del Lavoro S.p.A.;

**Swap Counterparty** means the entity appointed as Swap Counterparty from time to time under the Interest Rate Swap and, as at the Issue Date, RBS together with any guarantor or co-obligor of any of the Swap Counterparty's obligations to the Issuer from time to time;

**Swap Payment Date** means each Payment Date for the payments from the Issuer to the Swap Counterparty and two Business Days prior to each Payment Date for the payments from the Swap Counterparty to the Issuer;

**Swap Payment Report** means a swap payment report in relation to the Interest Rate Swap to be prepared by the Swap Calculation Agent at least six Business Days prior to the relevant Payment Date;

**Swap Unwind Costs** means all costs associated with the termination of the Interest Rate Swap;

**Transaction Documents** means the Agency Agreement, the Cash Management Agreement, the Corporate Services Agreement, the Bank Account Guarantee, the Liquidity Facility, the Deed of Charge, the Intercreditor Agreement, the Interest Rate Swap, the Pledge Agreement, the Luxembourg Pledge Agreement, the Servicing Agreement, the Shareholders Agreement, the Subscription Agreements and the Transfer Agreement;

**Transfer Agreement** means the transfer agreement dated 23 March 2004 between the Originator and the Issuer, as from time to time amended in accordance therewith;

**Transfer Date** means 23 March 2004;

**Unpaid Interest Instalments** means the sum of all Interest Instalments due but unpaid as at the relevant date;

**Unpaid Principal Deficiency** means, as at any Collection Date, the *ratio*, expressed as a percentage, between: (a) the negative sum, if any, between item (a) and item (b) of Senior Condition 5.3; and (b) the Initial Principal Amount of the Mortgage Loans;

**Unpaid Principal Instalments** means the sum of all Principal Instalments due but unpaid as at the relevant date; and

**Usury Law** means law no. 108 of 7 March 1996 and any relevant implementing regulations, as amended, supplemented or integrated from time to time.

**REGISTERED OFFICE OF THE ISSUER**

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