



## Banca Popolare di Milano

€160,000,000

### **BPM Capital Trust I**

**8.393% Noncumulative Perpetual Trust Preferred Securities**

**(liquidation preference €1,000 per Trust Preferred Security)**

**representing a corresponding amount of**

**8.393% Noncumulative Perpetual Company Preferred Securities of**

### **BPM Capital I LLC**

**guaranteed on a subordinated basis, as described herein, by**

**Banca Popolare di Milano S.C.a r.l.**

The 8.393% Noncumulative Perpetual Trust Preferred Securities (the "Trust Preferred Securities") issued by BPM Capital Trust I, a Delaware statutory business trust (the "Trust"), represent a beneficial interest in a corresponding amount of 8.393% Noncumulative Perpetual Company Preferred Securities (the "Company Preferred Securities") held by the Trust.

Dividends and redemption and liquidation payments paid by BPM Capital I LLC (the "Company") on the Company Preferred Securities will pass through the Trust as distributions and redemption and liquidation payments on the Trust Preferred Securities. From July 2, 2001 to and including July 2, the Company Preferred Securities and related Trust Preferred Securities will pay noncumulative dividends at an annual rate of 8.393% on the liquidation preference annually in arrears on July 2 of each year, commencing on July 2, 2002. After July 2, 2011, the Company Preferred Securities and related Trust Preferred Securities will pay noncumulative dividends on a quarterly basis at a floating rate per annum equal to 4.70% above three-month EURIBOR on the liquidation preference. See "Description of the Company Preferred Securities — Dividends."

Under a guarantee agreement dated as of the Issue Date (the "Subordinated Guarantee") among Banca Popolare di Milano S.C.a r.l. (the "Bank"), the Guarantee Trustee (as described herein) and the Property Trustee (as described herein), the Bank will guarantee on a subordinated basis, without duplication, certain payments in respect of the Company Preferred Securities to the extent described in this Offering Circular. All payment obligations of the Bank under the Subordinated Guarantee will be subordinated obligations ranking behind the claims of the holders of Senior Indebtedness (as defined herein) of the Bank, *pari passu* with the Bank Parity Securities (as defined herein) issued by the Bank and before the claims of holders of Bank Junior Securities (as defined herein). See "Description of the Subordinated Guarantee."

Prior to July 2, 2011, the Company Preferred Securities may not be redeemed, except under limited circumstances upon the occurrence of a Tax Event, an Investment Company Act Event or a Tier 1 Disqualification Event (each, as described herein). The Company has the option to redeem all, or some, of the Company Preferred Securities on any distribution date beginning July 2, 2001. See "Description of the Company Preferred Securities — Redemption." Unless redeemed, the Company Preferred Securities are of perpetual duration.

See "Investment Considerations" beginning on page 20 for certain information relevant to an investment in the Trust Preferred Securities.

The Trust Preferred Securities are being offered and sold only outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act of 1933, as amended (the "Securities Act"), and are not transferable except in accordance with the restrictions described under "Notice to Purchasers."

Application has been made to list the Trust Preferred Securities on the Luxembourg Stock Exchange.

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**Offering price: €1,000 per Trust Preferred Security**

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It is expected that the Trust Preferred Securities will be ready for delivery in book-entry form only through the facilities of the Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme*, on or about July 2, 2001. See "Description of the Trust Preferred Securities — Denomination, Form and Exchange."

#### **Joint Bookrunners**

**Banca IMI**

**Goldman Sachs International**

**The Bank, having made all reasonable inquiries, confirms that the information contained in this Offering Circular is true and accurate in all material respects, that the opinions and intentions expressed herein are honestly held and that there are no other facts the omission of which would make this Offering Circular as a whole or any of such information or the expression of any such opinions or intentions misleading. The Bank accepts responsibility accordingly. The financial information relating to Banca di Legnano S.p.A. contained in this Offering Circular has been extracted from publicly available information published by Banca di Legnano S.p.A. The Bank takes responsibility for the correct reproduction of financial information relating to Banca di Legnano S.p.A.**

**No person has been authorised to give any information or to make any representations other than those contained in this Offering Circular, and, if given or made, such information or representations must not be relied upon as having been authorised by any of the Trust, the Company, the Subsidiary, the Bank or the Managers (as defined herein). This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates. Neither the delivery of this Offering Circular nor any sale hereunder shall create, under any circumstances, any implication that there has been no change in the affairs of the Bank, the Subsidiary, the Trust or the Company since the date hereof or that the information contained herein is correct as of any time subsequent to its date.**

**INVESTORS SHOULD SATISFY THEMSELVES THAT THEY UNDERSTAND ALL THE RISKS ASSOCIATED WITH MAKING INVESTMENTS IN THE TRUST PREFERRED SECURITIES AND THE COMPANY PREFERRED SECURITIES. IF A PROSPECTIVE INVESTOR HAS ANY DOUBT WHATSOEVER AS TO THE RISKS INVOLVED IN INVESTING IN THE TRUST PREFERRED SECURITIES AND THE COMPANY PREFERRED SECURITIES, HE SHOULD CONSULT HIS PROFESSIONAL ADVISORS.**

***This Offering Circular has been prepared by the Bank, the Subsidiary, the Trust and the Company for use by the Managers in making offers and sales of the Trust Preferred Securities outside the United States to non-U.S. Persons in reliance on Regulation S under the Securities Act and for listing purposes.***

***Each purchaser of the Trust Preferred Securities offered hereby will be deemed to have represented and agreed that such purchaser understands that the Trust Preferred Securities and the Company Preferred Securities have not been registered under the Securities Act and may not be offered, sold or delivered in the United States or to, or for the account or benefit of, any U.S. Person. The Trust Preferred Securities will bear a legend to that effect, unless the Bank, the Subsidiary, the Trust and the Company determine otherwise in compliance with applicable law (terms used above that are defined in Regulation S are used as therein defined).***

***No employee benefit plan subject to the fiduciary responsibility provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), no "plan" as defined in Section 4975(e)(1) of the Internal Revenue Code of 1986, as amended, no governmental or other plan subject to similar requirements and no entity whose assets include "plan assets" may purchase either the Trust Preferred Securities or the Company Preferred Securities.***

**EACH PURCHASER OF THE TRUST PREFERRED SECURITIES MUST COMPLY WITH ALL APPLICABLE LAWS AND REGULATIONS IN FORCE IN ANY JURISDICTION IN WHICH IT PURCHASES, OFFERS OR SELLS THE TRUST PREFERRED SECURITIES OR POSSESSES OR DISTRIBUTES THIS OFFERING CIRCULAR AND MUST OBTAIN ANY CONSENT, APPROVAL OR PERMISSION REQUIRED BY IT FOR THE PURCHASE, OFFER OR SALE BY IT OF THE TRUST PREFERRED SECURITIES UNDER THE LAWS AND REGULATIONS IN FORCE IN ANY JURISDICTION TO WHICH IT IS SUBJECT OR IN WHICH IT MAKES SUCH PURCHASES, OFFERS OR**

**SALES, AND NONE OF THE TRUST, THE COMPANY, THE SUBSIDIARY, THE BANK OR THE MANAGERS SHALL HAVE ANY RESPONSIBILITY THEREFOR.**

**The securities offered hereby have not been approved or recommended by the United States Securities and Exchange Commission or any state securities commission. Furthermore, the foregoing authorities have not reviewed this Offering Circular or confirmed the accuracy or determined the adequacy of this Offering Circular. Any representation to the contrary is a criminal offense.**

**The securities offered hereby have not been approved or recommended by the Commissione Nazionale per le Società e la Borsa ("CONSOB") or by the Banca d'Italia (the "Bank of Italy"). Furthermore, neither CONSOB nor the Bank of Italy has reviewed this Offering Circular or confirmed the accuracy or determined the adequacy of this Offering Circular.**

**This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy the Trust Preferred Securities in any jurisdiction in which such offer or solicitation is unlawful. This document may not be issued or passed on in the United Kingdom to any person unless that person is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom the document may otherwise lawfully be issued or passed on. For a further description of certain restrictions on the offering and sale of the Trust Preferred Securities and on the distribution of this Offering Circular, see "*Plan of Distribution*" and "*Notice to Purchasers*."**

**Each purchaser of the Trust Preferred Securities offered hereby will be deemed to have represented and agreed that, in connection with the Offering, it has not offered or sold and will not offer or sell, directly or indirectly, the Trust Preferred Securities to the public in the Republic of Italy, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in the Republic of Italy, this Offering Circular or any other offering material relating to the Trust Preferred Securities, and that such offers, sales and distributions have been and shall only be made in the Republic of Italy (i) to certain Professional Investors and (ii) in circumstances that are exempted from the rules on solicitation of investments (the "Exemptions") pursuant to Section 100 of Legislative Decree No. 58 of February 24, 1998 (the "Unified Financial Act") and Section 33, paragraph 1, of CONSOB regulation No. 11971 of May 14, 1999, as amended and adopted pursuant to the Unified Financial Act. For purposes of the foregoing, "Professional Investors" include persons (other than natural persons) defined as qualified operators in Section 31, paragraph 2, of CONSOB Regulation No. 11522 of July 1, 1998, as amended and adopted pursuant to the Unified Financial Act.**

**Any offer or sale of the Trust Preferred Securities or any distribution of this Offering Circular or any rendering of advice in respect of an investment in the Trust Preferred Securities or Company Preferred Securities, within Italy in connection with this offering, must be conducted by registered securities dealing firms (*società d'intermediazione mobiliare* or "*SIMs*"), authorised banks or investment firms (as described in the Unified Financial Act) or financial companies enrolled in the special register described in Section 107 of Legislative Decree No. 385 of September 1, 1993 and in compliance with Section 129 of Legislative Decree No. 385 of September 1, 1993 (and implementing guidelines of the Bank of Italy).**

**IN CONNECTION WITH THE ISSUE OF THE TRUST PREFERRED SECURITIES, GOLDMAN SACHS INTERNATIONAL MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILISE OR MAINTAIN THE MARKET PRICES OF SUCH SECURITIES AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

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## AVAILABLE INFORMATION/DOCUMENTS INCORPORATED BY REFERENCE

The audited Consolidated Financial Statements and the unaudited Interim Financial Information (each as defined below) of Banca Popolare di Milano S.C.a r.l. (the “Bank”) and its consolidated subsidiaries (the “Group”) in the English language are incorporated by reference into this Offering Circular. Copies of the documents incorporated by reference herein and other documents referred to in this Offering Circular will be available upon request to the Bank and free of charge at the specified office of the Paying Agent in Luxembourg. Except as otherwise specified in the Consolidated Financial Statements and the Non-Consolidated Financial Statements, the information included in the Consolidated Financial Statements and the Non-Consolidated Financial Statements (as defined below) is only accurate as of the date thereof, and the Trust, the Company, the Bank and the Subsidiary undertake no responsibility to update any information set forth in the Consolidated Financial Statements and the Non-Consolidated Financial Statements. Any statement contained in the Consolidated Financial Statements and the Non-Consolidated Financial Statements shall be deemed to be modified or superseded for purposes of this Offering Circular to the extent that a statement contained herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

## **PRESENTATION OF FINANCIAL AND OTHER INFORMATION**

References herein to "euro" and "€" are to the single currency introduced at the start of the third stage of the European Economic and Monetary Union as of January 1, 1999. References herein to "lira," "lire," "Lit." and "Italian lire" refer to Italian lire, which are a sub-denomination of the euro and the currency of Italy. References to "\$" are to United States dollars. As of January 1, 1999, the rate of exchange between the Italian lire and the euro was permanently fixed at Lit. 1,936.27 = €1.00.

Unless otherwise indicated, the financial information contained in this Offering Circular has been prepared in accordance with Italian law (including Legislative Decree No. 87 of January 27, 1992, which implemented EC Directive No. 86/835) and the Bank of Italy regulations of January 16, 1995, as supplemented by the Italian generally accepted accounting principles (collectively, "Italian GAAP").

Unless otherwise indicated, any reference in this Offering Circular to "Consolidated Financial Statements" is to the consolidated financial statements of the Group as of and for the years ended December 31, 1999 and 2000 audited by PricewaterhouseCoopers S.p.A., independent accountants, reference to "Non-Consolidated Financial Statements" is to the non-consolidated financial statements of the Bank December 31, 1999 and 2000 audited by PricewaterhouseCoopers S.p.A., independent accountants and any reference to "Interim Financial Information" is to the unaudited consolidated quarterly information of the Group for the three-month periods ended March 31, 2000 and 2001. Both the Consolidated Financial Statements and the Interim Financial Information are incorporated by reference in this Offering Circular and are available upon request to the Bank and free of charge at the specified office of the Paying Agent in Luxembourg.

The audited Consolidated Financial Statements and the unaudited Interim Financial Information are denominated in Italian lire and are expected to be re-denominated in euro during the first quarter of 2002.

The financial information relating to Banca di Legnano S.p.A. contained in this Offering Circular has been extracted from publicly available information published by Banca di Legnano S.p.A. The Bank takes responsibility for the correct reproduction of financial information relating to Banca di Legnano S.p.A.

## **FORWARD-LOOKING STATEMENTS**

This Offering Circular contains certain forward-looking statements (as such term is defined in the U.S. Private Securities Litigation Reform Act of 1995) and information relating to the Group that is based on the beliefs of the management of the Group, as well as assumptions made by and information currently available to the management of the Group. When used in this Offering Circular, the words "estimate," "project," "believe," "anticipate," "intend," "expect" and similar expressions are intended to identify forward-looking statements. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Group or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions; competition; changes in technology; changes in business strategy; indebtedness of the Bank; quality of management, business abilities and judgment of the Bank's personnel; the availability, terms and deployment of capital; and various other factors referenced in this Offering Circular. Readers are cautioned not to place undue reliance on such forward-looking statements, which, unless they speak to an earlier date, speak only as of the date of this Offering Circular. The Bank does not undertake any obligation to release publicly any revisions to such forward-looking statements to reflect events or circumstances occurring after the date of this Offering Circular.

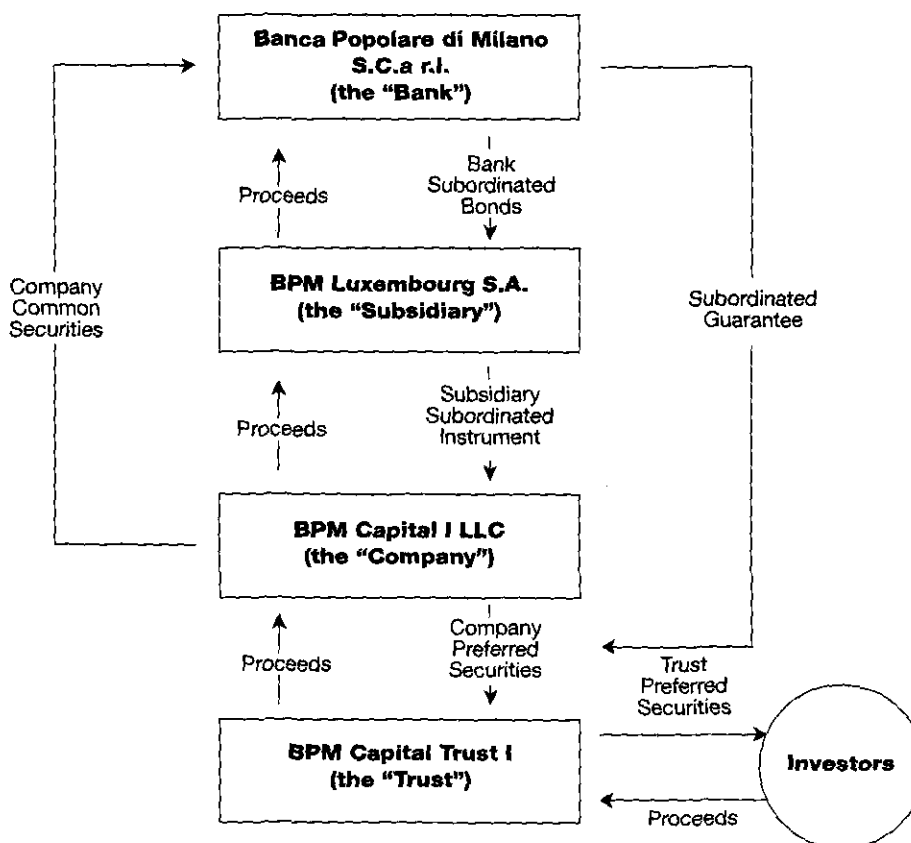
## OFFERING CIRCULAR SUMMARY

The following summary is qualified in its entirety by the detailed information appearing elsewhere in this Offering Circular, in particular the information under the headings "Description of the Subordinated Guarantee," "Description of the Trust Preferred Securities" and "Description of the Company Preferred Securities" which describe the terms and conditions of the Trust Preferred Securities offered hereby and the Company Preferred Securities and Subordinated Guarantee. The "Glossary" commencing at page 117 contains the definitions of certain terms used in this Offering Circular.

### Introduction

The 8.393% Noncumulative Perpetual Trust Preferred Securities, liquidation preference €1,000 per security (the "Trust Preferred Securities"), are being issued by BPM Capital Trust I (the "Trust") and the 8.393% Noncumulative Perpetual Company Preferred Securities, liquidation preference €1,000 per security (the "Company Preferred Securities"), are being issued by BPM Capital I LLC (the "Company") in a financing transaction that raises capital for the Group. The Bank intends to treat the Company Preferred Securities as consolidated Tier 1 capital of the Bank under relevant regulatory capital guidelines of the Bank of Italy. The offering by the Trust of its Trust Preferred Securities and the related issuance to the Trust by the Company of the Company Preferred Securities are referred to herein as the "Offering."

The following diagram outlines the relationship among investors in Trust Preferred Securities, the Trust, the Company, the Bank and BPM Luxembourg S.A. (the "Subsidiary") following completion of the Offering:



### **The Trust**

The Trust is a Delaware statutory business trust formed on June 19, 2001 for the purpose of (i) holding the Company Preferred Securities and the related rights under the Subordinated Guarantee, (ii) issuing the Trust Preferred Securities representing a Corresponding Amount of Company Preferred Securities to be held by the Trust and (iii) performing functions necessary or incidental thereto. The Trust is prohibited from issuing other equity or any debt securities or engaging in any other activities. The Company Preferred Securities and related rights under the Subordinated Guarantee issued by the Bank will be the only assets of the Trust. Subject to the limitations and assumptions described under "*Taxation — U.S. Taxation*," the Trust will be treated as a grantor trust for United States federal income tax purposes, with the result that holders of the Trust Preferred Securities will be treated as beneficial owners of the Company Preferred Securities and related rights under the Subordinated Guarantee for United States federal income tax purposes.

### **The Company**

The Company is a Delaware limited liability company formed on June 19, 2001 for the purpose of (i) issuing the Company Preferred Securities and the Company Common Securities, (ii) acquiring and holding a subordinated debt instrument (the "Subsidiary Subordinated Instrument") issued by the Subsidiary in connection with the Offering, (iii) acquiring and holding certain Eligible Investments and (iv) performing functions necessary or incidental thereto. The Bank will own all of the Company Common Securities as described below. The Subsidiary Subordinated Instrument and other Eligible Investments owned by the Company from time to time will generate net income for distribution by the Company to the Trust as holder of the Company Preferred Securities (and consequently for pass through by the Trust to holders of the Trust Preferred Securities) and to the Bank as holder of the Company Common Securities. Subject to the limitations and assumptions described under "*Taxation — U.S. Taxation*," the Company will be taxable as a partnership for United States federal income tax purposes.

The Bank will purchase all of the Company Common Securities, representing 100% of the voting rights in the Company (subject to the limited rights of holders of the Company Preferred Securities to replace the Independent Director nominated by the Bank and other rights as described herein). The Company Common Securities are being purchased for an aggregate purchase price of €24,500,000.

The Company will be managed by a Board of Directors. The Board of Directors will have three members, one of whom will be an Independent Director who is not, and has not been during the preceding three years, an officer or employee of the Bank or any affiliate of the Bank and who does not own Bank Junior Securities having a fair value of €500,000 or more. Under certain circumstances described under "*Description of the Company Preferred Securities — Voting Rights*," holders of Company Preferred Securities will have the right to remove the Independent Director and fill the vacancy created by such removal with an Independent Director nominated by them. The person so elected shall be deemed to be an Independent Director irrespective of whether he or she meets the independence test described above.

### **The Subsidiary**

The Subsidiary will be a directly controlled subsidiary of the Bank organised on June 27, 2001 as a public limited company under the laws of the Grand Duchy of Luxembourg.

In connection with the Offering, the Subsidiary will (i) issue the Subsidiary Subordinated Instrument or one or more other Eligible Investments to the Company, (ii) use the proceeds from such issuance towards the purchase of a subordinated debt instrument issued by the Bank (the "Bank Subordinated Bonds") in connection with the Offering and in the discretion of the Subsidiary, a similar security issued by an affiliate of the Bank that will qualify as an Eligible Investment or U.S. government bonds, (iii) hold the Bank Subordinated Bonds and related securities and (iv) perform functions necessary or incidental thereto.

## The Bank

The Bank, along with its consolidated subsidiaries (the "Group"), is a leading Northern Italian banking group and the 12th largest group in Italy by assets. The Group operates mainly in the region of Lombardy and is also present in the regions of Emilia Romagna, Piedmont, Lazio and Puglia, in which it limits its activities to specific provinces where it maintains important market shares. The Group predominately provides commercial banking services for both retail and small and medium-sized corporate customers and, in addition, offers its customers capital market services, brokerage services, debt and equity underwriting, asset management, insurance underwriting and sales, leasing and factoring services.

As of December 31, 2000, the Group had assets of €28.289 billion and total shareholders equity of €1.774 billion. Its consolidated total risk based capital ratio as of December 31, 2000 was 9.88%. After giving effect to the Offering, as if it had occurred on December 31, 2000, its total risk based capital ratio would have been 10.58%.

In connection with the Offering, the Bank will (i) issue the Bank Subordinated Bonds, (ii) issue the Subordinated Guarantee and (iii) hold the Company Common Securities

## The Offering

### Securities Offered:

The Securities being offered are Trust Preferred Securities issued by the Trust having a liquidation preference equal to €1,000 per security. The Trust Preferred Securities represent a Corresponding Amount of Company Preferred Securities of the Company and related rights under the Subordinated Guarantee and will have terms substantially identical to the terms of the Company Preferred Securities. See "*Description of the Trust Preferred Securities.*"

The Trust Agreement will provide that, to the fullest extent permitted by law, without the need for any other action of any person (including the Trustees and any other holder of Trust Preferred Securities), each holder of Trust Preferred Securities shall be entitled to enforce in the name of the Trust the Trust's rights under the Corresponding Amount of the Company Preferred Securities represented by the Trust Preferred Securities held by such holder.

Holders of the Trust Preferred Securities may, after the exchange of the Temporary Global Certificate for the Permanent Global Certificate, upon written notice and certification of non-U.S. ownership, withdraw from the Trust and hold directly a Corresponding Amount of underlying Company Preferred Securities and related rights under the Subordinated Guarantee as described under "*Description of the Trust Preferred Securities — Withdrawal of Company Preferred Securities.*" It is expected that Company Preferred Securities when withdrawn will be issued only in definitive form and that they will not be eligible to be held through Euroclear or Clearstream.

### Dividends:

*General:* Dividends on the Company Preferred Securities will be passed through by the Trust as distributions on the Trust Preferred Securities upon (and subject to) their receipt by the Trust. Amounts available to the Trust for distributions on the Trust Preferred Securities will be limited to dividends received by the Trust as holder of the Company Preferred Securities and payments made by the



Bank under the Subordinated Guarantee. See *"Description of the Trust Preferred Securities — Distributions"* and *"Description of the Company Preferred Securities — Dividends."*

Dividends on the Company Preferred Securities will be payable, when, as and if declared (or deemed declared) by the Company's Board of Directors, on a noncumulative basis (i) from the Issue Date to and including the First Call Date, annually in arrears on July 2 of each year, commencing July 2, 2002 (or, if any such date is not a Business Day, on the next succeeding Business Day), at a fixed rate per annum on the liquidation preference equal to 8.393% (calculated on an Actual/Actual (Bond) Basis), and (ii) thereafter, quarterly in arrears on each October 2, January 2, April 2, and July 2 (or, if any such date is not a Business Day, on the next succeeding Business Day), at a variable rate per annum on the liquidation preference equal to 4.70% above three-month EURIBOR (calculated on an Actual/360 Basis) determined on the Determination Date for such Dividend Period. Dividends on the Company Preferred Securities will be mandatorily due and payable on a Dividend Payment Date and with respect to the related Dividend Period in the circumstances described under *"Description of the Company Preferred Securities—Dividends—Required Dividends."*

Dividends on the Company Preferred Securities will not be cumulative and dividend payments that are not declared or deemed declared will not accumulate or compound. This means that, if dividends are not declared (or deemed declared) in full or in part on any Dividend Payment Date, holders of the Company Preferred Securities (and, consequently, holders of the Trust Preferred Securities) will not, and will have no right to, receive those dividends at any time, even if dividends or other distributions are paid in the future. All dividends will be paid out of funds legally available therefor, including any amounts required to be paid under the Subordinated Guarantee.

*Limitations on Dividends:* Except when it is required to pay Required Dividends as described in the next paragraph, the Company may elect not to pay dividends on the Company Preferred Securities (and accordingly distributions of dividends may not be made on the Trust Preferred Securities) when the Bank does not have, according to the unconsolidated annual financial statements of the Bank relating to the financial year immediately preceding the financial year in which such Dividend Payment Date falls or, where such financial statements are not available, the last set of unconsolidated financial statements approved by the Bank, net profits ("Distributable Profits") that would be available for the payment of a dividend or the making of a distribution on any class of its share capital and/or the Bank has not declared or paid dividends on any class or series of its share capital for the financial year in which such Dividend Payment Date falls. Except when it is required to pay Required Dividends as described in the next paragraph, the Company will be prohibited from paying dividends on the Company

Preferred Securities (and accordingly no distributions of dividends will be made on the Trust Preferred Securities) when a Capital Deficiency Event has occurred and is continuing or a Capital Deficiency Event would occur as a consequence of the payment of dividends on the Company Preferred Securities.

*Required Dividends:* Notwithstanding the foregoing, the Company will be required to declare and pay dividends ("Required Dividends") on the Company Preferred Securities in full on any Dividend Payment Date (a "Required Dividend Payment Date") if:

- (i) the Bank or any subsidiary, as the case may be, has redeemed, repurchased or otherwise acquired a Bank Parity Security or Bank Junior Security for any consideration, or any monies are paid to or made available for a sinking fund or for redemption of any such securities during the twelve-month period immediately preceding and including such Dividend Payment Date other than in a Permitted Transaction;
- (ii) the Bank has declared or paid a dividend or distribution or made any other payment with respect to a Bank Junior Security, if any, during the twelve-month period immediately preceding and including such Dividend Payment Date; or
- (iii) the Bank makes a distribution of net income to employees of the Bank pursuant to the Bank's By-laws or other charter documents during the twelve-month period immediately preceding and including such Dividend Payment Date.

Additionally, and notwithstanding the limitations in clauses (i), (ii) and (iii) above, if (x) the Bank or any of its subsidiaries declares or pays any dividends or makes any other payment or distribution in respect of any Bank Parity Securities on any date, and (y) during the twelve-month period ending on and including that date there occurred a Dividend Payment Date as to which the Company paid no dividends or less than full dividends on the Company Preferred Securities, then on that date the Company will be required to pay a special dividend on the Company Preferred Securities. The special dividend (which will be deemed to be a "Required Dividend") will be payable on that date (a "Special Dividend Payment Date") whether or not that date is otherwise a Dividend Payment Date and, if it is a Dividend Payment Date, will be in addition to any other Dividends required to be paid on that Dividend Payment Date. The special dividend will be in an amount that, when taken together with dividends previously paid on the Company Preferred Securities during the preceding twelve-month period, represents the same proportion of full dividends on the Company Preferred Securities for all Dividend Payment Dates during the preceding twelve-month period that the dividend on Bank Parity Securities paid during such period bears to full dividends on such Bank Parity Securities for such period.

If for any reason any Required Dividends are not declared on any Dividend Payment Date or Special Dividend Payment Date then,

under the terms of the Company Agreement, such Required Dividends automatically will be deemed declared and authorized to be paid in full on such Dividend Payment Date.

**Subordinated Guarantee:**

The Subordinated Guarantee is intended to provide holders of the Company Preferred Securities (including the Trust and thus, indirectly, holders of the Trust Preferred Securities), as nearly as possible, with rights to dividends and Additional Amounts and rights on redemption and liquidation equivalent to those to which such holders would be entitled if the Company Preferred Securities were issued directly by the Bank. See "*Description of the Subordinated Guarantee.*"

To the extent and for the amount not otherwise paid in accordance with the terms of the Company Preferred Securities, the Bank will be obligated unconditionally on a subordinated basis (without duplication) under the Subordinated Guarantee to pay: (1) dividends that have been declared (or deemed declared) on the Company Preferred Securities; (2) the Redemption Price with respect to any Company Preferred Securities called for redemption by the Company; (3) upon liquidation of the Company, the Liquidation Claim Amount; and (4) Additional Amounts, if any, with respect to any payment referred to in (1), (2) or (3), plus, if any, in each case, interest accrued thereon from the date of making the claim under the Subordinated Guarantee at a rate per annum equal to the stated dividend rate of the Company Preferred Securities.

All payment obligations of the Bank under the Subordinated Guarantee will be subordinated obligations ranking junior to the claims of the holders of Senior Indebtedness of the Bank, *pari passu* with the Bank Parity Securities issued by the Bank, if any, and senior to the claims of holders of Bank Junior Securities.

**Company Common Securities:**

All of the Company Common Securities will initially be owned directly by the Bank, as described in "*Description of the Company Common Securities.*"

Prior to the dissolution of the Company, dividends on the Company Common Securities will be paid when, as and if declared by the Company at its discretion out of income or assets (including in the form of the Subsidiary Subordinated Instrument or other Eligible Investments) but only after payment of all Required Dividends to holders of the Company Preferred Securities, *provided, however*, that dividends on the Company Common Securities must be paid if such dividends would be necessary to prevent the Company from being classified as an Investment Company under the 1940 Act.

If full dividends on the Company Preferred Securities are paid on any Dividend Payment Date and, after giving effect to such payment, the Company has additional funds available for the payment of dividends, the Company, in its discretion, may apply such additional funds to pay dividends on the Company Common Securities. It is expected that all net income of the Company, to the extent not otherwise required to be distributed in respect of the

Company Preferred Securities for any Dividend Payment Date, will be distributed as dividends on the Company Common Securities. However, the payment of dividends on the Company Common Securities is not a condition to the payment of dividends on the Company Preferred Securities.

**Additional Amounts:**

All payments in respect of the Trust Preferred Securities made by or on behalf of the Trust will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or other governmental charges of whatever nature (collectively, "Relevant Tax") imposed or levied by or on behalf of (i) Italy, (ii) Luxembourg, (iii) any jurisdiction in which a branch, other office or subsidiary of the Bank issuing Eligible Investments held by the Company or the Subsidiary is located, (iv) the United States, (v) any authority of or in any of the jurisdictions referred to in (i) – (iv) above (each, a "Relevant Jurisdiction") that has the power to tax, unless the withholding or deduction of such Relevant Tax is required by law. If the Company or the Trust is required to withhold or deduct any Relevant Tax with respect to any payment of dividends or distributions on the Company Preferred Securities or the Trust Preferred Securities, the Company will be required to pay as additional amounts ("Additional Amounts") included in the dividends or distributions otherwise then due and payable (and the Bank will be required to include in any related payment made by it under the Subordinated Guarantee) an amount that is sufficient so that the net amount received by each holder of the Company Preferred Securities or Trust Preferred Securities, as applicable, after the withholding or deduction, will not be less than the amount of dividends or distributions then otherwise due and payable. However, the Company will not be required to pay any such Additional Amounts to the extent that the Relevant Taxes are imposed or levied by a Relevant Jurisdiction because the holder or beneficial owner of Trust Preferred Securities or Company Preferred Securities (other than the Trust):

- (i) has some connection with such Relevant Jurisdiction, as applicable, other than being a holder or beneficial owner of those Trust Preferred Securities or Company Preferred Securities; or
- (ii) has not made a declaration of non-residence in, or other lack of connection with, such Relevant Jurisdiction, or any similar claim for exemption, if the Company has given the beneficial owner of those Trust Preferred Securities or Company Preferred Securities or its nominee at least 60 days' prior notice of an opportunity to make the declaration or claim.

The Subsidiary will pay such Additional Amounts to the holder of the Subsidiary Subordinated Instrument as may be necessary in order that every net payment thereunder, after withholding for or deducting any Relevant Tax, will not be less than the amount otherwise required to be paid, subject to certain exceptions described herein.

The Bank will pay under the Subordinated Guarantee and the Bank Subordinated Bonds, as applicable (and any affiliate of the Bank that issues related securities will pay), such Additional Amounts as may be necessary in order that every net payment thereunder, after withholding for or deducting any Relevant Tax, will not be less than the amount otherwise required to be paid, subject to certain exceptions described herein.

**Redemption and Repurchase:**

Redemption proceeds received by the Trust on the Company Preferred Securities will be contemporaneously passed through to redeem a Corresponding Amount of Trust Preferred Securities. The Company Preferred Securities are not redeemable at the option of the holders at any time and are not redeemable at the option of the Company prior to the Dividend Payment Date regularly scheduled to occur on the First Call Date, except in whole (but not in part) upon the occurrence of a Tax Event, an Investment Company Act Event or a Tier 1 Disqualification Event (each, a "Special Event"), provided that such redemption shall be subject to compliance with the applicable regulatory requirements, including the approval of the Bank of Italy, if then required. The Redemption Price per Company Preferred Security for such Special Event redemptions, unless the Special Event is a Tax Event arising out of a Change in Tax Law, will be the greater of (i) the Company Preferred Securities Make Whole Amount and (ii) the Company Preferred Securities Base Redemption Price. The Redemption Price per Company Preferred Security for a redemption triggered by a Tax Event arising out of a Change in Tax Law will be the Company Preferred Securities Base Redemption Price.

On the First Call Date or any subsequent Dividend Payment Date, the Company Preferred Securities may be redeemed at the option of the Company, in whole or in part, at the Company Preferred Securities Base Redemption Price, subject to compliance with applicable regulatory requirements, including the prior approval of the Bank of Italy, if then required.

The Company Preferred Securities will not be subject to any sinking fund or mandatory redemption.

**Ranking — Dividends, Liquidation and Related Matters:**

*Dividends:* With respect to dividends, the Company Preferred Securities ordinarily will rank senior to the Company Common Securities. If full dividends on the Company Preferred Securities are paid on any Dividend Payment Date, and, after giving effect to such payment, the Company has additional funds available for the payment of dividends, the Company, in its discretion, may apply such additional funds to pay dividends on the Company Common Securities.

*Liquidation Preference:* In the event of any voluntary or involuntary dissolution, liquidation or winding up of the Trust, after satisfaction of liabilities to the creditors of the Trust, if any, the holders of the Trust Preferred Securities will be entitled to receive a Corresponding Amount of the Company Preferred Securities.

In the event of any voluntary or involuntary dissolution of the Company concurrent with the liquidation of the Bank, after satisfaction of liabilities to creditors of the Company, if any, the holders of the Company Common Securities will have a claim senior to that of the holders of the Company Preferred Securities to receive as a liquidation distribution the Subsidiary Subordinated Instrument and other Eligible Investments, if any. In this respect, the Subordinated Guarantee will provide that, in a liquidation of the Company that is concurrent with a liquidation of the Bank, holders of Company Preferred Securities (and, consequently, of a Corresponding Amount of Trust Preferred Securities) will receive an amount equal to but not exceeding the amount to which the holders of the Company Preferred Securities would have been entitled had they instead owned preferred securities or preferred stock directly issued by the Bank and having the same liquidation preference and dividend rights as the Company Preferred Securities.

In the event of any voluntary or involuntary dissolution of the Company that is not concurrent with the liquidation of the Bank, after satisfaction of liabilities to creditors of the Company, if any, holders of the Company Preferred Securities will be entitled to receive out of assets of the Company available for distribution to security holders, before any liquidating distribution of assets is made on the Company Common Securities, liquidation distributions in respect of the Company Preferred Securities equal to the Liquidation Claim Amount.

Under the terms of the Company Agreement and to the fullest extent permitted by law, the Company shall not be dissolved until all claims under the Subordinated Guarantee shall have been paid in full pursuant to the terms of the Subordinated Guarantee.

*Liquidation:* The Bank, as holder of the Company Common Securities, will agree that, to the fullest extent permitted by applicable law, for so long as the Company Preferred Securities are outstanding, it will not cause the Company to be dissolved unless the Bank is also being liquidated (whether voluntarily or involuntarily). Accordingly, it is expected that investors would only receive liquidating distributions in the event of a concurrent liquidation of the Bank and the Company. Under the Company Agreement and to the fullest extent permitted by applicable law, holders (including the Trust) of Company Preferred Securities will not have the ability to force or initiate dissolution of the Company unless the Bank is also being liquidated whether voluntarily or involuntarily (and, consequently, holders of Trust Preferred Securities will not have such an ability). The Company Agreement will preclude the Company from incurring any indebtedness and, accordingly, the Company does not anticipate having other creditors in the ordinary course of business who could initiate the commencement of an involuntary bankruptcy proceeding. In the event that dissolution of the Company is commenced, the Trust will be dissolved, and, after satisfaction of claims of creditors of the Trust, if any, as required by law, the Trust will distribute the Company

Preferred Securities held by the Trust to the holders of the Trust Preferred Securities.

**Subsidiary Subordinated Instrument:** The Company will apply the proceeds from the issuance of the Company Preferred Securities (and the Company Common Securities, except to the extent such proceeds are invested in other Eligible Investments) to acquire the Subsidiary Subordinated Instrument, to be issued by the Subsidiary in connection with the Offering. The Company will be prohibited by the Company Agreement from selling the Subsidiary Subordinated Instrument.

The Subsidiary Subordinated Instrument will be an unconditional, unsecured and subordinated obligation of the Subsidiary and rank *pari passu* with any subordinated instrument of the Subsidiary not ranking junior to it.

Interest on the Subsidiary Subordinated Instrument will be payable on a cumulative basis (i) from the Issue Date to and including the First Call Date annually in arrears on July 2 of each year, commencing July 2, 2002 (or, if any such date is not a Business Day, on the next succeeding Business Day) at a fixed rate per annum on the principal amount from time to time outstanding equal to 7.8263% (calculated on an Actual/Actual (Bond) Basis), and (ii) thereafter, quarterly in arrears on each October 2, January 2, April 2 and July 2 (or, if any such date is not a Business Day, on the next succeeding Business Day) at a variable rate per annum on the principal amount equal to 3.85% above three-month EURIBOR (calculated on an Actual/360 Basis) determined on the Determination Date for such Interest Period.

The Subsidiary Subordinated Instrument will mature on July 2, 2031 (*provided, however, that such date may be extended by the mutual consent of the Company and the Subsidiary*).

Upon the occurrence of a Capital Deficiency Event, the obligations of the Subsidiary in respect of principal and cumulative interest from prior periods under the Subsidiary Subordinated Instrument will be reduced by an amount equal to the lesser of the Bank Loss and the amount necessary to reinstate the consolidated risk-based capital ratio of the Bank to a percentage that is higher than 5.00%. Any such reduction shall (a) be made on a *pro rata* basis with any *Strumenti Innovativi di Capitale* issued by the Bank, or issued by any subsidiary of the Bank with the benefit of a Bank Parity Guarantee, which are subject to loss absorption provisions on a consolidated basis similar to those described herein and outstanding upon occurrence of a Capital Deficiency Event, and (b) apply first to any unpaid cumulative interest from prior periods, and subsequently to principal. The obligations of the Subsidiary in respect of principal and interest under the Subsidiary Subordinated Instrument will be reinstated in the event of any voluntary or involuntary dissolution, liquidation or winding up of the Bank.

To the extent that the Bank at any time suffers losses which would require the Bank to reduce its capital below the Minimum Capital

required for Italian banks (currently €6.3 million), the obligation of the Subsidiary in respect of interest under the Subsidiary Subordinated Instrument would be reduced to the extent necessary to enable the Bank to maintain at least the Minimum Capital. The obligations of the Subsidiary in respect of interest under the Subsidiary Subordinated Instrument will be reinstated in case of dissolution, liquidation or winding up, whether voluntary or involuntary, of the Bank or reinstatement of the Minimum Capital.

The Subsidiary is not required to pay interest on the Subsidiary Subordinated Instrument during any Interest Payment Period during which the Bank, pursuant to Applicable Banking Regulations, defers interest payments on the Bank Subordinated Bonds.

During such a deferral period, interest will continue to accrue on the Subsidiary Subordinated Instrument at the Subsidiary Subordinated Instrument Coupon Rate. Also, the deferred interest will itself accrue interest at the Subsidiary Subordinated Instrument Coupon Rate. Deferred interest (together with any interest thereon) will be due and payable on the Subsidiary Subordinated Instrument (i) in part, *pari passu* and *pro rata* if the Bank makes payments of, or in respect of, amounts of interest on, or in relation to, any other *pari passu* claims and (ii) in full, on the earliest of (A) the Interest Payment Date falling on or after the date on which a dividend is approved or paid on any Bank Junior Securities, or interest or dividends are paid on any Bank Parity Securities, (B) the date of repayment of the Subsidiary Subordinated Instrument and (C) the date on which the Bank is subject to liquidation.

The Subsidiary Subordinated Instrument is not redeemable at the option of the holder at any time and is not redeemable at the option of the Subsidiary prior to the First Call Date, except in whole (but not in part) upon the occurrence of a Special Event (subject to the approval of the Bank of Italy, if then required, and of the Bank). The Redemption Price for such Special Event redemption, unless the Special Event is a Tax Event arising out of a Change in Tax Law, will be the greater of (i) the Subsidiary Subordinated Instrument Make Whole Amount and (ii) the Subsidiary Subordinated Instrument Base Redemption Price. The Redemption Price for a redemption triggered by a Tax Event arising out of a Change in Tax Law will be the Subsidiary Subordinated Instrument Base Redemption Price.

On the First Call Date or any subsequent Interest Payment Date, the Subsidiary Subordinated Instrument may be redeemed at the option of the Subsidiary (subject to the approval of the Bank and the Bank of Italy, if required), in whole or in part, at the Subsidiary Subordinated Instrument Base Redemption Price.

In the case of an event of default, the holder of the Subsidiary Subordinated Instrument may not accelerate the maturity of the Subsidiary Subordinated Instrument.



Decisions with respect to enforcement of the Subsidiary Subordinated Instrument and actions to be taken by the Subsidiary upon a default will be made by the Company.

If the proceeds from the Subsidiary Subordinated Instrument upon the redemption thereof are not used to redeem the Company Preferred Securities, the Company is required to reinvest such proceeds in other Eligible Investments so long as any such reinvestment will not cause the Company to become subject to the registration requirements of the 1940 Act or cause a Tax Event or cause the Company to be taxable as a corporation for U.S. federal income tax purposes.

**Bank Subordinated Bonds:**

The Subsidiary will apply the proceeds from the issuance of the Subsidiary Subordinated Instrument towards the acquisition of a subordinated debt instrument to be issued by the Bank in connection with the Offering (the "Bank Subordinated Bonds").

The Bank Subordinated Bonds will be unconditional, unsecured and subordinated obligations of the Bank and will rank *pari passu* without any preference with all Upper Tier 2 subordinated instruments of the Bank.

Interest on the Bank Subordinated Bonds will be payable on a cumulative basis (i) from the Issue Date to and including the First Call Date, annually in arrears on July 2 of each year, commencing July 2, 2002 (or if any such date is not a Business Day, on the next succeeding Business Day) at a fixed rate per annum on the principal amount from time to time outstanding equal to 7.625% (calculated on an Actual/Actual (Bond) Basis), and (ii) thereafter, quarterly in arrears on each October 2, January 2, April 2 and July 2 (or if any such date is not a Business Day, on the next succeeding Business Day) at a variable rate on the principal amount equal to 3.725% above three-month EURIBOR (calculated on an Actual/360 Basis) determined on the Determination Date for such Interest Period.

The Bank Subordinated Bonds will mature on July 2, 2031 (*provided, however*, that such date may be extended by the mutual consent of the Bank and the Subsidiary).

To the extent that the Bank at any time suffers losses which would require the Bank to reduce its capital below the Minimum Capital, the obligation of the Bank in respect of principal and interest under the Bank Subordinated Bonds would be reduced to the extent necessary to enable the Bank to maintain at least the Minimum Capital. The obligations of the Bank in respect of the principal and interest under the Bank Subordinated Bonds will be reinstated in case of dissolution, liquidation or winding up, whether voluntary or involuntary, of the Bank or reinstatement of the Minimum Capital.

The Bank may defer interest on the Bank Subordinated Bonds on an Interest Payment Date if (A) no annual dividend has been approved, paid or set aside for payment by a shareholders' meeting of the Bank or paid in respect of any class of shares of the Bank

during the 12-month period ending on, but excluding, the relevant Interest Payment Date or (B) the board of directors of the Bank has announced, at the time of the release of any interim accounts published during the six-month period ending on, but excluding, the relevant Interest Payment Date, that, based on such interim accounts, no sums are available at such time for the payment of interim dividends, in accordance with Article 2433-bis of the Italian Civil Code. During a deferral period, interest will continue to accrue on the Bank Subordinated Bonds at the Bank Subordinated Bonds Coupon Rate. Also, the deferred interest will itself accrue interest at the Bank Subordinated Bonds Coupon Rate. Deferred interest (together with any interest thereon) will be due and payable on the Bank Subordinated Bonds (i) in part, *pari passu* and *pro rata* if the Bank makes payments of, or in respect of, amounts of interest on, or in relation to, any other claims ranking *pari passu* with the Bank Subordinated Bonds and (ii) in full, on the earliest of (A) the Interest Payment Date falling on or after the date on which a dividend is approved or paid on any Bank Junior Security or interest or dividends are paid on any Bank Parity Security, (B) the date of repayment of the Bank Subordinated Bonds and (C) the date on which the Bank is subject to liquidation.

The Bank Subordinated Bonds are not redeemable at the option of the holder at any time and are not redeemable at the option of the Bank prior to the First Call Date, except in whole (but not in part) upon the occurrence of a Special Event (subject to the approval of the Bank of Italy, if required). The Redemption Price per Bank Subordinated Bond for such Special Event redemption, unless the Special Event is a Tax Event arising out of a Change in Tax Law, will be the greater of (i) the Bank Subordinated Bonds Make Whole Amount and (ii) the Bank Subordinated Bonds Base Redemption Price. The Redemption Price for a redemption triggered by a Tax Event arising out of a Change in Tax Law will be the Bank Subordinated Bonds Base Redemption Price.

On the First Call Date or any subsequent Interest Payment Date, the Bank Subordinated Bonds may be redeemed at the option of the Bank (subject to the approval of the Bank of Italy, if required), in whole or in part, at the Bank Subordinated Bonds Base Redemption Price.

In the case of an event of default, the holder of the Bank Subordinated Bonds may not accelerate the maturity of the Bank Subordinated Bonds.

The Bank will have the right to substitute a branch of the Bank as obligor under the Bank Subordinated Bonds upon the satisfaction of certain conditions. In addition, the Bank may cause the Subsidiary to reinvest the redemption proceeds or the proceeds upon maturity of the Bank Subordinated Bonds into other instruments qualifying as Eligible Investments. Under the terms of the Subordinated Guarantee, the Bank may make such substitution or cause such reinvestment only if (i) each rating agency then rating the Trust Preferred Securities or if not outstanding, the Company Preferred

Securities, if then rated, shall have informed the Bank in writing that such substitution or reinvestment will not result in the downgrading of the rating then assigned by such rating agency, (ii) no Tax Event would occur as a consequence of such substitution or reinvestment, (iii) the Bank receives written confirmation from the Bank of Italy approving such substitution or reinvestment and indicating that no Tier 1 Disqualification Event would occur as a consequence of such substitution or reinvestment, (iv) no Investment Company Act Event would occur as a consequence of such substitution or reinvestment, (v) the Company would not be taxable as a corporation and the Trust would be classified as a grantor trust, in each case for U.S. federal income tax purposes, and (vi) the Bank delivers to the Independent Director an officer's certificate and an opinion of counsel certifying compliance with all conditions precedent to any substitution or reinvestment and, based on such information, the Independent Director gives his written consent to such substitution or reinvestment. The Bank Subordinated Bonds may not be sold or otherwise transferred by the Subsidiary without the written consent of the Bank and of the Independent Director.

Investment Policies —  
Eligible Investments:

The Company's Investment Policies will initially be established pursuant to the Company Agreement. The Investment Policies will require that the Company maintain its assets in a manner (i) that will not require the Company to be registered as an "investment company" under the 1940 Act, (ii) that will not give rise to a Special Event and (iii) that will not cause the Company to be taxable as a corporation under the Code.

Under the Investment Policies, the Company may only hold or invest in (i) the Subsidiary Subordinated Instrument and (ii) other Eligible Investments.

No Indebtedness:

The Company will be prohibited by the Company Agreement from incurring indebtedness for borrowed money.

Independent Director:

The Company Agreement will provide that, for so long as any Company Preferred Securities are outstanding, certain actions by the Company must be approved by both a majority of the Board of Directors as a whole and by the Independent Director. The actions that require approval by the Independent Director include (i) the amendment or modification of the Investment Policies, (ii) any amendment or modification of the Company's By-laws that would have a material adverse effect on the interests of the holders or beneficial owners of the Company Preferred Securities, (iii) to the fullest extent permitted by law, any liquidation, dissolution or termination of the Company without a concurrent liquidation of the Bank, (iv) the conversion of the Company into another type of entity or (v) the consolidation or merger of the Company with or into any other entity, the consolidation or merger of any other entity with or into the Company or the sale of all or substantially all of the assets of the Company (except as required by the Company Agreement).

Voting Rights:

The Company Preferred Securities and the Trust Preferred Securities will not have voting rights, except as described below.

Each holder of outstanding Trust Preferred Securities will have the right to direct the Property Trustee acting for the Trust, as holder of the Company Preferred Securities, as to the exercise of the voting rights pertaining to the Corresponding Amount of Company Preferred Securities represented by its respective Trust Preferred Securities, in respect of the matters on which holders of the Company Preferred Securities are entitled to vote, provided that to the extent any holder of Trust Preferred Securities does not so direct the Property Trustee to exercise voting rights in respect of any such matter pertaining to any such Corresponding Amount of Company Preferred Securities, the Property Trustee shall vote or cause to be voted such Company Preferred Securities in the same manner, on a proportionate basis, as it was directed to vote all other Company Preferred Securities in respect of such matter.

If full dividends are not paid on any Dividend Payment Date, the holders of the Company Preferred Securities shall have the right to remove the initial Independent Director and fill the vacancy created by such removal with a person elected by the holders. The person so elected shall be deemed to be an Independent Director irrespective of whether he or she meets the tests otherwise applicable to the Independent Director as described under "*The Company — Management of the Company — Independent Directors*." Such right may be exercised by the holders of a majority (by liquidation preference) of the Company Preferred Securities at a meeting called for such purpose (which the Company Agreement will provide shall be called at the request of any holder of the Company Preferred Securities), and shall continue for as long as the Company Preferred Securities are outstanding. Any vacancy in the office of the Independent Director during such period may be filled only by holders of the Company Preferred Securities voting as set forth above.

Form and Denomination:

The Trust Preferred Securities will be issued in denominations of €1,000 liquidation preference and integral multiples thereof. On the Issue Date, the Trust Preferred Securities will be evidenced by a temporary global certificate, in fully registered form, deposited with a common depositary for Euroclear and Clearstream. No payments with respect to a holder's beneficial interest in the temporary global certificate will be made to the holder thereof without a certification by or on behalf of such holder that it is not a U.S. Person. Not earlier than 40 days after the Issue Date, upon certification of non-U.S. beneficial ownership, a beneficial interest in the temporary global certificate may be transferred to a beneficial interest in a permanent global certificate. Interests in the permanent global certificate will be exchangeable in whole but not in part for definitive Trust Preferred Securities only if (i) the Trust Preferred Securities become ineligible for clearance and settlement through Euroclear and Clearstream and (ii) the Company and the Trust are not able, after using reasonable efforts, to arrange for clearance and settlement of the Trust Preferred Securities through a successor clearing system.

**Certain Covenants of the Bank:**

The Bank will make the following additional covenants in the Subordinated Guarantee in favour of the holders of the Company Preferred Securities, as applicable, for so long as any of the Company Preferred Securities are outstanding:

- (a) the Bank will not issue any preferred or preference shares (or similar instruments qualifying as Tier 1 capital of the Bank) ranking senior to its obligations under the Subordinated Guarantee or give any guarantee or support undertaking in respect of any preferred securities or preferred or preference shares issued by any of its subsidiaries, if such guarantee or support undertaking would rank senior to the Subordinated Guarantee;
- (b) 100% of the Company Common Securities will be held by the Bank or a branch thereof or, with the prior approval of the Bank of Italy, if then required, by one or more subsidiaries of the Bank, each of which is deemed to be a "company controlled" by the Bank within the meaning of Rule 3a-5 of the 1940 Act;
- (c) the Bank will not permit, or take any action to cause, the Company to issue securities other than the Company Common Securities and the Company Preferred Securities;
- (d) the Bank will not permit, or take any action to cause the liquidation, dissolution, winding up or termination of the Company or the Subsidiary unless the Bank is itself in liquidation and the approval of the Bank of Italy, if then required, for such action has been received and all claims under the Subordinated Guarantee have been paid to the fullest extent according to its terms;
- (e) the Bank will not assign its obligations under the Subordinated Guarantee, except in the case of a merger, consolidation or sale of substantially all of its assets, where the Bank is not the surviving entity.

**Use of Proceeds:**

The Trust will apply the proceeds from the issuance of the Trust Preferred Securities to acquire the Company Preferred Securities from the Company. The Company will apply the proceeds from the issuance of the Company Preferred Securities to the Trust, together with proceeds received from the sale of the Company Common Securities to the Bank, to acquire the Subsidiary Subordinated Instrument and other Eligible Investments and pay certain expenses relating to the Offering. The Subsidiary will apply the proceeds from the issuance of the Subsidiary Subordinated Instrument towards the acquisition of the Bank Subordinated Bonds (and similar affiliate securities). The Bank intends to use the proceeds from the issuance of the Bank Subordinated Bonds for general corporate purposes, including to pay expenses relating to the Offering. See "Use of Proceeds."

ERISA Considerations:	No Trust Preferred Security or Company Preferred Security, if applicable, may be purchased or transferred to (i) an "employee benefit plan" that is subject to the fiduciary responsibility provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (ii) a "plan" within the meaning of Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"), (iii) a person whose underlying assets include plan assets by reason of Department of Labor Regulation Section 2510.3-101 or otherwise or (iv) a governmental plan that is subject to any federal, state or local law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code (any such plan or person, a "Plan"). Each Manager, and each subsequent transferee of a Trust Preferred Security or Company Preferred Security by its purchase or acquisition of any such Trust Preferred Security or Company Preferred Security is deemed to represent that it is not a plan or person described in the preceding sentence.
Resale Restrictions:	The Company has not been registered under the 1940 Act and the Company Preferred Securities and Trust Preferred Securities have not been registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except in a transaction pursuant to Regulation S, as described under " <i>Notice to Purchasers</i> ."
Ratings:	The Trust Preferred Securities are expected to be assigned on issue ratings of BBB by Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc., a3 by Moody's Investors Service, Inc. and BBB+ by Fitch IBCA. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Listing:	Application has been made to list the Trust Preferred Securities on the Luxembourg Stock Exchange.
Governing Law:	The Company Agreement, the Trust Agreement, the Company Preferred Securities and the Trust Preferred Securities will be governed by, and construed in accordance with, the law of the State of Delaware, United States of America. The Subordinated Guarantee will be governed by, and construed in accordance with, the law of the State of New York, United States of America. The Subsidiary Subordinated Instrument will be governed by, and construed in accordance with, the law of the Grand Duchy of Luxembourg. The Bank Subordinated Bonds will be governed by, and construed in accordance with, the law of the Republic of Italy.
Common Code Number	013174962
ISIN Number	XS0131749623

## INVESTMENT CONSIDERATIONS

*Prospective investors should carefully consider the following information in conjunction with the other information contained in this Offering Circular before purchasing any Trust Preferred Securities in the Offering.*

### **Risk Associated with the Financial Condition of the Bank and the Importance of the Subordinated Guarantee**

An investment in the Trust Preferred Securities (or the Company Preferred Securities to which they correspond) is intended to provide holders with rights to dividends and liquidation distributions that are substantially the same as, but no greater than, those to which holders would be entitled if they had purchased noncumulative, non-voting perpetual preferred shares issued directly by the Bank that have financial terms that are equivalent to the financial terms of the Trust Preferred Securities (and the Company Preferred Securities to which they correspond).

The Bank did not declare dividends in respect of the financial years ended December 31, 1993 and 1994 following exceptional provisions recorded in such years relating to losses incurred on its lending portfolio. Although the Bank expects to declare dividends in the future, no assurance can be given that the Bank will continue to declare dividends each year in the future, or at all.

The ability of the Company to make payments on the Company Preferred Securities and, consequently, the ability of the Trust to make payments on the Trust Preferred Securities are dependent upon the ability of the Subsidiary to meet its obligations under the Subsidiary Subordinated Instrument and the Bank to meet its obligations under the Bank Subordinated Bonds and the Subordinated Guarantee. The Subsidiary will not be required to make payments of interest on the Subsidiary Subordinated Instrument under certain circumstances. See *"Description of the Subsidiary Subordinated Instrument."*

In addition, it is anticipated that the Subsidiary's only source of income will be the investments it will acquire in connection with the Offering. As a consequence of the foregoing and of the nature of the Subsidiary's investments, there can be no assurance that the net income and assets of the Subsidiary will be sufficient to pay all of the amounts due on the instruments issued by the Subsidiary to the Company.

*For these reasons, holders of the Trust Preferred Securities (and the Company Preferred Securities to which they correspond) must rely on the Subordinated Guarantee issued by the Bank to cover any shortfall between the amounts paid by the Subsidiary (and the issuers of other Eligible Investments) to the Company and the amounts due from the Company to the holders of the Company Preferred Securities.*

The Bank's obligations under the Subordinated Guarantee are subordinated obligations of the Bank ranking behind the claims of holders of Senior Indebtedness of the Bank and before the claims of holders of Bank Junior Securities. Accordingly, if the Bank's financial condition were to deteriorate, the Company and the holders of the Trust Preferred Securities could suffer direct and materially adverse consequences, including suspension of noncumulative dividends on the Company Preferred Securities (and consequently the suspension of noncumulative distributions on the corresponding Trust Preferred Securities) and, if the Bank were liquidated, loss by holders of the Company Preferred Securities or the Trust Preferred Securities of all or part of their investment.

### **Restrictions on Payment of Dividends**

Amounts available to the Trust for distributions on the Trust Preferred Securities will be limited to dividends received by the Trust as holder of the Company Preferred Securities. As to any Dividend Payment Date that is not a Required Dividend Payment Date, the Bank may, for any reason, cause the Company to pay no dividends or less than full dividends on the Company Preferred Securities. Dividends on the Trust Preferred Securities are not cumulative. If no dividends or less than full dividends on the Company

Preferred Securities are paid on any Dividend Payment Date that is not a Required Dividend Payment Date, holders of the Company Preferred Securities (including the Trust and, accordingly, investors in the Trust Preferred Securities) will not be entitled to receive such dividends whether or not funds are or subsequently become available.

### **Liquidation of the Bank**

In the event of a liquidation of the Bank, the Bank will be obligated to pay holders of the Company Preferred Securities the Liquidation Claim Amount. Although the Company will likely be liquidated contemporaneously with the liquidation of the Bank, the Company will not have any other assets available for making liquidating distributions on the Company Preferred Securities. All payment obligations of the Bank under the Subordinated Guarantee are subordinated obligations ranking behind the claims of the holders of Senior Indebtedness of the Bank and before the claims of holders of Bank Junior Securities. In the event that the Bank has insufficient assets to satisfy all of its claims in concurrent liquidation of the Company and the Bank, the investors may receive less than €1,000 in liquidating distributions per Trust Preferred Security.

### **Redemption upon Occurrence of a Special Event**

The Company will have the right, upon the occurrence of a Tax Event, Investment Company Act Event or Tier 1 Disqualification Event (each, a "Special Event"), other than a Tax Event arising out of a Change in Tax Law, prior to the First Call Date to redeem the outstanding Company Preferred Securities in whole but not in part, at a Redemption Price equal to the greater of the Company Preferred Securities Base Redemption Price and the Company Preferred Securities Make Whole Amount and, upon the occurrence of a Change in Tax Law prior to the First Call Date, to redeem the outstanding Company Preferred Securities in whole but not in part at a Redemption Price equal to the Company Preferred Securities Base Redemption Price; *provided* that such redemption shall be subject to compliance with all applicable regulatory requirements, including the approval of the Bank of Italy, if then required. The Trust Preferred Securities will be redeemed if the Company Preferred Securities are redeemed. See "*Description of the Company Preferred Securities — Redemption.*" There can be no assurance that holders of the Company Preferred Securities will be able to reinvest the amounts received upon redemption at a rate that will provide the same return as their investment in the Company Preferred Securities.

### **No Operating History**

The Company, the Trust and the Subsidiary are newly formed entities with no operating history and no revenues to date.

### **No Voting Rights**

The Company Preferred Securities will be non-voting, subject to the limited exceptions described under "*Description of the Company Preferred Securities — Voting Rights,*" "*The Company — Management of the Company — Independent Directors*" and "*Description of the Company Preferred Securities — Amendment and Termination of the Company Agreement.*"

### **Relationship with the Bank and its Affiliates; Conflicts of Interest**

The Bank will be the sole holder of the Company Common Securities and is involved in virtually every aspect of the Company's existence. As the holder of all of the outstanding voting securities of the Company, the Bank will have sole responsibility for the management and administration of the Company, subject to the provisions of the Company Agreement. In addition, the Bank in its sole discretion will have the right to prohibit or limit the payment of dividends on the Company Preferred Securities (subject to the required dividend provisions). There may be circumstances where the Bank will determine that it is in the



best interest of the Bank that no dividends or less than full dividends be paid on the Company Preferred Securities, notwithstanding that it may be in the best interest of holders of Company Preferred Securities that full dividends be paid. Similarly, decisions with respect to enforcement of the Subsidiary Subordinated Instrument or any other Eligible Investments and actions to be taken by the Company upon a failure of payment by the Bank thereunder will be made by the Board of Directors of the Company, which will be controlled by the Bank, as holder of the Company Common Securities. Accordingly, there can be no assurance that under any circumstances enforcement action will be taken by the Company with respect to a failure of payment under the Subsidiary Subordinated Instrument or any other Eligible Investments.

The Company and the Bank intend that any agreements and transactions between the Company, on the one hand, and the Bank or its affiliates, on the other hand, be established in good faith and, to the extent deemed advisable by the Bank, reflect arm's-length terms for such types of transactions. The Company Agreement will require that certain actions of the Company be approved by both a majority of the Board of Directors of the Company as a whole and the Independent Director. This requirement is also intended to ensure fair dealings between the Company and the Bank and its affiliates. However, there can be no assurance that such agreements or transactions will be on terms as favourable to the Company as those that could have been obtained from unaffiliated third parties.

#### **No Prior Market for Trust Preferred Securities; Resale Restrictions**

The Company has not been registered under the 1940 Act, and the offer and sale of the Trust Preferred Securities and the Company Preferred Securities have not been registered under the Securities Act and will be subject to significant restrictions on resale. See "*Notice to Purchasers*." There is no existing market for the Trust Preferred Securities or the Company Preferred Securities, and there can be no assurance that any market will develop for the Trust Preferred Securities or the Company Preferred Securities. Nor can there be any assurance as to the price at which holders of the Trust Preferred Securities will be able to sell their Trust Preferred Securities. Although the Managers have informed the Trust, the Company and the Bank that they intend to make a market in the Trust Preferred Securities, they are not obligated to do so, and any such market-making activity will be subject to the limits imposed by applicable law and may be interrupted or discontinued at any time.

## USE OF PROCEEDS

The Trust will apply the proceeds from the issuance of the Trust Preferred Securities to acquire the Company Preferred Securities from the Company. The Company will apply the proceeds from the issuance of the Company Preferred Securities to the Trust, together with proceeds received from the sale of the Company Common Securities to the Bank, to purchase the Subsidiary Subordinated Instrument and other Eligible Investments and pay certain expenses relating to the Offering. The Subsidiary will apply the proceeds from the issuance of the Subsidiary Subordinated Instrument towards the acquisition of the Bank Subordinated Bonds (and similar affiliate securities).

The Bank expects the net proceeds from the Offering, net of underwriting commissions, to be approximately €158,400,000. The Bank intends to use such net proceeds for general business purposes, including to pay certain expenses relating to the Offering.

## **CAPITALISATION OF THE TRUST, THE COMPANY, THE SUBSIDIARY AND THE GROUP**

The total capitalisation of the Trust as adjusted to give effect to this Offering and the use of proceeds therefrom is €160,000,000. Upon consummation of the Offering, the authorised and issued capital of the Trust will consist of €160,000,000 in Trust Preferred Securities and no outstanding debt.

The total capitalisation of the Company as adjusted to give effect to this Offering and the use of proceeds therefrom is €184,500,000. Upon consummation of the Offering, the authorised and issued capital of the Company will consist of €24,500,000 in Company Common Securities and €160,000,000 in Company Preferred Securities and no outstanding debt.

The share capital of the Subsidiary consists of 100,000 shares with a nominal value of €1.25 per share, all issued and outstanding for a total of €125,000. The Subsidiary will have outstanding debt (consisting of the Subsidiary Subordinated Instrument and other Eligible Investments issued to the Company) of approximately €182,000,000.

As of December 31, 2000, the share capital of the Bank consisted of 271,890,204 Bank Junior Securities with a nominal value of Lit. 5,000 per share.

The following table sets forth the consolidated capitalisation of the Bank, together with its consolidated subsidiaries as of and for the period ending December 31, 2000 and as adjusted to give effect to the offering of the Trust Preferred Securities. There has been no material change in the capitalisation of the Group since December 31, 2000, save for (i) an increase in capital of Lit. 219.9 billion effected by utilising the Bank's capital reserves in order to convert the share capital of the Bank from Lit. 5,000 per share nominal value into Euro 3 per share nominal value effective on 21 May 2001; and (ii) an increase in capital of the Bank resolved upon by the shareholders on April 21, 2001 and expected to be effective in the second half of June 2001 upon the completion of an offer by the Bank to existing shareholders and holders of its convertible notes of 9 new shares with a nominal value of Euro 3 for each 25 existing shares or notes already held. In addition, in June 2001, the Bank expects to issue subordinated upper tier 2 and subordinated tier 3 notes pursuant to its Euro 2,000,000,000 Euro Medium Term Note Programme. For an indication of the proposed amount of such issues, see *"– Banca Popolare di Milano S.C.a r.l. – Recent Developments – Information Concerning the Acquisition, Business and Structure of BdL – Financing the Acquisition"*.

**As of December 31, 2000**

	Actual	As adjusted
	(billions of lire)	
Debt:		
Sums owed to banks .....	17,931	17,931
Sums owed to customers .....	28,584	28,584
Notes.....	—	—
Subordinated debt.....	1,494	1,494
Total debt .....	48,009	48,009
Preferred Securities of Companies in the Group .....	—	310
Minority interests.....	2	2
Shareholders' equity:		
Share capital.....	1,359	1,359
Additional paid-in capital.....	540	540
Reserves <sup>(1)</sup> .....	1,093	1,093
Net income .....	442	442
Total shareholders' equity .....	3,434	3,434
Total capitalisation.....	4,930	5,240

(1) Includes the Group's revaluation reserve, which was equivalent to Lit. 67 billion as of December 31, 2000. The Group does not have a reserve for general banking risks.

**Capital Adequacy of the Bank**

The Bank of Italy has adopted risk-based capital guidelines pursuant to the EU capital adequacy directives. Italy's current capital ratio requirements are in line with the requirements imposed by the international framework for capital measurement and capital standards of banking institutions of the Basle Committee on Banking Regulations and Supervisory Practices (the "Basle Committee"). The capital adequacy guidelines set forth Tier 1 and Tier 2 capital requirements relative to a bank's assets and certain off-balance sheet items weighted according to risks ("Risk-Weighted Assets"). See *"The Banking Sector in Italy."*

Under the Bank of Italy's guidelines, risk-weighted capital ratios are required to be calculated for the Bank on an unconsolidated basis and for the Bank and its consolidated subsidiaries as a group. In addition, certain of the Group's banking subsidiaries are subject to the capital adequacy guidelines on a stand-alone basis. The Group is required to maintain a consolidated total capital ratio (which is the ratio of total capital to total Risk Weighted Assets) of at least 8%, and each of its banking subsidiaries is required to maintain a total capital ratio on a stand-alone basis of 7%. See *"The Banking Sector in Italy."* At December 31, 2000, the Group's consolidated total capital ratio was 9.88% and the Bank's was 9.46%.

## DIVIDEND HISTORY OF THE BANK

The total dividends paid to shareholders and dividends per Bank Junior Security and per savings share paid by the Bank with respect to each of the last four years are shown in the table below.

	<b>Total dividend to holders of Bank Junior Securities</b>	<b>Dividends per Bank Junior Security</b>
	(Millions of lire)	(lire)
Year ended December 31		
1997 .....	84,100	315
1998 .....	96,602	360
1999 .....	108,354	400
2000 .....	119,632	440

## **THE COMPANY**

BPM Capital I LLC is a Delaware limited liability company formed on June 19, 2001 for the purpose of (i) issuing the Company Preferred Securities and the Company Common Securities, (ii) acquiring and holding the Subsidiary Subordinated Instrument issued by the Subsidiary, (iii) acquiring and holding certain Eligible Investments and (iv) performing functions necessary or incidental thereto. The Company's certificate of formation was filed with the Secretary of State of the State of Delaware on June 19, 2001, and the Bank, as sole member of the Company, entered into a limited liability company agreement on that date. The Company intends to continue its operations pursuant to an Amended and Restated Limited Liability Company Agreement of the Company (the "Company Agreement") to be dated as of the Issue Date between the Bank, as holder of the Company Common Securities, the Trust, as holder of the Company Preferred Securities, and the persons who may from time to time become additional holders of the Company Preferred Securities. Subject to the limitations and assumptions described under "*Taxation — U.S. Taxation*," the Company will not be taxable as a corporation for United States federal income tax purposes.

The Bank and the Company intend to treat the Company Preferred Securities as Tier 1 capital for purposes of the consolidated risk-based capital guidelines of the Bank of Italy.

Upon consummation of the Offering, the Company will have outstanding 1,000 Company Common Securities, all of which will have been acquired by the Bank at an aggregate purchase price of €24,500,000. The Bank has agreed in the Subordinated Guarantee that, so long as any Company Preferred Securities are outstanding, it will maintain direct or indirect ownership of 100% of the outstanding Company Common Securities, representing 100% of the voting rights in the Company (subject to the limited rights of holders of the Company Preferred Securities to select the Independent Director and other rights as described herein).

The principal executive offices of the Company will be located at c/o Global Securitization Services, LLC, 114 West 47th Street, Suite 1715, New York, NY 10036. Copies of the Company Agreement will be available upon request to the Bank or free of charge at the specified office of the Paying Agent in Luxembourg.

### **Business and Strategy of the Company**

#### ***General***

The Company will apply the proceeds from the issuance of the Company Preferred Securities to the Trust, together with the proceeds received from the issuance of the Company Common Securities to the Bank, to acquire the Subsidiary Subordinated Instrument and other Eligible Investments. The Subsidiary Subordinated Instrument and other Eligible Investments will generate net income for distribution by the Company to the Trust as holder of the Company Preferred Securities (and consequently for pass through by the Trust to holders of the Trust Preferred Securities) and to the Bank as holder of the Company Common Securities.

#### ***Dividends***

The Company currently expects to pay an aggregate amount of dividends with respect to the outstanding Company Preferred Securities and the Company Common Securities equal to approximately 100% of the interest received by the Company on the Subsidiary Subordinated Instrument and other Eligible Investments.

It is anticipated that dividends with respect to Company Preferred Securities will be payable by the Company out of the interest received by the Company on the Subsidiary Subordinated Instrument and other Eligible Investments. Under the Delaware Limited Liability Company Act, the Company may not make

dividend or other distributions on the Company Preferred Securities or the Company Common Securities if, after giving effect to the distributions, the Company's liabilities would exceed the fair value of its assets. The Company is precluded by the Company Agreement from incurring any indebtedness for borrowed money and does not anticipate having any material liabilities.

The Company generally has no obligation to pay dividends on the Company Preferred Securities. However, the Company will be required to pay the Required Dividend Payment Amount on Required Dividend Payment Dates; provided, that all dividends will be paid out of funds legally available therefor, including any amounts required to be paid under the Subordinated Guarantee. See "*Description of the Company Preferred Securities — Dividends — Required Dividends.*"

### ***Investment Policies***

The Company's Investment Policies will initially be established pursuant to the Company Agreement. Under the Investment Policies, the Company may not hold or invest in any securities other than "Eligible Investments," which term includes the Subsidiary Subordinated Instrument and other instruments of the Bank or one or more subsidiaries of the Bank, each of which is deemed to be a "company controlled" by the Bank within the meaning of Rule 3a-5 of the 1940 Act.

The Company's Investment Policies will require that the Company maintain its assets in a manner (i) that will not require the Company to be registered as an investment company under the 1940 Act, (ii) that will not give rise to a Special Event and (iii) that will not cause the Company to be taxable as a corporation under the Code.

The Investment Policies may be amended only by the affirmative vote of both a majority of the entire Board of Directors and the Independent Director. The Company will be prohibited by the Company Agreement from selling the Subsidiary Subordinated Instrument or any Eligible Investments. If the Subsidiary were to redeem the Subsidiary Subordinated Instrument, the proceeds of such redemption would be required to be invested in accordance with the Company's Investment Policies as they exist at the time of such redemption and investment.

### ***No Indebtedness***

The Company will be prohibited by the Company Agreement from incurring indebtedness for borrowed money.

### ***Employees and Administration Agreement***

Prior to issuing the Company Preferred Securities, the Company and Global Securitization Services, LLC will enter into an Administration Agreement pursuant to which Global Securitization Services, LLC will provide (or cause to be provided) certain accounting, legal, tax and other support services to the Company, assist the Company in maintaining compliance with all pertinent U.S. local, state and federal laws and provide necessary administrative, record keeping and secretarial services to the Company. Under the Administration Agreement, the Company will agree to reimburse the provider of such services from time to time for the value of services provided by such provider to the Company on an arm's-length basis.

The Company will maintain limited liability company records and audited financial statements that are separate from those of the Subsidiary or any of its affiliates. None of the officers, employees or directors of the Company will have any direct or indirect pecuniary interest in any security to be acquired or disposed of by the Company or in any transaction in which the Company has an interest. The Company's first set of accounts will be in respect of the period from June 19, 2001 to December 31, 2001.

## **Legal Proceedings**

The Company is not the subject of any litigation. None of the Company, the Subsidiary, the Bank or any of its affiliates is currently involved in nor, to the Company's knowledge, currently threatened with any litigation with respect to the Company Preferred Securities, the Subsidiary Subordinated Instrument or any aspect of the Company's operations.

## **Management of the Company**

### **Directors and Executive Officers**

The Company Agreement will provide that the Company's Board of Directors will at all times be composed of three members, one of whom will be an Independent Director. The directors will be designated as "managers" of the Company within the meaning of the Delaware Limited Liability Company Act. The directors will serve until their successors are duly elected and qualified. There is no current intention to alter the number of directors comprising the Board of Directors. The Company will have three officers at issuance of the Company Preferred Securities. It is currently anticipated that all of the officers of the Company will also be officers or employees of the Bank or its affiliates. The Company Agreement will provide that meetings of the Board of Directors be held outside of Italy.

The persons who are directors and executive officers of the Company are as follows:

<b>Name</b>	<b>Position and Offices Held</b>
Mr. Giampiero Bergami .....	Director, Chairman and President
Mr. Giuseppe Morisi .....	Director and Secretary
Mr. Andrew Stidd .....	Independent Director

Each of the initial directors (other than the Independent Director) and officers of the Company are individuals who are officers or employees of the Bank or the Subsidiary. The initial Independent Director is Mr. Andrew Stidd, who is President and CEO of Global Securitization Services, LLC. The Company Agreement will provide that a majority of the directors shall not be residents of Italy.

### **Independent Director**

Under the Company Agreement an "Independent Director" will be (i) an individual who is not and has not been during the preceding three years, an officer or employee of the Bank or an affiliate of the Bank and who does not own Bank Junior Securities having a fair value of €500,000 or (ii) any individual elected by the holders of the Company Preferred Securities under the circumstances described in "Description of the Company Preferred Securities — Voting Rights," regardless of whether such person meets the independence test set forth in clause (i) hereof.

Under the Company Agreement, the Independent Director, in determining whether any proposed action requiring his approval is in the best interests of the Company, will consider the interests of the Company as a whole.

The Company Agreement will provide that, for so long as any Company Preferred Securities are outstanding, certain actions by the Company must be approved by both a majority of the Board of Directors as a whole and by the Independent Director. The actions that require approval by the Independent Director include (i) the amendment or modification of the Investment Policies, (ii) any amendment or modification of the Company's by-laws that would have a material adverse effect on the interests of the holders or beneficial owners of the Company Preferred Securities, (iii) to the fullest extent permitted by law, any liquidation, dissolution or termination of the Company without a concurrent liquidation of the Bank, (iv) the conversion of the Company into another type of entity, or (v) the consolidation or merger of the Company with or into any other entity, the consolidation or merger of any other entity with or into the Company or the



sale of all or substantially all of the assets of the Company (except as required by the Company Agreement).

If full dividends are not paid on any Dividend Payment Date, the holders of the Company Preferred Securities shall have the exclusive right to replace the existing Independent Director with an Independent Director of their choosing. Each person so elected shall be deemed to be an Independent Director, irrespective of whether he or she meets the independence test described above. Such right may be exercised by the holders of a majority (by liquidation preference) of the Company Preferred Securities, acting by written consent, or at a meeting called for such purpose (which the Company Agreement will provide shall be called at the request of any holder of the Company Preferred Securities), and shall continue for as long as the Company Preferred Securities are outstanding. Any vacancy in the office of the Independent Director during such period may be filled only by holders of the Company Preferred Securities voting as set forth above.

#### ***Compensation of Directors and Officers***

The Company intends to pay the initial Independent Director a fee for his services as a director of the Company equal to \$3,500 per annum, plus reimbursement of expenses for attendance at each meeting of the Board of Directors.

#### ***Limitations on Liability of Directors and Officers***

The Company Agreement will provide that the Company's directors have no personal liability to the Company or its security holders for monetary damages (i) for not voting to take enforcement action with respect to the Subsidiary Subordinated Instrument or other Eligible Investments owned by the Company, if any, prior to the occurrence of the entering of (A) a judgment initiating bankruptcy proceedings in respect of the Bank under Italian law, or (B) notification by the Bank of Italy, in its sole discretion, to the Bank and the Company that it has determined, in view of the deteriorating financial condition of the Bank, that the foregoing clause (A) would apply in the near term, or (ii) at any time for breach of any such director's duties (including fiduciary duties), if any, except for such director's gross negligence or willful misconduct. The Company Agreement will provide that the Company will indemnify any director or officer of the Company for any loss, damage, claim or expense (including reasonable counsel fees) incurred by such director or officer by reason of any act or omission performed or omitted by such director or officer in good faith on behalf of the Company in a manner reasonably believed to be within the scope of authority conferred on such director or officer by the Company Agreement, except for liability determined by a court of competent jurisdiction to have arisen out of such director's or officer's gross negligence or willful misconduct; *provided, however*, that if the Company does not so indemnify for any such loss, damage, claim or expense or can only pay such loss, damage, claim or expense in a manner that would allocate such loss, damage, claim or expense against the interests of the holders of the Company Preferred Securities, the Bank will so indemnify any director or officer of the Company for any such loss, damage, claim or expense; and *provided, further*, that any indemnity shall be provided out of and to the extent of any director and officer insurance policy. The Company Agreement will provide that the right to indemnification is a contract right. The Company Agreement will provide that the Company may purchase and maintain insurance to protect any director or officer against any liability asserted against him or her, or incurred by him or her, arising out of his or her status as such.

## THE TRUST

BPM Capital Trust I is a statutory business trust created under the Delaware Business Trust Act pursuant to a certificate of trust filed with the Delaware Secretary of State and the execution of a trust agreement of the Trust on June 19, 2001. The Trust will continue its existence from and after the Issue Date pursuant to the Amended and Restated Trust Agreement (the "Trust Agreement") to be entered into by and among the Company, as grantor, The Bank of New York, as Property Trustee, and The Bank of New York (Delaware), as Delaware Trustee as of the Issue Date.

The Trust will be formed for the sole purpose of (i) holding the Company Preferred Securities and the related rights under the Subordinated Guarantee, (ii) issuing Trust Preferred Securities representing a *Corresponding Amount of Company Preferred Securities to be held by the Trust* and (iii) performing functions necessary or incidental thereto. The Trust cannot issue other equity securities or any debt securities or engage in any other activities. The Company Preferred Securities and the related rights under the Subordinated Guarantee issued by the Bank will be the only assets of the Trust.

As set forth in, and subject to, the Trust Agreement, the Property Trustee and the Delaware Trustee will have exclusive and complete authority to carry out the purposes of the Trust.

Subject to the limitations and assumptions described under "*Taxation — U.S. Taxation*," the Trust will be treated as a grantor trust for United States federal income tax purposes, with the result that holders of Trust Preferred Securities will be treated as beneficial owners of Company Preferred Securities and related rights under the Subordinated Guarantee for United States federal income tax purposes.

All expenses and liabilities of the Trust other than payments required under the terms of the Trust Preferred Securities will be paid by the Company; *provided, however*, that if the Company does not pay such expenses or liabilities or can only pay such expenses or liabilities in a manner that would allocate such expenses or liabilities against the interests of the holders of the Company Preferred Securities, the Bank will pay such expenses or liabilities, and, *provided, further*, that if the Trustees of the Trust incur fees, charges or expenses at the request of a holder of Trust Preferred Securities or other person for which the Trust is not otherwise liable under the Trust Agreement, such holder or other person will be liable for such fees, charges and expenses.

The principal executive offices of the Trust will be located at The Bank of New York, 101 Barclay Street, Floor 21W, New York, NY 10286. Copies of the Trust Agreement will be available upon request to the Bank or free of charge at the specified office of the Paying Agent in Luxembourg.

## THE SUBSIDIARY

BPM Luxembourg S.A. is a directly controlled subsidiary of the Bank organised under the laws of the Grand Duchy of Luxembourg as a public limited company with a share capital of €125,000 represented by 100,000 registered shares having a par value of €1.25 per share, fully paid. The two founding shareholders of the Subsidiary are (i) the Bank, which holds 99,000 shares and (ii) Banca Akros S.p.A., which holds 1,000 shares.

The Subsidiary will be formed on June 27, 2001. The sole purpose of the Subsidiary is: (i) to issue the Subsidiary Subordinated Instrument or one or more other Eligible Investments, (ii) to use the proceeds from such issuance toward the purchase of the Bank Subordinated Bonds issued by the Bank and in the discretion of the Subsidiary, a similar security issued by an affiliate of the Bank that will qualify as an Eligible Investment or U.S. government bonds, (iii) to hold the Bank Subordinated Bonds and such related subordinated debt instruments and (iv) to perform functions necessary or incidental thereto.

The Subsidiary will be managed by a board of directors, which will be composed at least of three members. The directors will be elected by the shareholders at their annual meeting. The initial directors of the Subsidiary will be:

<u>Name</u>	<u>Position and Office Held</u>
Marco Ferrario .....	Director
Paul Richardson .....	Director
Alberto Braghò .....	Director

The Subsidiary does not expect to have other sources of income. As a consequence of the foregoing and of the nature of the Subsidiary's investments, there can be no assurance that the net income and assets of the Subsidiary will be sufficient to pay all of the amounts due on the instruments issued by the Subsidiary to the Company. Because payments made by the Subsidiary to the Company will, in turn, be used to pay dividends or other distributions on the Company Preferred Securities, holders of the Company Preferred Securities (and, consequently, holders of the Trust Preferred Securities to which such Company Preferred Securities correspond) must rely on the Subordinated Guarantee from the Bank to cover any potential shortfall in the flow of payments.

The principal executive offices of the Subsidiary will be located at 5, rue Eugène Ruppert, L-2453 Luxembourg.

## **BANCA POPOLARE DI MILANO S.C.a r.l.**

### **General**

The Group, "Bipiemme – Banca Popolare di Milano", is a leading Northern Italian banking group and the 12th largest group in Italy in terms of total assets. The parent company, Banca Popolare di Milano, operates mainly in the region of Lombardy (where 72% of its branches are located, as of December 31, 2000) and is also present in the regions of Emilia Romagna, Piedmont, Lazio and Puglia, in which it limits its activities to specific provinces where it maintains important market shares. The Group predominately provides commercial banking services for both retail and small and medium-sized corporate customers and, in addition, offers its customers capital market services, brokerage services, debt and equity underwriting, asset management, insurance underwriting and sales, leasing and factoring services.

At December 31, 2000, the Group had total assets of Lit. 54,776 billion, a net customer loan portfolio of Lit. 29,310 billion, Lit. 28,117 billion in customer deposits and Lit. 3,434 billion in shareholders' equity. For the year ended 2000, the Group had an average shareholders' return on equity of 14.8%.

The Group had, as of December 31, 2000, 483 retail Italian branches and 18 corporate banking centres, located in 13 of the 20 regions of Italy, as well as a branch in each of New York and London. The headquarters of the Group is located at Piazza Filippo Meda 4, Milan, Italy.

### **History**

The Bank was incorporated as a *Società Cooperativa a responsabilità limitata* (S.C.a r.l.), a limited liability co-operative company, on December 12, 1865.

The Bank's corporate purposes, as established by Articles 5 and 6 of its by-laws, are the granting of credit to its members through co-operation and the acceptance of deposits, together with carrying out own- or client-account banking transactions and providing banking services of all kinds, although strictly excluding operations of a purely speculative nature. In granting credit, the Bank gives preference to its members and to small loans. The Bank may engage in any banking, financial or intermediation transaction or service, subject to obtaining any official approvals necessary and to its compliance with relevant legislation; it may also undertake any other operation that is conducive or otherwise related to achieving its objectives.

The Bank was established by members of the Milan community to promote savings in the community and provide banking services to support customers' business activities. The Bank continued as a community bank through to the end of World War II when it then began to extend its presence beyond Milan, principally through the acquisition of controlling interests in a number of other local co-operative Italian banks, including Banca Popolare di Roma (acquired in 1957, one branch), Banca Popolare Cooperativa Vogherese (acquired in 1979, five branches), Banca Popolare di Bologna e Ferrara (acquired in 1988, 24 branches) and Banca Popolare di Apricena (acquired in 1989, 25 branches). As part of the continuing strategy to increase its presence in the region of Lombardy, the Group acquired controlling interests in Banca Briantea in 1960 (60%), a regional bank with operations in the provinces of Como and Bergamo, and Banca Agricola Milanese in 1986 (55.2%), a regional bank with operations in the province of Milan. In November 1997, the Group merged these two banks into the Bank. On March 31, 1998, the Group acquired 83.5% of the equity securities of Banca 2000 (formerly INA Banca Marino S.p.A.) for approximately Lit. 123 billion in order to increase the Group's presence in Rome. Banca 2000 merged with the Bank pursuant to a merger agreement dated June 15, 1999.

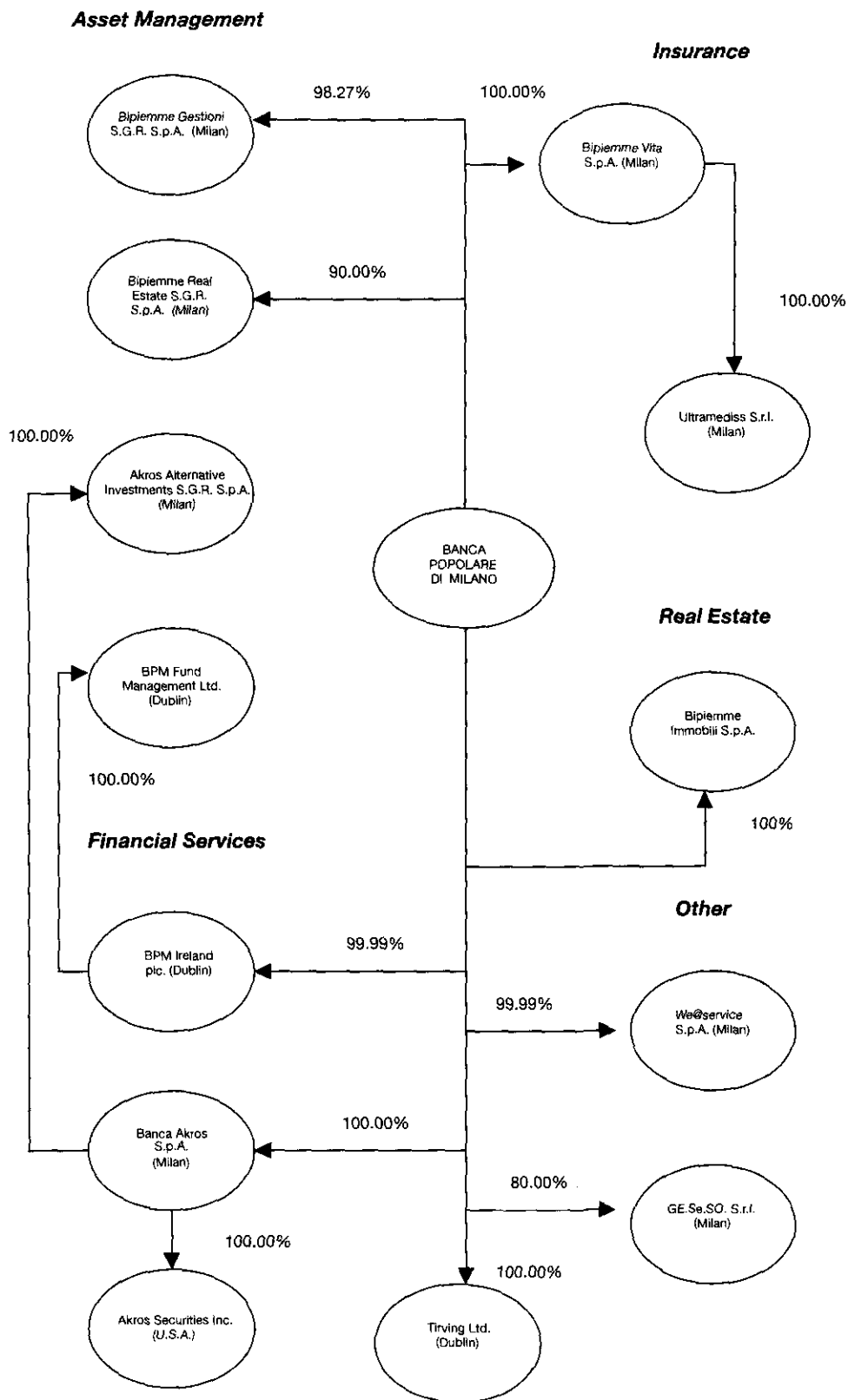
To strengthen the Group's presence in the financial sector, in the second half of 1998, the Bank acquired the entire share capital of Banca Akros S.p.A., an investment bank carrying out investment and private banking business with domestic and foreign institutions, high profile enterprises and private clients of high net worth.

In December 2000, the Bank agreed to purchase a 55% shareholding in Banca di Legnano S.p.A., a regional Italian bank ("BdL"), for a purchase price of Lit. 1,300 billion. In addition, the Bank agreed to launch a public take-over offer for the balance of the shares of BdL. See "*Recent Developments*".

The Bank, which is the Group's largest operating entity, is the parent company of the Group and as such is responsible for monitoring the Group's activities and maintaining the relationship with the Bank of Italy. During 1999, the Group sought to enhance its image as an international institution capable of offering customers increasingly specialised and innovative services. Consequently, companies operating in the managed savings sector redefined their business, and Bipiemme Gestioni SIM S.p.A. was absorbed by Ges.Fi.Mi. S.p.A., which changed its name to Bipiemme Gestioni SGR S.p.A. Increased efforts were also made to maximise the operative and commercial synergies between the parent bank and Banca Akros S.p.A., Bipiemme Gestioni SGR S.p.A., Bipiemme Vita S.p.A. and BPM Ireland plc, each playing a particular role in terms of business and target markets. Furthermore, in order to diversify its products and services, BPM established BPM Fund Management Ltd, a subsidiary of BPM Ireland plc, and Bipiemme Real Estate SGR SpA and Akros Securities Inc, a company incorporated in Delaware, USA.

In May, 1994, the ordinary shares of the Bank were listed on the *Telematico* as part of an increasing effort to diversify and internationalise its investor base. As of December 31, 2000, the authorised and issued share capital of the Bank was Lit. 1,359,451,020,000 composed of 271,890,204 ordinary shares with a nominal value of Lit. 5,000 per ordinary share. Due to its organisation as a limited liability "co-operative" company, the ordinary shares of the Bank are widely held, and a significant number of the Bank's shareholders are employees and customers. As of December 31, 2000, the Bank had approximately 114,154 shareholders, of which approximately 18,000 were employees, retired employees and family members of employees and 415 of which were institutional investors and corporate entities.

## Group Structure



## Strategy

The extensive commercial and regulatory changes experienced by the Italian banking system since the early 1990s have increased competition and required banks to revise their strategies and restructure in order to be in a position to compete with other banking institutions. In response to this changing environment, the Bank has started a process of transforming itself from a regional co-operative bank into a European style bank by merging Banca Agricola Milanese, Banca Briantea and Banca 2000 into the Bank, increasing its focus on asset management activities, improving credit risk authorisation procedures through the implementation of a sophisticated credit scoring system, increasing its presence in its significant geographic regions of operations and pursuing operating efficiencies.

In this context, the Group's principal strategies are to enhance profitability and strengthen its position as one of the leading banking groups in Northern Italy by: (i) developing new commercial channels (phone and Internet banking) beyond the traditional branch network; (ii) enhancing operating efficiencies; (iii) increasing lending with a focus on small- and medium-sized companies; (iv) offering high quality products throughout its distribution network separately targeted to retail and corporate customers; (v) maintaining asset quality; (vi) expanding fee generating activities; (vii) investing in technological innovation; and (viii) diversifying its funding sources and increasing its Tier I and Tier II capital.

## Activities

### General

The Group is principally involved in commercial banking, capital markets and other financial activities, asset management and custody and services. The table below sets forth the contribution of each principal business activity to the net operating revenues of the Group for the two years ended December 31, 1999 and 2000, based upon the Consolidated Income Statements.

### Activities

	Year ended December 31,			
	2000	(%)	1999	(%)
	(Lit. in millions)		(Lit. in millions)	
Commercial banking <sup>(1)</sup> .....	1,614,060	67.2	1,392,096	66.7
Securities dealing, brokerage activities <sup>(2)</sup> .....	265,307	8.6	177,087	11.0
Asset management and custody <sup>(3)</sup> .....	398,179	17.2	356,340	16.4
Other <sup>(4)</sup> .....	143,916	7.1	146,370	5.9
<b>TOTAL INCOME</b> .....	<b>2,421,462</b>	<b>100.0</b>	<b>2,071,893</b>	<b>100.0</b>

#### Notes to table:

- (1) Includes the interest margin and the net commission fees for the cashing and payment services, on guarantees, on other services, and on the expenses recovered in relation to deposits that are in debit.
- (2) Includes profits from securities trading and currency trading, and net commissions from orders.
- (3) Includes net commissions from asset management services and from securities underwriting.
- (4) Includes miscellaneous revenues, among which rental income, dividends, profits from shareholdings and participation in companies at their net worth, and taxes recovered, with recourse, from customers.

### Commercial and Retail Banking Activities

The Bank conducts the Group's commercial and retail banking activities. The Bank offers a broad range of commercial banking products and services to retail and primarily small- to medium-sized corporate customers. These products and services include deposit-taking (including savings deposits and current accounts, the issuance of debit cards in connection therewith, and sales of certificates of deposit

("CDs") and bonds (i.e., medium-term instruments sold to investors, like CDs, on demand)); short-, medium- and long-term lending (including export financing, mortgage and other secured and unsecured lending); traditional, as well as electronic, payment services; and the extension of revolving credit lines (including the issuance of credit cards) as well as certain foreign currency exchange services. The Bank's New York and London branches provide corporate deposit-taking and short-, medium- and long-term lending services. The Group's net commercial banking revenues (including principally net interest income and net operating revenues from collection and payment services) accounted for approximately 67% of the Group's consolidated net operating revenues for the year ended December 31, 2000.

As of December 31, 2000 the Group's loan portfolio (net of provisions for bad debt) totalled Lit. 37,338 billion. The Bank's aggregate deposits, CDs and bonds totalled Lit. 46,515 billion at such date. At December 31, 2000, Lit. 44,095 billion of the Bank's funding was comprised of instruments with a maturity of 12 months or less, principally in the form of current accounts and other demand deposits. Funding with a maturity of more than 12 months for banking activities was principally in the form of bonds and CDs and accounted for Lit. 2,420 billion at December 31, 2000.

The following table sets forth the principal sources of the Group's funding for the years ended December 31, 1999 and 2000:

	Year ended December 31,	
	2000	1999
	(Lit. in billions)	
Current accounts.....	18,953	16,623
Savings deposits.....	1,194	1,302
Repurchase agreements.....	2,641	2,566
CDs.....	1,874	1,633
Debentures.....	3,440	3,255
Others.....	15	8
Total customer deposits.....	28,117	25,386
Bank deposits, current accounts and CDs.....	15,960	15,229
Outstanding checks.....	467	338
Repurchase agreements with banks and others.....	1,971	1,091
Total interbank deposits, outstanding checks.....	18,398	16,658
Subordinated liabilities.....	1,493	711
Total funding.....	48,008	42,755

The following tables set forth information regarding the maturity of outstanding funding by source as at December 31, 1999 and 2000.

	At December 31, 2000						Total
	Banks	Customers	Bonds	CDs	Other Securities	Sub- ordinated Liabilities	
	(Lit. in billions)						
Funding by Remaining Life Demand ..	2,782	18,289	0	12	467	0	21,550
Up to 3 months.....	10,393	4,502	241	2,961	0	0	18,097
Between 3 and 12 months.....	2,598	6	965	879	0	0	4,448
Between 1 and 5 years – Fixed Rate ..	8	1	1,740	70	0	0	1,819
Between 1 and 5 years – Floating .....	0	1	304	4	0	0	309
Beyond 5 years – Fixed Rate.....	99	0	191	0	0	719	1,009
Beyond 5 years – Floating .....	0	0	0	0	0	775	775
Unspecified maturity.....	0	1	0	0	0	0	1
Total funding.....	15,880	22,800	3,441	3,926	467	1,494	48,008



## At December 31, 1999

	Banks	Customers	Bonds	CDs	Other Securities	Sub- ordinated Liabilities	Total
<i>(Lit. in billions)</i>							
Funding by Remaining Life Demand ..	2,117	18,465	5	17	338	0	20,942
Up to 3 months .....	9,864	2,005	83	2,386	0	0	14,338
Between 3 and 12 months .....	2,505	23	468	649	0	3	3,648
Between 1 and 5 years – Fixed Rate ..	10	3	2,311	155	0	0	2,479
Between 1 and 5 years – Floating .....	0	0	334	7	0	0	341
Beyond 5 years – Fixed Rate .....	244	0	55	0	0	708	1,007
Beyond 5 years – Floating .....	0	0	0	0	0	0	0
Unspecified maturity .....	0	0	0	0	0	0	0
Total funding .....	14,740	20,496	3,256	3,214	338	711	42,755

### Distribution Network

#### General

The Bank distributes all of its commercial banking products and services through its branches and through financial advice centres known as “financial points” for customers, a network of financial promoters and the Internet.

As of December 31, 2000, the Group had 483 retail branches (including its virtual branch, We@bank and the branch of Banca Akros S.p.A.) and 18 corporate banking centres in 13 regions across Italy, as well as one branch in each of London and New York. In addition, the Bank has at its disposal twelve financial points and eighty financial promoters.

The strategic aims for the national network are to:

- reinforce the Bank's presence in its traditional territories, as reflected in the recent acquisition of a majority interest in Banca di Legnano;
- diversify and focus client relations on different market segments, increasing points of contact with clients, for example through the growth of financial points;
- strengthen direct banking;
- rationalise territorial coverage, eliminating overlapping branches resulting from recent mergers; and
- restructure the existing network to improve the quality of service.

During the year 2000 the Bank increased the number of its financial points from three to twelve. A small group of consultants and financial advisors works in each of these offices, their operations complementing those traditionally performed by the branch network: they provide financial advice and accept instructions from customers mostly in the middle to upper range of the market, without being the direct holders of the customers' current accounts and/or securities portfolio.

The Bank has plans to expand its network of financial advisors. They have a direct relationship with the Bank and work with a segment of customers requiring specific management of their finances and highly personalised advice. The number of advisors in the network, currently around 80, is planned to reach 120 over the course of 2001.

The Bank's territorial expansion is also dictated by the introduction of the new branch organisational model (the PRO project) and the launch of new direct banking channels.

### ***The “PRO Project”***

During 2000 the Bank completed the new organisational model for its branch network, known as the “PRO Project”, focusing on skills, customer relations and objectives (*Professionalità, Relazioni, Obiettivi*) and involving a reorganisation of the banking network into the two divisions: Retail and Corporate. Retail branches serve personal customers and small and medium-sized enterprises, with turnovers of Lit. 10 billion or less, while Corporate branches serve businesses with higher turnovers. Businesses with turnover of Lit. 500 billion or more are assisted by a specialised division within the Corporate Division.

With the completion of the PRO project, the whole of the Bank’s lending activities were refocused on different customer segments, based on the same model as the branch network, with the aim of improving the loan approval process, and reducing both the time taken for the provision of the loans and the direct costs.

### ***Direct Banking***

The Bank made its debut on the Internet in 1997 with the launch of its web site ([www.bpm.it](http://www.bpm.it)), which mainly provides information on BPM, its structure and its products. The Group has been developing a multi-channel approach, under which the traditional branch network is complemented by virtual branches, through which information and transactions may pass and connect the Bank with its customers at every moment.

InLineaWeb was the first Internet banking product focusing on the Bank’s retail customers. At December 31, 2000 the service was in use by 61,000 customers, with a total of over a million and half page views. InLineaWin, aimed at small- and medium-sized corporate customers, allows integration with customers’ own IT systems. With 8,000 customers, approximately 8 million transactions had taken place across remote banking interfaces at the end of 2000, for a total value of over Lit. 25,600 billion, representing 52.7% of BPM’s transactions over the year. In 2001, inLineaWin will be gradually replaced by inLineaNet, a new home and corporate banking service for businesses which will allow customers to open a direct channel with the Bank, exchanging banking and financial data using internet technology.

The Bank has also begun preparing an integrated online payments system to be known as BIP (Best Internet Payments), to be used in business-to-consumer (B2C) e-commerce. The project seeks to manage financial flows associated with e-commerce and expand the customer base, both in terms of consumers and businesses.

In October 1999, after investing in information technology, the Bank began to work on a new Internet service, We@bank, which represents an alternative channel to the traditional branch and aims to gain new customers thanks to its independent market and product strategies.

Launched on the market at the end of January 2000, We@bank has reached two of its principal aims: it has increased the loyalty of current BPM clients through the use of new technology, and brought in new customers interested in pure Internet banking. At the end of 2000, We@bank had over 68,000 customers, of which 75% were new to BPM. In the closing months of 2000, the percentage of trading orders executed was around 40% of the total for BPM. We@bank is now a leading provider of Internet banking and trading services, both in the range of services offered and the number of clients served. Alliances have recently been formed with the holiday company Grandi Viaggi and the consumer electronics company Esprinet for the offer of new services and products to customers, and an agreement with Mail Boxes Etc., which should produce commercial and logistical synergies.

In October 1999 BPM also introduced Risponde BPM, a phone banking service with a wide range of activities through which BPM’s customers can purchase products and use the Bank’s service with a freephone call, guaranteeing the utmost security and confidentiality without restrictions over time or place.

## **Retail Banking**

The Bank provides a full range of banking products and services to its retail customers. The Bank offers its retail customers interest bearing checking (or "current") accounts and other deposit accounts (including savings accounts, together with related debit cards and cards for access to the Bank's ATM network), CDs, lira-denominated overdraft facilities, mortgage loans, consumer loans, personal loans, and utility bill payment services. The Bank also offers tax payment services to its retail clients as well as deposit, custody of securities and safety-box services.

The Group currently manages 22 mutual funds, the shares of which are offered to retail customers through the Bank branch network. Assets under management were Lit. 25,875 billion as of December 31, 2000 (Lit. 25,148 billion of December 31, 1999), of which Lit. 12,050 billion were mutual funds. The products offered in this sector include:

- "Copernico" and "MulticontoFamiglia", two "sweep facility" accounts tailored to different levels of deposits which automatically transfer all account balances in excess of a client-determined average into a securities account;
- 12 management policies – *linee di gestione* – whose asset allocation consists of investment funds and SICAVs; and
- "Target" and "Personal Asset," two individual management products.

In addition, through its distribution network, the Banks offer retail customers fee- or commission-generating services of the Group, including lease financing services and life insurance products. To a lesser extent, the Bank also offers (on a commission basis) mutual funds of third parties. Through its distribution network, the Bank offers retail spot foreign exchange services as well as forward foreign exchange contracts.

At December 31, 2000, deposits from the Bank's retail customers (defined as individuals and small enterprises with turnover of less than Lit. 10 billion), represented approximately 74% of its total customer lire deposits, while loans to retail customers represented approximately 44% of its total customer loans.

## **Corporate Banking**

The Group provides a full range of corporate banking products and services to its corporate customers, which are businesses with a turnover of between Lit. 10 and 500 billion. Relations with businesses with a turnover over Lit. 500 billion are handled by a specialised unit of the Corporate Division. Over the course of the year 2000, the commercial strategy for the Corporate Division has been completely revised, with the reorganisation of the branch network into retail and corporate branches and the introduction of the "PRISMA project" that now represents the business plan for the Corporate Division. The Corporate Division also provides corporate banking services to foreign corporations (including their Italian subsidiaries) and to public sector entities. The Bank offers its 11,000 corporate customers interest-bearing current and savings accounts, as well as CDs for deposits denominated in Italian lire and foreign currencies, as well as short- (up to 12 months), medium- and long-term (over 12 months) loans denominated in Italian lire or other currencies, revolving credit facilities, overdraft facilities, export/import financing and certain bill payment services. Further, the Bank offers its corporate customers some fee- or commission-generating services of the Group (and of certain companies in which the Group has a limited equity participation), including lease financing services, discounting (or "factoring") and advanced financing of business contracts. In addition, the Bank offers its corporate customers spot foreign exchange services and, for certain customers approved by the Bank, interest rate and foreign exchange forward contracts. Through its branches and centralised processing systems, the Bank also provides other fee-based services to its corporate customers, such as payroll payments, money transfer services, as well as payment of VAT, social security and corporate taxes.

The Bank's principal commercial lending instruments include pre-authorised current account overdraft facilities, import/export financing, and revolving credit facilities, medium- and long-term loans and guarantees. At December 31, 2000, loans to corporate customers represented approximately 56% of the Bank's aggregate loans to customers. At December 31, 2000, the deposits of corporate customers represented approximately 26% of the Group's total customer lire-denominated deposits.

### ***Foreign Branches and Commercial Agreements***

The Group has branch offices in London and New York, two subsidiaries in Dublin and one in Delaware, USA, as well as commercial agreements with certain overseas banks.

*New York Branch.* The New York branch, established in 1982, engages in a variety of commercial banking activities, including lending, deposit-taking, accepting and making interbank deposits and investing in certain debt securities. The branch's lending activities have focused principally on lending to U.S. companies and U.S. subsidiaries of Italian companies. In addition, the New York branch invests in Italian Government debt securities and debt securities of certain highly rated U.S. and European corporations (typically either floating rate instruments or fixed rate instruments for which it enters into interest rate swaps in order to synthetically create floating rate instruments).

*London Branch.* The London branch engages in a variety of commercial banking activities, including lending, deposit-taking, accepting and making interbank deposits and investing in certain debt securities. The branch's lending activities to date have focused principally on lending to European companies or Italian companies with European businesses. The branch engages in making loans directly, as well as participating in and arranging syndicated loans. In addition, the branch invests in Italian Government debt securities and debt securities of European companies (typically either floating rate instruments or fixed rate instruments for which it enters into interest rate swaps in order to synthetically create floating rate instruments).

The Bank's headquarters in Milan sets financial risk parameters with which the New York and London branches must comply, although they are responsible for day-to-day operations. The New York and London branches are also very active in below-the-line transactions, in particular lending and the grant of guarantees (principally, in back up facilities and credit default swaps) for highly-rated multinational companies.

As at December 31, 2000, foreign branches had, on a cumulative basis, customer deposits of Lit. 2,512 billion (Lit. 1,658 billion on December 31, 1999), equal to 8.9% of the total Group's customer deposits (6.5% as at December 31, 1999); net customer loan portfolio of Lit. 4,862 billion (Lit. 4,677 billion as at December 31, 1999), equal to 16.6% of the Group's total net customer loan portfolio (19.4% as at December 31, 1999); net operating revenues of Lit. 81.7 billion (Lit. 62.9 billion as at December 31, 1999), equal to 3.4% of the Group's net operating revenues (3.0% as at December 31, 1999); income before taxes of Lit. 57.3 billion (Lit. 26.4 billion as at December 31, 1999), equal to 8.0% of the Group's income before taxes (4.8% as at December 31, 1999).

The Group is also making efforts in order to strengthen its international presence through the establishment of strategic agreements with foreign banking institutions. Over the last several years, the Group has entered into co-operation agreements with the Spanish bank La Caixa, Barcelona, with Groupe Credit Mutuel in France, with the German bank Stadtsparkasse Koeln, Cologne and with the Raiffeisen Zentralbank Oesterreich in Austria, aiming at creating reciprocal commercial opportunities for corporate customers, as well as implementing and promoting some of the Group's financial products and services through their respective distribution networks.

The Bank's subsidiary in Dublin, BPM Ireland plc, which was established in 1998 within the International Financial Services Centre (IFSC), engages primarily in the trading of financial instruments. It also manages another Eire-based company, BPM Fund Management Ltd, which operates the Dublin

International Fund, a UCITS harmonised fund under Irish law which the Bank intends to offer to the Group's retail customers as soon as approval is granted by the Bank of Italy. The Bank also holds a 20% equity stake in ALCOR Bank S.A., a Luxembourg-based bank specialising in asset management activities.

The Bank's recently established Akros Securities Inc. Delaware – U.S.A. is operating as a broker dealer on the American stock markets, carries orders on international bond markets and operates on behalf of foreign institutional investors on the Italian Stock Exchange.

## Loan Portfolio

As of December 31, 2000, the Group's total loans (net of provisions for bad debt and for credit risks) equalled Lit. 37,338 billion, representing 68% of its total assets. As of December 31, 2000, loans to customers (net of provisions) equalled Lit. 29,310 billion, or 78% of total net loans, while loans to banks (net of provisions) equalled Lit. 8,028 billion or 22% of total net loans.

The Bank has recently redesigned its systems for the grant of credit, with the investigatory, evaluation and decision making processes streamlined, with the result that the time required for loan approval has been substantially reduced. In particular, the Corporate division is developing systems under which clients will be awarded an internal rating, based on, *inter alia*, the views of the Bank on the clients' management, and quantitatively on how it has performed financially and in its relations with the Bank, and on the performance of the sector in which it operates.

The Corporate division's clientele is drawn from across the Italian economy. The Bank is particularly strong in sectors such as retail and wholesale distribution, building and public works, and the chemical, metals and textiles industry. To avoid over-dependence on any particular sectors, the Bank periodically reviews different sectors' progress, bearing in mind also any seasonality or volatility.

## Loans by Type of Facility

The following table sets forth the gross loans to customers of the Group by type of facility at the dates shown.

	<b>At December 31,</b>	
	<b>2000</b>	<b>1999</b>
Type of Loans:	(Lit. in billions)	
Overdrafts on current accounts .....	6,073	5,171
Advances .....	4,172	4,230
Mortgage loans and other amounts (not settled via current accounts) <sup>(1)</sup> .....	14,298	9,993
Of which mortgages .....	4,692	3,551
Other loans .....	745	619
Commercial loans .....	25,288	20,013
Financial loans <sup>(2)</sup> .....	3,840	3,937
Non-performing loans .....	182	195
Total gross loans to customers .....	<u>29,310</u>	<u>24,145</u>

### Notes to table:

- (1) Such other amounts include loans to small businesses, guaranteed loans, loans to private customers and loans made by foreign branches.
- (2) Financial loans include short-term loans pursuant to stand-by lines of credit for customers managing liquidity and stand-by loans.

The following table provides further analysis of the Group's gross customer loans (other than such loans generated from the Bank's New York and London branches) to domestic non-financial businesses and personal businesses (e.g., partnerships and sole proprietorships) as at December 31, 1999 and 2000.

	<b>At December 31,</b>	
	<b>2000</b>	<b>1999</b>
	<b>(%)</b>	
Agriculture .....	0.9	0.9
Energy .....	2.6	2.6
Minerals .....	2.4	2.8
Chemicals .....	7.7	3.3
Metals .....	5.1	5.1
Machines .....	5.8	8.3
Electrical Materials and Supplies .....	3.7	3.9
Transports .....	1.7	1.5
Foods .....	3.5	4.1
Textiles .....	4.1	4.8
Paper and Printing .....	2.3	2.6
Rubber and Plastics .....	2.0	2.6
Other Industrial Products .....	1.9	2.2
Building and Construction Industry .....	8.2	6.0
Retail Trade .....	17.1	20.0
Services (Transport, Marine, Hotels) .....	4.0	4.7
Communication Services .....	1.6	9.0
Other Services .....	25.4	15.6
<b>Total</b> .....	<b>100.00</b>	<b>100.00</b>

### **Capital Markets and Other Financial Activities**

The Group is engaged in a variety of other financial activities, including treasury operations for its own account and providing to both retail and corporate customers a broad range of capital market services (i.e. securities brokerage and underwriting, derivatives brokerage, corporate banking).

### ***Treasury Operations and Capital Markets Trading Activities***

The Bank engages for its own account in various treasury activities such as money market operations both in the domestic and foreign currencies, foreign exchange operations as well as securities and derivatives trading.

The Treasury Department, in accordance with market risk limits fixed by the top management of the Bank, analyses and selects products and executes transactions with a range of risk profiles aimed at achieving profitability targets. The Treasury Department is managing a portfolio of investment securities with both medium term horizons ("*Portafoglio Tesoreria*") and with short term horizons ("*Portafoglio Negoziazione*"). Both portfolios are valued at mark to market.

The Group earned interest income of Lit. 713 billion and Lit. 573 billion from its portfolio of securities for the years ended December 31, 2000 and 1999 respectively.

Pursuant to the decisions of the Liquidity Committee, which also fixes the guidelines for the asset and liability management, the Treasury Department is also engaged in the use of the financial derivatives (such as interest rate swaps) to maximise the profitability of investments that are sensitive to interest rate fluctuations.

The money market activity is mainly concentrated, with regard to the domestic market, in the Italian regulated interbank deposit market ("*MID*"); with regard to the foreign currency deposits activity, the Bank operates with high-profile counterparties and the counterparty risk is monitored on a daily basis.

Securities trading is mainly concentrated in the Italian regulated markets, such as the MOT and MTS for Italian government securities, and the MTA for the Italian equities. With regard to the derivatives trading, the Bank operates in the most important international markets such as LIFFE and CBOT, EUREX and CME.

Risk exposure is kept at a low level: the Value at Risk (calculated with a holding period of 10 days and with a confidence level of 99%) of the trading portfolio of the Bank was approximately Lit. 11.6 billion (Lit. 6.8 billion as at December 31, 1999).

From the beginning of the year 2000, the Treasury Department has also implemented a new front-office system with the aim of improving the efficiency both of the management of the various portfolios and the overall information needed by the Treasury Financial Controller.

The Bank is a market maker in seven *Iso Alfa* contracts, which are option contracts on certain underlying equity securities traded on the Italian Derivatives Market ("IDEM"), run by Borsa Italiana S.p.A.

The Group is active in participating in syndicates for the underwriting and allocation of equity and debt issues. In 2000, the Group participated significantly in such issues, in particular share issues. Within the BPM Group, Banca Akros S.p.A. is very active on investment and private banking and it plays an important role in the Group's project to boost its presence on Italian and international financial markets extending the range of products and services offered to institutional customers, large and medium-sized companies and high net worth individual customers. It is particularly active in brokering and dealing of securities, equities and derivatives: it is a market maker in European government securities and one of the leading Italian operators in derivatives markets. It is also increasing its operations in the underwriting and placement of securities issued by institutions and corporations.

Banca Akros is a member of the regulated markets managed by Borsa Italiana S.p.A. as well as of EuroMTS, Eurex and Matif. At the end of 2000, Banca Akros S.p.A. tripled the amount of its trading on the ordinary equities market, achieving turnover of approximately Euro 50 billion. This has resulted in an increase in market share of 3% and Banca Akros S.p.A. is now the tenth largest operator on the market, with the highest rate of growth in the top ten, with strong growth also in the equity futures markets, where market share has risen from 4.5% in 1999 to 5.7% in 2000, making Banca Akros S.p.A. the third largest player.

### ***Asset Management***

The Group's asset management activities include management of mutual funds and discretionary management, as well as the management of Bipiemme Vita's portfolio of assets. These activities are conducted by Bipiemme Gestioni SGR and Banca Akros, and are marketed principally through the Bank's branch network. The Group's financial advisors (*promotori finanziari*) may also sell the Group's asset management products and services. Bipiemme Gestioni SGR (formerly Ges.fi.mi.), a 98.27% owned subsidiary, has recently been established in order to concentrate management and distribution of the mutual funds and the discretionary asset management, providing customised portfolio management services and financial planning for high net-worth individuals. Bipiemme Gestioni SGR also manages "sweep facility" accounts which automatically transfer all balances in excess of a client-determined total amount into a securities account invested (at the discretion of the client) in short-term or long-term Italian government securities.

Two new companies have been incorporated to diversify the range of products offered, and both in nature and in performance: Bipiemme Real Estate SGR, a 90% owned subsidiary, managing closed real estate mutual funds, including the ethical fund Investietico, to be marketed this year, and Akros Alternative Investments SGR S.p.A., a wholly-owned subsidiary of Banca Akros S.p.A., for the formation of non-traditional funds that will allow the Group to reach institutional and high net worth individuals with sophisticated financial requirements.

Set forth below is the breakdown of assets under management of the Group as at the dates indicated.

	<b>At December 31,</b>	
	<b>2000</b>	<b>1999</b>
	(Lit. in billions)	
Portfolio (Discretionary) Management		
<i>Private accounts managed by the bank</i> .....	0.0	0.0
<i>Accounts managed by Bipiemme Gestion<sup>(1)</sup></i> .....	11,344	10,630
Mutual funds <sup>(2)</sup> .....	12,191	13,185
Assets under custody <sup>(3)</sup> .....	28,921	26,873
Total funds under management and custody by consolidated entities .....	52,456	50,688
Life insurance <sup>(4)</sup> .....	2,340	1,333

Notes to table:

- (1) Includes "sweep account" facilities and GPM Banca Akros.
- (2) Data are net of mutual funds that are also included in the "Portfolio Fondi" asset management and of mutual funds that are placed through third parties.
- (3) Data are for retail customers.
- (4) Represents the technical reserves.

The Group had assets under management of Lit. 25,875 billion (which includes Lit. 2,340 billion of assets relating to life insurance) as at December 31, 2000.

### ***Custodial Activities***

The Bank offers asset custodial and administrative services, accepting securities and other assets from clients for safekeeping and management. The Bank earns fees, which vary depending on the terms of the particular agreement, calculated as a percentage value of the assets under custody. The Bank earned Lit. 32 billion from such activities in 2000.

### ***Non-Consolidated Activities and Certain Equity Investments***

**Life Insurance.** Although currently wholly owned, Bipiemme Vita S.p.A. is accounted for using the equity method of consolidation. The company offers life insurance products, including unit- and index-linked policies, and accident and illness insurance. All of the Bank's distribution channels are employed to offer the products. Total premiums reached Lit. 1,101 billion in the year 2000 (Lit. 808 million in 1999), with technical reserves of Lit. 2,340 billion as of December 31, 2000 (Lit. 1,333 billion as of December 31, 1999), from 121,000 life policies (74,000 in 1999) and 2,900 other policies. Bipiemme Vita S.p.A. wholly controls Ultramediass S.r.l. which exclusively manages its policies and made commissions in 2000 of Lit. 22 billion, of which 95% passed to the Bank, whose network exclusively distributes the products in Bipiemme Vita S.p.A.'s portfolio.

**Leasing.** The Group offers to its clients the leasing services of a 38.35%-owned company, SelmaBipiemme Leasing S.p.A., controlled by Mediobanca banking group. Services are distributed through the Group's branch network (as well as by other means), and the Group earns commission income from such sales. In 2000, SelmaBipiemme Leasing S.p.A. increased its share capital from Lit. 24.3 billion to Lit. 80.2 billion, and the Bank's interest as a percentage of the total share capital remained unchanged. One of the purposes of increasing the capitalisation in this way was to purchase an 80% shareholding in Teleleasing S.p.A., a company specialised in the leasing of telecommunications equipment. In the six months ended December 31, 2000 SelmaBipiemme Leasing S.p.A. showed a net profit of Lit. 3.8 billion



(Lit. 4.9 billion in the same period in 1999), with 7,058 new agreements signed at a total value of Lit. 626 billion (compared with 5,075 agreements in the same period in 1999, for a total value of Lit. 726 billion).

The Group realised Lit. 2.0 billion in commission income from its distribution of the services of SelmaBipiemme Leasing S.p.A. for the year ended December 31, 2000 (Lit. 2.1 billion in 1999).

## **Competition**

The Group faces significant competition from a large number of other banks and financial institutions that operate in Italy. The Bank's competitors can be divided into two categories: medium-sized local banks and nation-wide or multi-regional institutions. In attracting retail deposits and financing retail customers and small and medium-sized companies, the Bank competes locally primarily with medium-sized companies, and to a lesser extent with multi-regional banks. The Bank competes with nation-wide and multi-regional Italian banks (including branches of non-domestic banks that operate in Italy) in other areas of business.

The deregulation of the banking sector throughout the European Union, and in particular in Italy, has contributed to increasing competition in both deposit-taking and lending activities which has resulted in a progressive narrowing of spreads between deposit and loan rates. Moreover, the implementation of the EC Directives has encouraged a consolidation process in the banking system, creating larger and more competitive institutions. In addition, foreign banking institutions operating in Italy are growing in number and are regarded as effective competitors mainly in corporate banking and sophisticated services related to asset management, securities dealing and brokerage activities.

## **Properties**

The Bank owns its headquarters building located at Piazza Filippo Meda 4, Milan, Italy. The Bank also owns properties that are recorded with a net book value at December 31, 2000 of Lit. 417.6 billion (of which Lit. 386.7 billion of book value represents operating properties, such as the head office and branches).

Non-operating properties, recorded with a net book value of Lit. 30.9 billion at December 31, 2000, include residential and commercial real estate, provide rental income, but at same time they are in an extraordinary sales programme. In 2000, the total amount of sales proceeds was Lit. 51.0 billion with a capital gain of Lit. 21.4 billion and total rental income was approximately Lit. 3.0 billion.

In addition, part of functional properties are rented for office use to some companies of the Group (including Bipiemme Vita and Bipiemme Gestioni SGR) with a total annual yield of approximately Lit. 1.4 billion.

The Bank acquired certain properties in connection with the restructuring of loans to some corporate customers. The most important acquisition is Bipiemme Immobili which is the successor company to Asor S.p.A., a company from the Ferruzzi Finanziaria group ("Ferruzzi") acquired by the Bank as part of an agreement reached in 1996 in connection with Ferruzzi's liquidation. Bipiemme Immobili's primary assets are three properties located in Milan, with an aggregate net book value of approximately Lit. 108.4 billion as of December 31, 2000. A substantial part of one of the properties, which has a book value of Lit. 97.3 billion, is currently being converted into office space, to be used as the Group's service centre. The works will be completed in the second half of 2001. The two other properties are expected to be sold when market conditions are appropriate.

As of December 31, 2000, the aggregate book value of the properties owned by the Group was Lit. 526.2 billion, with an estimated market value of over Lit. 1,110 billion.

## Legal Proceedings

The Italian tax authorities have notified the Bank that they are investigating its taxable income for the years 1982 to 1994, which they believe to have been understated. The Bank believes that the claims of the tax authorities are without merit and that the tax position it has taken is consistent with applicable law, in particular judgments that have emerged since the investigations were opened. The Bank believes it has made adequate provisions in relation to any claims that might emerge.

The Bank is subject to certain other claims, and is a party to a number of legal proceedings, relating to the normal course of its business. Management believes that the liabilities related to such claims and proceedings are unlikely to have, in the aggregate, a material adverse effect on the Group's financial condition or results of operations since the Bank has already recorded adequate provisions.

## Market Risks and Asset and Liability Management

The Risk Management department is responsible for constantly monitoring the Bank's exposure to risk and promptly identifying any market, liquidity or operational risk. This department defines the methodology and works with the credit department to develop systems to control lending and concentration risks, providing management with information for all areas exposed to risk.

The Bank's Risk Management function also monitors interest rate risk using an Asset & Liability Management system which measures any mismatch between asset and liabilities by maturity and the re-pricing of interest-rate sensitive items. This system monitors interest rate risk using the interest rate gap and liquidity risk, using the liquidity gap.

The figures at December 31, 2000 indicate that a hypothetical 1% shift, upwards or downwards, in the rate curve would generate an increase of Lit. 96.7 billion, or a decrease of Lit. 72.5 billion, respectively, in the interest margin in the next 12 months (compared with, as at December 31, 1999, a decrease of Lit. 40 billion and an increase of Lit. 50 billion, respectively, produced by a hypothetical 0.5% change in interest rates). Analysis of the impact that the same rate change would have on the current equity value shows that it is substantially free of risk from such an interest rate change.

The calculations at December 31, 1999 and 2000, indicate the following figures (expressed in years):

	<b>At December 31,</b>	
	<b>2000</b>	<b>1999</b>
Duration of assets: .....	0.40	0.40
Duration of liabilities: .....	0.39	0.37
Duration of the gap: .....	0.04	0.06

The duration of the gap falls to 0.013 as at December 31, 2000 (0.010 as at December 31, 1999) if off-balance sheet positions are taken into account.

In 2000, the Bank's Treasury department brought in a new front office system, with the aim of improving the efficiency of the managers of individual portfolios and to provide the department's financial controller with fuller, more effective information.

## Licenses and Trademarks

There are no licenses or trademarks relevant to the performance of the Group except for the trademarks and logos relating to the Bank and other companies of the Group and to the Group's products, including We@bank.

## Loan Classification

Pursuant to Bank of Italy classification, the Group divides its loans into separate categories: (i) good credit loans; (ii) troubled loans (i.e., a loan in which the borrower is temporarily insolvent); or (iii) bad loans (i.e., non-performing loans, typically for borrowers for which insolvency or similar proceedings have been instituted). In addition, the Bank of Italy requires banks to report loans which are restructured and under restructuring. In accordance with Italian law, the Bank must, like other Italian banks, report its loan classification monthly to the Bank of Italy. Management evaluates and estimates each loan included among troubled or bad loans monthly and, if deemed warranted, records a specific provision for the expected loss.

The following table sets forth the Group's loans to customers by performing loans and categories of classified loans at December 31, 1999 and 2000.

	At December 31,			
	2000		1999	
	(Lit. in billions)	(%)	(Lit. in billions)	(%)
Good loans .....	28,838	96.7	23,653	95.7
Non-secured loans subject to "country risk" .....	119	0.4	104	0.4
Troubled loans .....	220	0.7	221	0.9
Bad loans .....	463	1.6	536	2.2
Restructured loans.....	177	0.6	195	0.8
Total gross loans to customers .....	29,817	100.0	24,709	100.0
Writedowns of credit risk .....	(326)		(397)	
Provision for good loans .....	(181)		(167)	
Total writedowns.....	(507)		(564)	
Total net loans to customers .....	29,310		24,145	

## Provisions for Bad Debt and Other Provisions

The Bank accounts for credit losses on loans by making specific provisions and charging the amount of such provisions against net income. Such specific provisions are tied to the expected loss on each non-performing loan, troubled loan and, if deemed required, on certain performing loans. The Group's loan portfolio is monitored on a regular basis to review the prospects of recovery and the estimated losses. Each loan is evaluated at least every six months and after these evaluations, if deemed warranted a charge to provisions for bad debt is recorded to reflect possible loan losses. Loans appear on the balance sheet net of the cumulative provision for bad debt.

The following table sets forth an analysis of the Group's charges to provisions for bad debt as they affect the income statement of the Group for the years ended December 31, 1999 and 2000.

	<b>At December 31,</b>	
	<b>2000</b>	<b>1999</b>
	<i>(Lit. in millions)</i>	
Write downs of loans .....	(127,543)	(162,424)
Writeoff of loans not previously provided for .....	(74,220)	(62,084)
Total adjustments to loans .....	(201,763)	(224,508)
Writebacks of loans previously written down .....	18,411	9,284
Collection of loans previously written down .....	68,003	58,940
Total writebacks of loans.....	86,414	68,224

## Recent Developments

In December 2000, the Bank agreed to purchase a 55% shareholding in Banca di Legnano S.p.A. ("BdL"), a regional Italian bank, for a purchase price of Lit. 1,300 billion. The purchase is scheduled to be completed by June 30, 2001. In addition, the Bank agreed to launch a public take-over offer for the balance of the shares of BdL. In line with Italian take-over law, the price of the public take-over offer, Lit. 30,587 (approximately Euro 15.80) per share, represents the arithmetic average of the purchase price of the majority shareholding equal to Lit. 47,225 per share and the average weighted market price of the shares over the 12 months prior to the date of execution of the purchase agreement of Lit. 13,949 (approximately Euro 7.20) per share.

### *Information Concerning the Acquisition, Business and Structure of BdL*

Banca di Legnano S.p.A. BdL is a regional Italian bank with a dominant presence in the northern part of the province of Milan and in Varese in the north of Italy. Founded in 1887 to serve local businesses, BdL has since consolidated its position as a primary local retail bank servicing private customers and small- to medium-sized businesses.

In addition to traditional retail banking services, BdL provides brokerage and leasing services and management of investment portfolios. BdL has a total network of 68 branches in the traditionally rich industrial heartland of Northern Italy throughout the provinces of Milan (47), Varese (18) and Novara (3) where, based on BdL management estimates calculated from Bank of Italy statistics, it holds a 2.17%, 4.50% and 1.60% market share respectively.

BdL also operates *i-b@nk*, an Internet service which, through password protected access, allows customers to obtain information and provide instructions in relation to current accounts and trading on line (*Bidielle Trading*).

According to the annual financial statements of BdL for the year ended December 31, 2000, as at November 30, 2000, BdL had a market share of 0.17% of total Italian bank customer loans and 0.20% of total Italian bank customer deposits.

As at December 31, 2000, BdL had total assets of Lit. 4,468 billion, customer deposits of Lit. 2,936 billion, customer loans of Lit. 3,115 billion and shareholders' equity of Lit. 519 billion compared to Lit. 4,464 billion, Lit. 2,853 billion, Lit. 2,742 billion and Lit. 516 billion, respectively, as at December 31, 1999. For the year ended December 31, 2000 (based on its income statement) BdL had total income of Lit. 214 billion, operating margin of Lit. 60 billion and gross profit before taxes of Lit. 48 billion compared to Lit. 185 billion, Lit. 36 billion and Lit. 42 billion, respectively, for the year ended December 31, 1999. BdL's net profit for 2000 was Lit. 24 billion, unchanged in comparison to the previous year. As at December 31, 2000, BdL had a total of 814 employees.

*Acquisition by the Bank.* On December 19, 2000, the Board of Directors of the Bank resolved to purchase a majority shareholding in BdL from Banca Commerciale Italiana S.p.A. (now known as IntesaBci S.p.A., "BCI"). The shareholding to be acquired, which will rank in full for dividends in respect of the financial year ending December 31, 2001, comprises 27,527,500 ordinary shares representing 55% of BdL's total Lit. 50,050 million nominal value of share capital.

The total purchase price for the 55% share is Lit. 1,300 billion, equal to Lit. 47,225 (Euro 24.39) per BdL share. Lit. 250 billion was paid as an advance deposit at the date of execution of the preliminary purchase agreement on December 19, 2000; Lit. 500 billion was paid on April 9, 2001, the date of authorisation from the Bank of Italy for the acquisition; and the interest-free balance is to be paid at the date of execution of the final agreement upon transfer of BdL's shares which is scheduled to take place no later than June 30, 2001.

Management believes that the purchase price takes into consideration the highly competitive local market conditions, with relatively stable levels of concentration of the principal national players.

Under the terms of the purchase agreement, BCI provided usual representations and warranties, and it was agreed that the Bank has the right, at its discretion, to transfer credits for up to Lit. 300 billion, without recourse (*pro-soluto*), and securities for a total maximum amount of Lit. 30 billion to BCI or its subsidiaries. In addition, BCI gave a general indemnity covering potential contingent liabilities and non-existent assets of up to Lit. 50 billion, with an exclusion of Lit. 7.5 billion, and complete protection from liabilities related to any unpaid taxes or social security contributions.

The Bank undertook to launch a public take-over offer for the purchase of all the remaining 22,522,500 ordinary shares of BdL. In line with Italian take-over law, the price of the public take-over offer, Lit. 30,587 (approximately Euro 15.80) per share, represents the arithmetic average of the purchase price of the majority shareholding equal to Lit. 47,225 per share and the average weighted market price of the shares over the 12 months prior to the date of execution of the purchase agreement of Lit. 13,949 (approximately Euro 7.20) per share.

*Financing of the Acquisition.* Financing of the purchase price, both in relation to the acquisition of the majority shareholding and the purchase of the shares under the take-over offer, will be covered from the liquid assets of the Bank.

The transaction will have a significant impact on the Bank's consolidated solvency ratios. The Bank's consolidated capitalisation will be reduced mainly due to the effect on core capital (Tier I capital) of the goodwill arising on consolidation, and due to the effect on supplementary capital (Tier II capital) of the related reduction in the calculation of subordinated liabilities. In addition to the reduction in capitalisation, there will also be a significant increase in risk-weighted assets. The Bank has estimated that, following completion of the acquisition, its solvency ratio will fall from 9.88% at December 31, 2000 to approximately 4.7% in the case of acquisition of BdL's entire share capital.

In order to ensure the balanced development of the Group and comply with established capital adequacy limits following the undertaking to acquire BdL, the Board of Directors of the Bank, on February 13, 2001, resolved upon a series of matters aimed at the recapitalisation of the Bank. Two of the main resolutions relate to the issue of Tier I capital and Tier II capital as described below.

The Tier I capital issue will consist of a share capital increase of Euro 466.45 million (of which Euro 129.26 million represents share premium) by means of a rights issue of new shares to existing shareholders and noteholders of the Bank's convertible notes. The Tier I recapitalisation will also include the issue of preference shares for a total of Euro 160 million. The Tier II capital issue will consist of the issue of hybrid equity instruments (Upper Tier II Subordinated Notes) for approximately Euro 160 million under the Programme.

Other steps related to the Bank's capitalisation resolved upon by the Board of Directors of the Bank in February 2001 were aimed at reducing risk-weighted assets. In order to cover market risks, the Bank expects to issue up to Euro 150 million Tier III subordinated notes under the Programme. Further securitisation of customer loans and securities will be effected in order to reduce risk-weighted assets by approximately Euro 1,600 million and consequently to release approximately Euro 130 million worth of capital.

Save for the Euro 466.45 million planned share capital increase of the Bank, the amounts of each issue referred to above may be varied. Such amounts were authorised by the Board of Directors on the basis of known values in February 2001 and may change according to developments in such values in order to ensure the maintenance of sound capital ratios.

*Objectives of the Acquisition.* The acquisition will strengthen the Bank's market share in a geographic area characterised by a particularly developed economy, thus improving the Bank's competitive advantage in that region. The market shares of the Bank in the Northern Italian provinces in which BdL is present, i.e. Milan, Varese and Novara, would become relatively significant as a result of the acquisition. According to the Bank's management estimates, calculated using Bank of Italy statistics, in the province of Milan, the Bank's overall market share would increase from 11.58% to 13.75%, in the province of Varese from 7% to 11.5% and in the province of Novara from 4.28% to 5.88%.

In addition to increasing its market shares, the Bank expects to realise economies of scale and achieve cost reductions through the acquisition. Costs could be decreased through the efficiencies realised by the integration of the two operating structures, in particular the integration of organisational and information technology processes and the centralisation or outsourcing of back office activities. At the same time Group turnover and profitability are expected to be enhanced based on increase in local market share and more stringent credit worthiness standards required of borrowers.

*Plans Developed by the Bank in Relation to the Purchase of BdL.* A business plan for the period 2001-2004 is currently being finalised by the Bank with a focus on: (i) the integration of BdL within the Group, through the harmonisation of the two structures to their full consistency in respect of organisation, the granting of loans, credit monitoring and internal controls, (ii) an increase of BdL's productivity/profitability to the Bank's levels, and (iii) the realisation of economies of scale and Group synergies.

In particular, in these three areas the Bank's plans are as follows:

- *Territorial distribution.* The business plan sets out the overall territorial composition of the Group following a process by which the limited number of BdL branches that overlap with those of the Bank and new BdL branches are identified. In particular, new outlets are planned in areas which are not currently served by BdL or the Bank, and in large centres where the Bank is already present, but serves a different customer base than that targeted by BdL. Development of commercial structures is further planned through a network of financial centres for customers and financial promoters. In addition, methods for the use of innovative channels (Call Centres and Internet Banking) which were developed by the Bank with significant economies of scale advantages, are currently being evaluated for offer to BdL customers.
- *Commercial distribution.* The business plan defines the organisational/procedural and managerial steps that will result in distribution of Group products through the BdL network. Such steps provide for the leverage of BdL's image and brand name in the retail sector. In particular, implementation of a new distribution model, already deployed by the Bank, consists of a division between retail and corporate customers.

Traditional customer funding and lending products will be offered and communicated to BdL's customers mainly under the BdL name. Lending services will be increasingly offered to local

small- and medium-sized companies with attention to their credit worthiness. Lending will be targeted at BdL's traditionally served industrial sectors such as textiles, leather tanning, shoes and chemicals and the Bank's credit worthiness evaluation instruments will be used.

With respect to asset management, BdL will distribute the products of Bipiemme Gestioni SGR S.p.A. and Bipiemme Vita S.p.A. with joint product advertising and customer communication. In addition, a process for transformation from funds' administration to asset management activities will advance through the use of new customer relationship management techniques currently in use by the Bank and through the acquisition of new customers. BdL's customer base is expected to develop through the opening of new outlets in both existing territories and in those currently not yet served.

- **Synergies.** The business plan identifies the structures in which synergies and economies of scale can be achieved through maximum integration. In particular, organisational and information technology processes are expected to be centralised at the Bank, and back office activities are planned to be centralised or outsourced. Adaptation of the information technology systems will be an important element for the development of the commercial and multi-channel offering described above and is expected to be an area of significant cost savings.

Adaptation of BdL's systems for sale of the Bank asset management products is expected to take place by the end of 2001. Subsequently, the BdL network will be equipped with electronic mail and individual productivity instruments used by the Bank. The full migration of the BdL systems is expected to be completed in the second half of 2002.

The integration of BdL into the Bank will significantly reduce head counts in BdL's central management. Similarly, activities and services of highly standardised and reduced added value will be centralised within the Bank or outsourced to third parties. Human resources that have been engaged in such activities are expected to be deployed in commercial activities and a training plan for BdL employees is currently being established.

***Relations Between the Bank and BdL Before and After the Acquisition.*** At the date of execution of the preliminary purchase agreement, December 19, 2000, relations of the Bank with BdL consisted of ordinary inter-bank activities for the provision of reciprocal services and the management of liquid assets. At the beginning of 2001, however, Bipiemme Gestioni SGR S.p.A., a subsidiary of the Bank, entered into two agreements with BdL, one for the sale of its mutual open-ended funds and another for the subscription, for and on behalf of third parties, of quotas of mutual investment funds.

***Material Effects of the Acquisition.*** The acquisition will mainly contribute to growth in the Bank's size and market share in line with management's aim of developing the Bank's distribution capacity in its traditional areas of dominance. Such developments are expected to strengthen the Bank's competitive position and profitability. Notwithstanding the economies of scale expected from the integration of the Bank and BdL structures, in the short term the acquisition will not have a significant impact on strategic policies followed by other companies within the Group.

Following the acquisition, the Group will grow its distribution network by 14% from the current total of 483 retail branches to a total of 551. Such growth is significant for the Group's rationalisation plans for its outlets, and in particular for alternative outlets such as financial centres for customers, the Bank's network of promoters and on-line banking channels which represent potential for higher margins and reduced costs. Growth in market shares in geographical areas where BdL is present is expected to further increase funding and lending volumes and profitability.

In addition, the current and potential BdL network will be affected by the implementation of a new organisational model for segmentation of customers and commercial structures with the support of the Group's marketing information technology system. Such measures are expected to increase profits in line

with those realised by the Bank. BdL's electronic banking channels are further expected to benefit from the Bank's technology services and instruments in the short term.

Implementation of the above is expected to significantly increase BdL's productivity and enable better optimisation of its resources. Such improvements are expected to enhance the significant value of BdL's high quality loan portfolio and the benefits of reduced risk exposure due to the representations and warranties given to the Bank in BdL's purchase agreement.

Other benefits include an increased customer base which is expected to effect positively the Group's competitive position. The Bank is expected to strengthen its distribution network with a more efficient commercial and organisational structure and to benefit from increased points of contact with customers. As a result, efficiencies and synergies within the Group will be passed on to a wider customer base. In addition, the Bank expects to leverage its existing knowledge of the areas in which BdL operates through BdL's locally well known trademark and substantially loyal customer base.

### **Economic and Financial Information Relating to Banca di Legnano S.p.A.**

The following comparative tables set forth the balance sheets and the reclassified income statements of BdL as at and for the financial years ended December 31, 1999 and 2000. The financial statements for such periods were audited by KPMG S.p.A. This financial information has been extracted from publicly available information published by BdL. The Bank takes responsibility for the correct reproduction of financial information relating to BdL.

#### **BALANCE SHEET**

	<b>At December 31,</b>	
	<b>2000</b>	<b>1999</b>
	(audited)	
	(Lit. in millions)	
<b>Assets</b>		
<b>Cash and deposits with central banks and post offices .....</b>	<b>28,637</b>	<b>23,441</b>
<b>Treasury bills and bonds eligible for refinancing by central banks .....</b>	<b>181,640</b>	<b>556,732</b>
<b>Loans to banks: .....</b>	<b>141,845</b>	<b>437,036</b>
a) repayable on demand .....	47,074	51,767
b) other .....	94,771	385,269
<b>Loans to customers .....</b>	<b>2,893,027</b>	<b>2,608,873</b>
<b>Bonds and other debt securities issued: .....</b>	<b>539,889</b>	<b>409,533</b>
a) by public-bodies .....	360,808	208,882
b) by banks .....	25,902	47,411
Of which:		
– own securities .....	4,096	28,820
c) by financial institutions .....	105,204	105,101
d) by other issuers .....	47,975	48,139
<b>Shares, quotas and other equity securities .....</b>	<b>207,432</b>	<b>4,048</b>
<b>Equity investments .....</b>	<b>6,156</b>	<b>8,196</b>
<b>Equity investments in Group companies .....</b>	<b>456</b>	<b>456</b>
<b>Intangible assets .....</b>	<b>4,123</b>	<b>6,608</b>



**BALANCE SHEET contd**

	<b>At December 31,</b>	
	<b>2000</b>	<b>1999</b>
	(audited)	
	(Lit. in millions)	
<b>Fixed assets</b> .....	<b>309,107</b>	<b>248,898</b>
Of which:		
– assets on financial leasing.....	222,447	132,974
– assets pending financial leasing .....	4,562	29,416
<b>Other assets</b> .....	<b>106,012</b>	<b>116,990</b>
<b>Accrued income and prepaid expenses</b> .....	<b>49,335</b>	<b>43,561</b>
a) accrued income .....	47,828	42,159
b) prepaid expenses .....	1,507	1,402
<b>Total assets</b> .....	<b>4,467,659</b>	<b>4,464,372</b>

**BALANCE SHEET**

	<b>At December 31,</b>	
	<b>2000</b>	<b>1999</b>
	(audited)	
	(Lit. in millions)	
<b>Liabilities</b>		
<b>Due to banks:</b> .....	<b>747,850</b>	<b>855,811</b>
a) on demand .....	192,804	11,147
b) term or with notice .....	555,046	844,664
<b>Due to customers:</b> .....	<b>1,999,884</b>	<b>1,870,083</b>
a) on demand .....	1,671,570	1,694,400
b) term or with notice .....	328,314	175,683
<b>Securities issued:</b> .....	<b>935,630</b>	<b>983,079</b>
a) bonds .....	768,660	781,329
b) certificates of deposit .....	129,903	168,677
c) other securities .....	37,067	33,073
<b>Other liabilities</b> .....	<b>137,886</b>	<b>119,391</b>
<b>Accrued liabilities and deferred income:</b> .....	<b>26,050</b>	<b>20,212</b>
a) accrued liabilities .....	21,529	17,875
b) deferred income .....	4,521	2,337
<b>Severance pay fund</b> .....	<b>43,289</b>	<b>40,979</b>
<b>Allowances for risks and contingencies:</b> .....	<b>57,573</b>	<b>59,036</b>
a) allowances for post retirement benefits .....	13,937	22,291
b) allowances for taxes .....	37,086	33,595
c) other allowances .....	6,550	3,150
<b>Share capital</b> .....	<b>50,050</b>	<b>50,050</b>
<b>Share premium reserve</b> .....	<b>11,650</b>	<b>11,650</b>
<b>Reserves:</b> .....	<b>403,841</b>	<b>400,295</b>
a) legal reserve .....	20,020	20,020
c) statutory reserve .....	68,500	68,500
d) other reserves .....	315,321	311,775
<b>Revaluation reserve</b> .....	<b>30,240</b>	<b>30,240</b>
<b>Net profit (loss) for the period</b> .....	<b>23,716</b>	<b>23,546</b>
<b>Total liabilities</b> .....	<b>4,467,659</b>	<b>4,464,372</b>

**GUARANTEES AND COMMITMENTS**

	<b>At December 31,</b>	
	<b>2000</b>	<b>1999</b>
	(audited)	
	(Lit. in millions)	
<b>Guarantees</b> .....	<b>143,193</b>	<b>159,794</b>
Of which:		
– acceptances .....	3,100	4,620
– other guarantees .....	140,093	155,174
<b>Commitments</b> .....	<b>132,621</b>	<b>60,079</b>

**INCOME STATEMENT**

	<b>Years ended</b>	
	<b>December 31,</b>	<b>December 31,</b>
	<b>2000</b>	<b>1999</b>
	(audited)	
	(Lit. in millions)	
<b>Interest income and similar revenues</b> .....	<b>207,231</b>	<b>177,447</b>
Of which:		
– from loans to customers .....	153,247	112,266
– from debt securities .....	38,384	38,383
<b>Interest expense and similar charges</b> .....	<b>(84,960)</b>	<b>(72,440)</b>
of which:		
– on deposits from customers .....	(21,982)	(14,863)
– on securities issued .....	(37,217)	(41,866)
<b>Dividends and other revenues</b> .....	<b>541</b>	<b>202</b>
a) from shares, quotas and other equities .....	107	8
b) from equity investments .....	291	116
c) from investments in Group companies .....	143	78
<b>Commission income</b> .....	<b>65,269</b>	<b>61,181</b>
<b>Commission expense</b> .....	<b>(4,834)</b>	<b>(4,628)</b>
<b>Profit (loss) from trading</b> .....	<b>5,467</b>	<b>2,812</b>
<b>Other operating income</b> .....	<b>66,347</b>	<b>56,481</b>
<b>General and administrative expenses</b> .....	<b>(141,856)</b>	<b>(136,772)</b>
a) personnel expenses .....	(86,867)	(83,681)
Of which:		
– wages and salaries .....	(59,466)	(57,423)
– social security contributions .....	(17,275)	(16,919)
– provision for severance pay fund .....	(5,769)	(5,668)
– provision for post-retirement benefits .....	(4,357)	(3,671)
b) other general and administrative expenses .....	(54,989)	(53,091)
<b>Depreciation and amortisation of fixed and intangible assets</b> .....	<b>(52,134)</b>	<b>(47,450)</b>
<b>Provisions for contingencies</b> .....	<b>(3,400)</b>	<b>(1,150)</b>
<b>Other operating expenses</b> .....	<b>(937)</b>	<b>(688)</b>
<b>Write-down of loans and allowances for guarantees and commitments</b> .....	<b>(21,113)</b>	<b>(15,800)</b>
<b>Write-back of loans and allowances for guarantees and commitments</b> .....	<b>9,290</b>	<b>10,881</b>
<b>Write-down of investments</b> .....	<b>(871)</b>	<b>(1,088)</b>

**INCOME STATEMENT Contd.**

	<b>At December 31,</b>	
	<b>2000</b>	<b>1999</b>
	(audited)	
	(Lit. in millions)	
<b>Write-back of investments</b> .....	<b>1</b>	<b>1</b>
<b>Profit from ordinary operations</b> .....	<b>44,041</b>	<b>28,989</b>
<b>Extraordinary income</b> .....	<b>5,346</b>	<b>12,866</b>
<b>Extraordinary expenses</b> .....	<b>(878)</b>	<b>(352)</b>
<b>Extraordinary income (expenses), net</b> .....	<b>4,468</b>	<b>12,514</b>
<b>Provisions for reserve pursuant to Law No. 124 of 1993</b> .....	<b>(20)</b>	<b>0</b>
<b>Income taxes for the year</b> .....	<b>(24,773)</b>	<b>(17,957)</b>
<b>Net profit (loss)</b> .....	<b>23,716</b>	<b>23,546</b>

**Management**

The management of the Bank is divided among the Board of Directors and the Executive Committee, which acts under delegated authority of the Board of Directors. The day-to-day operations of the Bank are the responsibility of the General Manager. In addition, the Italian Civil Code requires the Bank to have a supervisory body, the Board of Statutory Auditors.

**Board of Directors**

The Board of Directors is selected by the shareholders at the general meeting and at present consists of eighteen members. The shareholders also elect the Chairman and up to two deputies to the Chairman of the Board of Directors. According to the By-laws, the members of the Board of Directors have to be shareholders of the Bank.

In accordance with the By-laws, the Board of Directors has complete power of ordinary and extraordinary administration of the Bank, except for actions reserved by applicable law or the By-laws to meetings of the shareholders.

Members of the Board of Directors are elected for a term of three years and may be re-elected by the shareholders at the general meeting. The following table sets forth certain information regarding the current members of the Board of Directors of the Bank.

<b>Name</b>	<b>Title</b>	<b>Other relevant positions</b>	<b>Date of Birth</b>
Roberto Mazzotta	Chairman ***	Director of Metalfin U.K.	November 3, 1940
Paolo Manzato	Deputy Chairman *	Director of We@service S.p.A.	December 6, 1955
Marco Vitale	Deputy Chairman ***	Chairman of Bipiemme Gestioni SGR S.p.A., Director of Etica SGR S.p.A.	August 1, 1935
Alessandro Antoniazzi	Director *	Director of Bipiemme Real Estate SGR S.p.A., Banca Popolare Etica S.c.r.l. and Etica SGR S.p.A.	October 30, 1939

<b>Name</b>	<b>Title</b>	<b>Other relevant positions</b>	<b>Date of Birth</b>
Giorgio Bianchini Scudellari	Director **	Chairman of Bipiemme Real Estate SGR S.p.A., Director of SelmaBipiemme Leasing S.p.A.	January 20, 1945
Emilio Castelnuovo	Director ***	Director of Bipiemme Immobili S.p.A., SelmaBipiemme Leasing S.p.A. and Banca Akros S.p.A.	August 8, 1940
Pier Antonio Ciampicali	Director **		April 12, 1935
Giuseppe Coppini	Director***		March 14, 1941
Raffaele De Gaetano	Director**		May 15, 1922
Dino Piero Garda	Director***		December 9, 1936
Renzo Grassi Catapano	Director**	Director of SelmaBipiemme Leasing S.p.A., Banca Akros S.p.A. and Bipiemme Immobili S.p.A.	October 28, 1941
Maria Martellini	Director **	Chairman of Bipiemme Immobili S.p.A.	July 8, 1940
Mario Mazzoleni	Director***	Director of Bipiemme Gestioni SGR S.p.A.	January 24, 1957
Michele Motterlini	Director **	Chairman of We@service S.p.A.	July 27, 1945
Gino Camillo Puliti	Director ***	Deputy Chairman of Bipiemme Real Estate SGR S.p.A. and Director of Grant Thornton S.p.A.	May 22, 1939
Carlo Secchi	Director **		February 4, 1944
Graziano Tarantini	Director***	Chairman of Banca Akros S.p.A., Director of Interservice Gestione Partecipazione	August 3, 1960
Valerio Tavormina	Director **		May 3, 1947

\* Term of office expires with the approval of the financial statements for the year ended December 31, 2001.

\*\* Term of office expires with the approval of the financial statements for the year ended December 31, 2002.

\*\*\* Term of office expires with the approval of the financial statements for the year ended December 31, 2003.

The business address of the Directors is Piazza Filippo Meda, 4, Milan, Italy.

The Chairman of the Board of Directors and the Deputy Chairmen are each legal representatives of the Bank. Each of the Directors, together with the General Manager or with one of the Managers specifically designated by the Board, may also act as legal representatives of the Bank. The Board of Directors may from time to time confer powers jointly or severally on its own members or the Managers or grant powers of attorney to other persons to perform specified acts.

## **Executive Committee**

The By-laws provide that the Board may delegate its powers on a yearly basis (upon the approval of at least ten members of the Board of Directors) to an Executive Committee. The By-laws provide that the Executive Committee shall be composed of the Chairman, the two deputies to the Chairman, and additional members appointed by the Board of Directors. The Committee consists of a minimum of five, and a maximum of seven, members.

The current Executive Committee was appointed by the Board of Directors on April 24, 2001 and delegated the power to submit its recommendations on the Bank's general policy and strategy, the scheme of the current financial statements, as well as the draft budget of the Bank to the Board of Directors for its approval. In addition, the Executive Committee has the power to propose transactions relating to real estate and to interests in other entities. The Statutory Auditors and the General Manager may be present at Executive Committee meetings.

The following table sets forth the current members of the Executive Committee.

<b>Name</b>	<b>Title</b>
Roberto Mazzotta	Chairman
Paolo Manzato	Deputy Chairman
Marco Vitale	Deputy Chairman
Emilio Castelnuovo	Director
Raffaele De Gaetano	Director
Michele Motterlini	Director

## **The General Manager's Office**

The structure, powers, duties, and compensation of the General Manager's office, as well as the appointment and removal of all the Managers, are determined by the affirmative vote of at least ten members of the Board of Directors. The General Manager's office is responsible for managing the Bank's activities on a day-to-day basis. The General Manager has seven senior officers, or Managers, reporting to him, each with responsibility for a specific area of management. The General Manager participates in the meetings of the Board of Directors and may express his opinion but does not vote on matters discussed therein, although he may vote at meetings of the Funding Committee. The current General Manager is Ernesto Paolillo, whose qualifications and business associations include: Honorary President of Forex Club Italy and *Assoconsulenza*; Chairman of Bipiemme Vita Spa, Akros Securities Inc.; Deputy Chairman of Bipiemme Gestioni SGR S.p.A. and Banca Akros S.p.A.; Member of the Board of Monte Titoli S.p.A., Istituto Centrale Banche Popolari Italiane and CREDIOP S.p.A., Member of the Executive Committee of the Institute of International Bankers.

## **Board of Statutory Auditors**

Pursuant to Italian law, in addition to electing the Board of Directors, the shareholders at the general meeting also elect a Board of Statutory Auditors composed of independent experts in accounting matters who have a duty to shareholders, to whom they report, to the Bank and to the Bank's creditors.

The Board of Statutory Auditors functions as a control over the management and financial reporting and condition of the Bank. Its role involves reviewing the administration of the Bank and its compliance with the law and the Bank's By-laws, reviewing the books and financial records of the Bank in order to ensure that the Bank's accounting records are regularly maintained and to consider the consistency of the balance sheet and the profit and loss account of the Bank with its accounting records monitoring that the criteria for the evaluation of the Bank's assets comply with Italian laws. The following table sets forth the current members of the Board of Statutory Auditors.

<b>Name</b>	<b>Title</b>
Marco Baccani	Chairman
Giovanni Giunta	Statutory Auditor
Piero Lonardi	Statutory Auditor
Giuseppe Pajardi	Statutory Auditor
Carlo Radaelli	Statutory Auditor
Emilio Cherubini	Alternate Statutory Auditor
Luigi Dabbicco	Alternate Statutory Auditor
Marcello Priori	Alternate Statutory Auditor
Ezio Maria Simonelli	Alternate Statutory Auditor

Members of the Board of Statutory Auditors are elected by the shareholders at the general meeting for a three-year term and may be re-elected. The term of office of the current members of the Board of Statutory Auditors will expire at the shareholders' meeting which approves the financial statements of the Bank for the year ending December 31, 2002.

### **Employees**

As of December 31, 2000, the Group had 6,990 employees, with a decrease of 230 employees from the same date in 1999. Approximately 1,340 employees, or 19% of the workforce, held management or executive positions. As of the same date, the Bank had 6,631 employees, accounting for 95% of the Group's employees.

## CAPITALISATION OF THE BANK

The table below sets forth the consolidated capitalisation of the Group at December 31, 2000 which is derived from the audited financial statements of the Group as at December 31, 2000.

	At December 31, 2000
	(audited) (Lit. in billions)
<b>Subordinated Debt:</b>	
Subordinated liabilities .....	774.5
Convertible notes and subordinated liabilities .....	719.0
<b>Total medium- and long-term debt .....</b>	<b>1,493.5</b>
Minority interests .....	2.3
<b>Shareholders' Equity:</b>	
Share capital and additional paid-in capital .....	1,899.4
General fund for banking risks .....	0.0
Retained earnings and other reserves .....	1,093.2
Net income .....	441.6
<b>Total shareholders' equity .....</b>	<b>3,434.2</b>
<b>Total capitalisation .....</b>	<b>4,930.0</b>

Note:

There has been no material change in the capitalisation of the Group since December 31, 2000, save for (i) an increase in capital of Lit. 219.9 billion effected by utilising the Bank's capital reserves in order to convert the share capital of the Bank from Lit. 5,000 per share nominal value into Euro 3 per share nominal value effective on 21 May 2001; and (ii) an increase in capital of the Bank resolved upon by the shareholders on April 21, 2001 and expected to be effective in the second half of June 2001 upon the completion of an offer by the Bank to existing shareholders and holders of its convertible notes of 9 new shares with a nominal value of Euro 3 for each 25 existing shares or notes already held. In addition, in June 2001, the Bank expects to issue subordinated upper tier 2 and subordinated tier 3 notes pursuant to its Euro 2,000,000,000 Euro Medium Term Note Programme. For an indication of the proposed amount of such issues, see "– Banca Popolare di Milano S.C.a r.l. – Recent Developments – Information Concerning the Acquisition, Business and Structure of BdL – Financing the Acquisition".

The following table sets forth the Tier I and Tier II capital levels and the relative ratios of the Group as at December 31, 1999 and 2000.

	At December 31, 2000	1999
	(audited)	
	(Lit. in billions, except percentages)	
<b>Tier I Capital</b>		
<b>Positive Elements:</b>		
Share capital .....	1,359.5	1,353.0
Reserves .....	1,323.5	1,023.7
Paid in capital .....	540.0	538.8
General banking risk .....	0.0	0.0
<b>Total positive elements .....</b>	<b>3,223.0</b>	<b>2,915.5</b>

	<b>At December 31,</b>	
	<b>2000</b>	<b>1999</b>
	(audited)	
	(Lit. in billions, except percentages)	
<b>Negative Elements:</b>		
Goodwill .....	60.1	63.2
Other intangible assets .....	98.9	94.6
Own ordinary shares in portfolio.....	5.9	0.6
Total negative elements .....	164.9	158.4
<b>Total Tier I Capital .....</b>	<b>3,058.1</b>	<b>2,757.1</b>
<b>Tier II Capital</b>		
<b>Positive Elements:</b>		
Subordinated liabilities .....	1,498.2	718.0
Revaluation reserve .....	67.2	67.2
Loan loss allowance .....	22.0	23.4
Total positive elements .....	1,587.4	808.6
<b>Negative Elements:</b>		
Losses on securities .....	0.0	0.0
Other .....	6.3	7.1
Total negative elements .....	6.3	7.1
<b>Total Tier II Capital .....</b>	<b>1,581.1</b>	<b>801.5</b>
<b>Deduction:</b>		
Participation in financial institutions of more than 10% .....	238.2	177.5
<b>Total Capital ("Own Funds") .....</b>	<b>4,401.0</b>	<b>3,381.2</b>
<b>Total risk-weighted assets .....</b>	<b>44,522.6</b>	<b>37,171.5</b>
Equity coverage for market risks .....	214.9	145.7
Other equity coverage.....	11.9	14.3
<b>Capital Adequacy Ratios:</b>		
Tier I capital ratio .....	6.87%	7.42%
Total capital ratio.....	9.88%	9.10%



## SUMMARY FINANCIAL INFORMATION OF THE GROUP

*The audited Consolidated Financial Statements and the unaudited Interim Financial Information of the Group are incorporated by reference into this Offering Circular. Copies of the 2000 and 1999 Annual Reports (including the Consolidated Financial Statements) and the Interim Financial Information are available on request from the Bank and free of charge at the office of the Paying Agent in Luxembourg.*

The statistical information presented herein may differ from information included in the historical consolidated financial statements. In certain cases, the financial and statistical information is derived from financial and statistical information reported to the Bank of Italy or from internal management reporting.

Most of the statistical information is given in consolidated form as the Bank's total assets (excluding intercompany transactions and other consolidating adjustments) accounted for 94.3% of the Bank's total assets on a consolidated basis at December 31, 2000 (89.7% at March 31, 2001) and the Group's net income (net of dividends received from subsidiaries) accounted for 73.2% for the year ended December 31, 2000 (83.2% for the three month period ended March 31, 2001) of the Group's net income on a consolidated basis.

### *Annual Financial Statements*

The following tables present the audited consolidated balance sheets and profit and loss accounts and other selected financial and statistical information on the Bank as at and for the years ended December 31, 1999 and 2000.

	Years ended December 31,	
	2000	1999
	(audited) (Lit. in billions)	
<b>Income Statement Data:</b>		
Net financial income <sup>(1)</sup> .....	1,207.1	1,035.4
Net non-interest income <sup>(2)</sup> .....	1,181.5	1,045.1
Net operating revenues.....	2,388.6	2,080.5
Non-interest expenses .....	(1,380.5)	(1,292.7)
Depreciation .....	(160.7)	(150.2)
Provision for litigation and other contingencies .....	(10.1)	(8.3)
Net operating profit .....	837.3	629.3
Bad debt expense for adjustments to loans and provisions and other credit risk provisions .....	(111.2)	(161.7)
Write-ups (write-downs) of equity investments <sup>(3)</sup> .....	(33.7)	(11.7)
Income before non-recurring items, taxes, provision for general banking risks and minority interests .....	692.4	456.0
Non-recurring profit (loss) .....	22.6	110.3
Taxes .....	(272.9)	(235.7)
Charges to provisions for general banking risks.....	0.0	0.0
Minority interests.....	(0.5)	(0.5)
Net income for the period .....	441.6	330.2

	Years ended December 31, 2000                      1999	
	(audited)	
	(Lit. in billions)	
<b>Balance Sheet Data:</b>		
<b>Assets</b>		
Cash and deposits with central banks and post offices .....	249.3	252.7
Loans to banks .....	8,027.8	7,947.6
Loans to customers .....	29,310.4	24,145.2
Trading and investment securities .....	13,550.7	12,913.5
Equity investments .....	534.1	336.7
Tangible fixed assets.....	624.4	642.4
Intangible fixed assets .....	159.0	157.8
Other assets .....	2,319.9	2,214.3
Total assets .....	54,775.6	48,610.3

- (1) Starting from the year 2000, the net financial income does not include the dividends, which were included in 1999 (Lit. 28.2 billion) and prior years.
- (2) Starting from the year 2000, the net non-interest income includes the dividends, which were not included in 1999 (Lit. 28.2 billion) and prior years.
- (3) Includes profits on investments valued under the equity method (Lit. 32.8 billion in 2000 and Lit. 9.4 billion in 1999).

	Years ended December 31, 2000                      1999	
	(audited)	
	(Lit. in billions, except percentages)	
<b>Liabilities and Shareholders' Equity</b>		
Due to banks .....	17,931.2	16,320.1
Due to customers and securities issued.....	28,584.2	25,723.5
Subordinated liabilities .....	1,493.5	711.0
Other liabilities .....	3,330.1	2,742.4
Total liabilities .....	51,339.0	45,497.0
Minority interests.....	2.3	2.2
Shareholders' equity .....	3,434.3	3,111.1
Total liabilities and shareholders' equity .....	54,775.6	48,610.3

**Selected Off-Balance Sheet Data:**

Assets under management .....	25,875	25,148
Assets in custody .....	28,921	26,873

**Financial Ratios:**

Net interests margin .....	2.52%	2.32%
Non-interest income/total income .....	49.47%	50.23%
Personnel cost/total income .....	36.48%	39.24%
Cost/income ratio <sup>(1)</sup> .....	64.53%	62.13%
Net income to average total assets .....	0.85%	0.70%

	Years ended December 31, 2000                      1999	
	(audited) (Lit. in billions, except percentages)	
<b>Asset Quality:</b>		
Bad loans, gross .....	463	536
Allowances for bad loans .....	281	341
Bad loans, net .....	182	195
Ratio of allowances for bad loans to bad loans .....	60.69%	63.55%
Ratio of bad loans, gross to total customer loans .....	1.55%	2.17%
Total impaired loans .....	979	1,056
Total allowances for impaired loans .....	362	441
<b>Capital Adequacy:</b>		
Tier I capital .....	3,058.1	2,757.1
Total capital .....	4,401.0	3,381.2
<b>Capital Ratios:</b>		
Tier I capital ratio .....	6.87%	7.42%
Total capital ratio .....	9.88%	9.10%
Shareholders' equity to total assets .....	6.27%	6.40%

- (1) For the year ended 2000 cost includes the value adjustments to tangible and intangible fixed assets which were not included in 1999 and prior years. The 1999 ratio calculated including in cost the value adjustments to tangible and intangible fixed assets – consistent with the 2000 ratio – is equal to 69.35%.

#### **Unaudited Interim Financial Information**

The following tables present the unaudited consolidated balance sheets and profit and loss accounts and other selected financial and statistical information of the Group as at and for the three months ended March 31, 2000 and 2001. The unaudited interim consolidated financial information was prepared in accordance with requirements of the Italian Securities and Exchange Commission, *Commissione Nazionale per le Società e la Borsa* ("CONSOB").

Nazionale per le Società e la Borsa ( CONSOB ).

	Three month period ended March 31,	
	2001	2000
	(unaudited) (Lit. in billions)	
<b>Income Statement Data:</b>		
Net financial income .....	324.0	276.4
Net non-interest income <sup>(1)</sup> .....	294.6	383.3
Net operating revenues .....	618.6	659.7
Non-interest expenses .....	(345.6)	(339.2)
Depreciation .....	(36.3)	(39.3)
Provision for litigation and other contingencies .....	(3.4)	(0.8)
Net operating profit .....	233.3	280.4
Bad debt expense for adjustments to loans and provisions and other credit risk provisions .....	(33.9)	(31.9)
Write-ups (write-downs) of equity investments .....	(2.4)	(16.9)
Income before non-recurring items, taxes, provision for general banking risks and minority interests .....	197.0	231.6
Non-recurring profit (loss) .....	2.9	(1.4)

	<b>Three month ended March 31,</b>	
	<b>2001</b>	<b>2000</b>
	(unaudited) (Lit. in billions)	
Taxes.....	(79.3)	(91.0)
Charges to provisions for general banking risks.....	0.0	0.0
Minority interests.....	(0.1)	(0.2)
Net income for the period .....	<u>120.5</u>	<u>139.0</u>

**Balance Sheet Data:**

**Assets**

Loans to customers .....	31,770.0	27,140.8
Trading and investment securities .....	15,505.0	13,490.5
Equity investments .....	533.9	322.6

(1) The net non-interest income includes dividends and profits (losses) on investments valued under the equity method.

	Three month period ended March 31,	
	2001	2000
	(unaudited)	
	(Lit. in billions, except percentages)	
<b>Liabilities and Shareholders' Equity</b>		
Due to banks (net balance) .....	12,224.8	7,446.5
Due to customers and securities issued.....	28,976.5	29,221.7
Subordinated liabilities .....	1,493.5	708.4
<b>Selected Off-Balance Sheet Data:</b>		
Assets under management.....	25,931	25,243
Assets in custody .....	27,591	29,781
<b>Financial Ratios:</b>		
Non-interest income/total income .....	47.62%	58.10%
Personnel cost/total income .....	35.65%	32.47%
Cost/income ratio <sup>(1)</sup> .....	61.73%	57.37%
<b>Asset Quality:</b>		
Bad loans, gross .....	479	555
Allowances for bad loans .....	303	361
Bad loans, net.....	177	194
Ratio of allowances for bad loans to bad loans .....	63.13%	65.09%
Ratio of bad loans, gross to total customer loans .....	1.48%	1.98%
Total impaired loans .....	1,076	1,061
Total allowances for impaired loans .....	373	457

(1) Cost includes the value adjustments to tangible and intangible fixed assets.

## DESCRIPTION OF THE SUBORDINATED GUARANTEE

*The following is a summary of certain provisions of the Subordinated Guarantee and is qualified in its entirety by reference to the terms and provisions of the Subordinated Guarantee. A copy of the Subordinated Guarantee is available to prospective investors upon request to the Bank and free of charge at the specified office of the Paying Agent in Luxembourg.*

### General

On the Issue Date, the Bank, The Bank of New York, as Property Trustee, and The Bank of New York, as Guarantee Trustee, will execute the Subordinated Guarantee, copies of which will be available free of charge to prospective purchasers at the specified office of the Paying Agent in Luxembourg or upon request to the Bank.

The Subordinated Guarantee is intended to provide holders of the Company Preferred Securities (including the Trust and thus, indirectly holders of the Trust Preferred Securities) as nearly as possible, with rights to dividends and Additional Amounts, and rights on redemption and liquidation equivalent to those to which such holders would be entitled if the Company Preferred Securities were issued directly by the Bank.

### Guaranteed Support of Dividends, Additional and Redemption Amounts

To the extent and for the amount not otherwise paid in accordance with the terms of the Company Preferred Securities, the Bank will be obligated unconditionally on a subordinated basis (without duplication) under the Subordinated Guarantee to pay to the holders of the Company Preferred Securities (initially the Trust): (i) dividends that have been declared (or deemed declared), (ii) the Redemption Price on the Company Preferred Securities called for redemption by the Company, (iii) upon the liquidation of the Company, the Liquidation Claim Amount (as described below) and (iv) Additional Amounts (required to be paid as discussed under “*Description of the Company Preferred Securities — Dividends — Additional Amounts*”), if any, with respect to any payment referred to in (i), (ii) or (iii), plus, if any, in each case, interest accrued thereon from the date of making the claim under the Subordinated Guarantee at a rate per annum equal to the stated Dividend of the Company Preferred Securities.

Any such payments by the Bank under the Subordinated Guarantee are collectively referred to herein as the “*Guarantee Payments*.” All amounts paid under the Subordinated Guarantee will be paid out of funds legally available therefor.

See “*Description of the Company Preferred Securities — Dividends — Required Dividends*” describing circumstances where dividends are mandatorily due and payable.

### Claim in Liquidation of the Bank

The Bank will agree in the Subordinated Guarantee that if the Company is dissolved, whether voluntarily or involuntarily and whether in connection with the bankruptcy or insolvency of the Bank, the Company or the Trust, as applicable, or otherwise the Bank will pay to the Guarantee Trustee on behalf of the Company and will ensure payment to the holders of the Company Preferred Securities such additional funds as are necessary to enable the Company to pay for each €1,000 of the liquidation preference of the Company Preferred Securities then outstanding an amount (the “*Liquidation Claim Amount*”) equal to (i) the €1,000 liquidation preference per Company Preferred Security, plus (ii) unpaid dividends, if any, thereon with respect to the current Dividend Period accrued on a daily basis to the date of dissolution, plus (iii) unpaid definitive dividends for any prior Dividend Period, but without interest and without accumulation of unpaid nondefinitive dividends for any prior Dividend Period, and including any Additional Amounts required to be paid.

As a consequence of the foregoing and the subordination of the Bank's payment obligations under the Subordinated Guarantee, it is acknowledged that, in a dissolution of the Company that is concurrent with a liquidation of the Bank, holders of Company Preferred Securities (and, consequently, of a Corresponding Amount of Trust Preferred Securities) will receive an amount equal to but not exceeding the amount to which the holders of the Company Preferred Securities would have been entitled had they instead owned preferred securities of the Bank having the same liquidation preference and dividend and redemption rights as the Company Preferred Securities. All payments in respect of the Company Preferred Securities and the Trust Preferred Securities shall be paid out of funds legally available therefor, including any amounts required to be paid under the Subordinated Guarantee.

### **Additional Amounts**

The Bank will make all payments under the Subordinated Guarantee without withholding or deducting for or on the account of any taxes, duties, or other governmental charges (collectively, "Relevant Tax") imposed or levied by or on behalf of (i) Italy, (ii) Luxembourg, (iii) any jurisdiction in which a branch, other office or subsidiary of the Bank or third party issuing Eligible Investments held by the Company or the Subsidiary is located, (iv) the United States or (v) any authority of or in any of the jurisdictions referred to in (i) – (iv) (each, a "Relevant Jurisdiction") that has the power to tax, unless the withholding or deduction of such Relevant Tax is required by law, in which event the Bank will pay as additional amounts included in the distributions otherwise then due and payable such amounts as shall be required ("Additional Amounts") so that the net amount received by each holder of the Company Preferred Securities (including the Trust), after the withholding of any such Relevant Tax, will be equal to the amount of all payments or obligations otherwise due and payable under the Subordinated Guarantee subject to the same limitation on additional amounts payable by the Company as described under "*Description of the Company Preferred Securities — Dividends — Additional Amounts.*"

All references in this Offering Circular to payments under the Subordinated Guarantee include any Additional Amounts required to be paid.

### **Ranking of Bank's Payment Obligations**

All payment obligations of the Bank under the Subordinated Guarantee will be subordinated obligations ranking junior to the claims of the holders of Senior Indebtedness of the Bank, *pari passu* with the Bank Parity Securities issued by the Bank, if any, and senior to the claims of holders of Bank Junior Securities.

### **Enforcement**

The Guarantee Trustee, on behalf of the holders of beneficial interests in the Company Preferred Securities, may enforce the Subordinated Guarantee directly against the Bank if the Bank defaults under the Subordinated Guarantee. The Subordinated Guarantee provides that, to the fullest extent permitted by law, without the need for any other action of any person, including the Guarantee Trustee or any other holder of the Trust Preferred Securities or Company Preferred Securities, each holder of Trust Preferred Securities or Company Preferred Securities will be entitled to enforce the rights of the holders of the Company Preferred Securities under the Subordinated Guarantee represented by the Trust Preferred Securities or Company Preferred Securities held by such holder.

### **Covenants of the Bank**

The Bank will make the following additional covenants in the Subordinated Guarantee in favour of the Company and the holders of the Company Preferred Securities, as applicable, for so long as any of the Company Preferred Securities are outstanding: (a) the Bank will not issue any preferred or preference shares (or similar interests qualifying as Tier 1 capital of the Bank) ranking senior in liquidation to its

obligations under the Subordinated Guarantee or give any guarantee, or support undertaking or similar arrangement in respect of any preferred securities or preferred or preference shares issued by any of its subsidiaries, if such guarantee, support undertaking or similar arrangement would rank senior to the Subordinated Guarantee; (b) 100% of the Company Common Securities will be held by the Bank or a branch thereof or, with the prior approval of the Bank of Italy, if then required, by one or more subsidiaries of the Bank, each of which is deemed to be a "company controlled" by the Bank within the meaning of Rule 3a-5 of the 1940 Act; (c) the Bank will not permit, or take any action to cause, the Company to issue securities other than the Company Preferred Securities and the Company Common Securities; (d) to the fullest extent permitted by law, the Bank will not permit, or take any action to cause, the liquidation, dissolution, winding up or termination of the Company or the Subsidiary, unless the Bank is itself in liquidation and the approval of the Bank of Italy, if then required, for such action has been received and all claims under the Subordinated Guarantee have been paid to the fullest extent according to its terms; and (e) the Bank will not assign its obligations under the Subordinated Guarantee, except in the case of a merger, consolidation or sale of substantially all of its assets, where the Bank is not the surviving entity.

### **Governing Law**

The Subordinated Guarantee will be governed by and construed in accordance with New York law, without regard to any conflict of laws principles thereof that would require the application of the law of a jurisdiction other than New York.

## DESCRIPTION OF THE TRUST PREFERRED SECURITIES

*The following is a summary of certain provisions of the Trust Preferred Securities and the Trust Agreement and is qualified in its entirety by reference to the terms and provisions of the Trust Agreement. A copy of the Trust Agreement is available to prospective investors upon request to the Bank and free of charge at the specified office of the Paying Agent in Luxembourg.*

### General

The Trust Preferred Securities will be issued by the Trust pursuant to the Trust Agreement. The aggregate liquidation preference of the Trust Preferred Securities will be €160,000,000. Each Trust Preferred Security will represent a Corresponding Amount of the Company Preferred Securities. The Trust will be a statutory business trust created under the Delaware Business Trust Act. The Trust will hold the Company Preferred Securities deposited in the Trust for the benefit of the holders of the Trust Preferred Securities. The Trust Agreement provides that, to the fullest extent permitted by law, without the need for any other action of any person, including the Property and Delaware Trustees or the Independent Director and any other holder of Trust Preferred Securities, each holder of Trust Preferred Securities shall be entitled to enforce in the name of the Trust the Trust's rights under the Corresponding Amount of Company Preferred Securities and the related rights under the Subordinated Guarantee represented by the Trust Preferred Securities held by such holder. Trust Preferred Securities may be exchanged for the underlying Company Preferred Securities and the related rights under the Subordinated Guarantee at the option of holders as described under "*— Withdrawal of Company Preferred Securities.*" The funds of the Trust available for distribution to the holders of the Trust Preferred Securities will be limited solely to payments received by the Trust from the Company as dividends or distributions on, or redemption of, the Company Preferred Securities, including amounts paid by the Bank under the Subordinated Guarantee, if any, which payments will be passed through upon receipt by the Trust to the holders of the Trust Preferred Securities. Consequently, if the Company does not pay any dividend or redemption payment on the Company Preferred Securities, including any amounts paid by the Bank under the Subordinated Guarantee, the Trust will not have sufficient funds to make the related distribution or redemption payment on the Trust Preferred Securities.

The Trust Preferred Securities have not been registered under the Securities Act and may not be sold or otherwise transferred except in transactions in compliance with Regulation S. Each purchaser will be deemed to have read, and to have made the representations contained in "*Notice to Investors.*"

### Distributions

Dividends on the Company Preferred Securities will be passed through by the Trust as distributions on the Trust Preferred Securities upon (and subject to) their receipt by the Trust. Amounts available to the Trust for such distributions on the Trust Preferred Securities will be limited to dividends received by the Trust as holder of the Company Preferred Securities and payments made by the Bank under the Subordinated Guarantee. See "*Description of the Company Preferred Securities — Dividends.*" Accordingly, when, as and if dividends are paid by the Company on the Company Preferred Securities, including amounts paid by the Bank under the Subordinated Guarantee, if any, corresponding distributions will be made on the Trust Preferred Securities.

So long as the Trust Preferred Securities are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, the Calculation Agent will give notice to the Luxembourg Stock Exchange, the Paying Agents and the holders of the Trust Preferred Securities of the rate applicable to each Dividend Period, the Dividend Payment Date for such Dividend Period and the interest that will accrue during such Dividend Period per €1,000 (by liquidation preference) of Trust Preferred Securities issued, and will arrange for publication of such information in a leading daily newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).



## **Redemption of Trust Preferred Securities**

Unless redeemed, the Trust Preferred Securities are of perpetual duration. The Trust Preferred Securities will be subject to redemption only upon redemption of the Company Preferred Securities. See “*Description of the Company Preferred Securities — Redemption.*” If the Company should elect or be required to redeem the Company Preferred Securities in accordance with the Company Agreement, as described under “*Description of the Company Preferred Securities — Redemption,*” the Company shall give the Property Trustee, the Registrar and Transfer Agent and the Principal Paying Agent not less than 30 nor more than 60 calendar days’ prior notice thereof, unless otherwise agreed in writing with the Property Trustee. The Principal Paying Agent will mail the notice of redemption not less than 20 calendar days prior to the date fixed for redemption of the Company Preferred Securities to the holders of the Trust Preferred Securities and publish a notice to such effect in one English language daily newspaper of general circulation in Europe and, so long as the Trust Preferred Securities are listed on the Luxembourg Stock Exchange and the rules of such Exchange so require, in a daily newspaper of general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

On the date of redemption of the Company Preferred Securities, *provided* that the Company shall have deposited with the Principal Paying Agent on behalf of the Trust the aggregate amount payable upon redemption of all Company Preferred Securities held by the Trust to be redeemed, the Principal Paying Agent on behalf of the Trust shall redeem an equal amount of Trust Preferred Securities at the same redemption price at which such Company Preferred Securities are being redeemed (using the funds deposited for such purpose with the Principal Paying Agent on behalf of the Trust). In the event that fewer than all the outstanding Trust Preferred Securities are to be redeemed, the Trust Preferred Securities to be redeemed (in increments of €1,000) shall be selected by lot or *pro rata* (as nearly as possible without creating fractional Trust Preferred Securities) or other equitable method determined by the Property Trustee, *provided* that such method satisfies any requirements of any securities exchange on which the Trust Preferred Securities may then be listed and, if the Trust Preferred Securities are then evidenced by a permanent global certificate, any requirements of the Common Depositary, Euroclear or Clearstream. The Company shall promptly notify the Principal Paying Agent, and Transfer Agent for the Trust Preferred Securities in writing of the Trust Preferred Securities selected for redemption. The Trust Agreement provides that the Company will, in the event of a partial redemption of the Company Preferred Securities which would result in a delisting of the Trust Preferred Securities from any securities exchange on which the Trust Preferred Securities are then listed, redeem the Company Preferred Securities in whole.

## **Effect of Dissolution of the Company or the Trust**

In the event the Company is dissolved, the Trust will be dissolved; *provided, however*, that, to the fullest extent permitted by law, the Trust shall not be dissolved until all payments due to the Trust (as holder of the Company Preferred Securities) under the Subordinated Guarantee have been received. Upon dissolution of the Trust and, after satisfaction of creditors of the Trust, if any, as required by applicable law, a Corresponding Amount of Company Preferred Securities will be distributed to each holder of Trust Preferred Securities. Thereupon, the Trust will be terminated. The former holders of Trust Preferred Securities will thereafter be direct holders of the specific Company Preferred Securities distributed to them. The Company Preferred Securities will not be listed on any stock exchange and will not be eligible for clearance through Euroclear or Clearstream.

In the event of any voluntary or involuntary dissolution, liquidation or winding up of the Trust, the holders of the Trust Preferred Securities will be entitled to receive a Corresponding Amount of the Company Preferred Securities, after satisfaction of liabilities to the creditors of the Trust, if any.

## **Withdrawal of Company Preferred Securities**

After the exchange of the Temporary Global Certificate for the Permanent Global Certificate, a beneficial owner of Trust Preferred Securities may withdraw all, but not less than all, of the Corresponding

Amount of Company Preferred Securities owned by such beneficial owner from the Trust by providing (i) a written notice to the Property Trustee, with evidence of beneficial ownership in form satisfactory to the Property Trustee and (ii) certification as to the beneficial ownership by non-U.S. persons (as defined in Regulation S). This notice shall also be deemed to be the beneficial owner's agreement to be subject to the terms of the Company Agreement applicable to holders of Company Preferred Securities.

Within a reasonable period after such request has been properly made, the Registrar and Transfer Agent shall (i) on behalf of the Company, cancel the certificate representing Company Preferred Securities held by the Trust; (ii) issue, on behalf of the Company, a new certificate representing the new amount of Company Preferred Securities held by the Trust, as reduced by the amount (by aggregate liquidation preference) of Company Preferred Securities to be so withdrawn by the withdrawing holder of Company Preferred Securities; (iii) on behalf of the Company, issue to the withdrawing holder of Company Preferred Securities a certificate (bearing the appropriate legend as set forth in the Company Agreement), representing the amount (by aggregate liquidation preference) of Company Preferred Securities so withdrawn and cause the registration of such transfer in the securities register; and (iv) on behalf of the Trust, instruct the Common Depositary to reduce the number of Trust Preferred Securities represented by the permanent global certificate held by the Common Depositary accordingly. It is expected that withdrawn Company Preferred Securities (i) will only be issued in definitive fully-registered form, (ii) will not be listed on any stock exchange and (iii) will not be eligible to be held through Euroclear or Clearstream. Payments on any Company Preferred Securities so withdrawn are expected to be made through the offices of the Principal Paying Agent. Holders of withdrawn Company Preferred Securities will thereafter receive an annual information statement for U.S. federal income tax purposes on IRS Form K-1. See "*Taxation— U.S. Taxation.*"

Subject to the terms and conditions of the Trust Agreement, any holder of Company Preferred Securities may redeposit all or a portion of the withdrawn Company Preferred Securities by delivery to the Property Trustee of a certificate or certificates for the Company Preferred Securities to be deposited, properly endorsed or accompanied, if required by the Property Trustee, by a properly executed instrument of transfer or endorsement in form satisfactory to the Property Trustee and in compliance with the terms of the Company Agreement, together with all such certifications as may be required by the Property Trustee in its sole discretion and in accordance with the provisions of the Trust Agreement. Within a reasonable period after such deposit is properly made, the Property Trustee shall (i) cancel, on behalf of the Company, such certificate representing Company Preferred Securities, (ii) issue, on behalf of the Company, a new certificate representing the new amount of Company Preferred Securities held by the Trust, as increased by the amount (by aggregate liquidation preference) of Company Preferred Securities redeposited by said holder and (iii) on behalf of the Trust, instruct the Common Depositary to increase the number of Trust Preferred Securities represented by the permanent global certificate held by the Common Depositary accordingly.

Any certificated Company Preferred Security issued in exchange for an interest in a permanent global certificate will bear the legend restricting transfer that is borne by the permanent global certificate.

## **Voting Rights**

If at any time the holders of the Company Preferred Securities shall be entitled to vote pursuant to the terms of the Company Agreement, the Property Trustee shall notify the holders of the Trust Preferred Securities of such right, request specific written direction of each holder of a Trust Preferred Security as to the vote with respect to the Company Preferred Securities represented by such Trust Preferred Security, and the Property Trustee shall vote or cause to be voted the number of Company Preferred Securities represented by such Trust Preferred Security in accordance with such specific direction.

Upon receipt of written notice of any meeting at which the holders of Company Preferred Securities are entitled to vote, the Property Trustee shall, as soon as practicable thereafter, mail to the holders of Trust Preferred Securities a notice, and publish a notice to such effect in one English language daily newspaper

of general circulation in Europe and, so long as the Trust Preferred Securities are listed on the Luxembourg Stock Exchange and the rules of such Exchange so require, in a daily newspaper of general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) which notice shall be provided by the Company and shall contain (i) such information as is contained in such notice of meeting, (ii) a statement that the holders of Trust Preferred Securities will be entitled, subject to any applicable provision of law or of the Trust Agreement, to direct the Property Trustee as to the exercise of the voting rights pertaining to the number of Company Preferred Securities represented by their respective Trust Preferred Securities, and (iii) a brief statement as to the manner in which such specific directions may be given. Upon the written direction of a holder of a Trust Preferred Security, the Property Trustee shall vote or cause to be voted a number of Company Preferred Securities represented by such Trust Preferred Security in accordance with the instructions set forth in such direction. In the absence of specific instructions from the holder of a Trust Preferred Security, the Property Trustee shall vote or cause to be voted such Company Preferred Securities represented by such Trust Preferred Security in the same manner, on a proportionate basis, as it was directed to vote all other Company Preferred Securities in respect of such matter. Neither the Bank nor any person known by the Trustees to be an affiliate of the Bank will be entitled to vote any Company Preferred Securities that it holds or beneficially owns.

### **Denomination, Form and Exchange**

The Trust Preferred Securities will be issued in denominations of €1,000 liquidation preference and integral multiples thereof.

The Trust Preferred Securities will be evidenced initially by a temporary global certificate, in fully registered form, which will be lodged with a common depository (the "Common Depository"), and registered in the name of the Common Depository's nominee (the "Common Nominee"), for Euroclear and for Clearstream, on or about the Issue Date.

Upon receipt by the Registrar and Transfer Agent of certifications required by the Trust Agreement, the Trust shall procure that the Common Nominee will exchange the temporary global certificate for a permanent global certificate, in fully registered form executed by the Property Trustee, authenticated by the Registrar and Transfer Agent and delivered to the Common Depository on the date (the "Exchange Date") that is the later of (i) the date which is 40 days (subject to extension as described in the proviso below) after the later of (x) the commencement of the offering of the Trust Preferred Securities and (y) the Issue Date, and (ii) the date on which the distribution of the Trust Preferred Securities has been completed. The Trust may, in its sole discretion, extend the Exchange Date for such period of time as the Company may deem necessary in order to ensure that the issuance and sale of the Trust Preferred Securities is exempt from registration under the Securities Act by virtue of Regulation S thereunder.

Beneficial interests in the permanent global certificate will be exchangeable for definitive Company Preferred Securities as set forth under "*— Withdrawal of Company Preferred Securities*" above. Beneficial interests in the permanent global certificate will also be exchangeable in whole but not in part for definitive Trust Preferred Securities only if: (i) the Trust Preferred Securities become ineligible for clearance and settlement through Euroclear and Clearstream; and (ii) the Company and the Trust are not able, after using reasonable efforts, to arrange for clearance and settlement of the Trust Preferred Securities through a successor clearing agency.

### **Transfers and Issue of Definitive Trust Preferred Securities**

Definitive Trust Preferred Securities may be transferred upon the surrender of such definitive Trust Preferred Securities, together with the form of transfer endorsed thereon duly completed and executed, at the specified office of the Transfer Agent or at the offices of the Paying Agent in Luxembourg. The initial Transfer Agent is The Bank of New York and the initial Paying Agent in Luxembourg is The Bank of New York (Luxembourg) S.A. In the case of a transfer of only part of a definitive Trust Preferred Security, a new definitive Trust Preferred Security in respect of the balance not transferred will be issued to the transferor

within seven business days of receipt of such form of transfer, by uninsured post at the risk of the holder to the address of the holder appearing in the register. Each new definitive Trust Preferred Security to be issued upon a transfer of a definitive Trust Preferred Security will, within seven business days of receipt of such form of transfer, be sent by uninsured post at the risk of the holder entitled to the definitive Trust Preferred Security to such address as may be specified in such form of transfer.

Registration of transfer of Trust Preferred Securities will be effected without charge but the Trustees or the Transfer Agent shall require, prior to registration, payment (or the giving of such indemnity as the Transfer Agent may require) of a sum sufficient to cover any tax or other governmental charges which may be imposed in relation to such transfer.

No holder of a definitive Trust Preferred Security may require the transfer of a definitive Trust Preferred Security to be registered during the period of 15 days before the day of selection for redemption of such Trust Preferred Securities and ending at the close of business on the day of mailing of the notice of redemption.

All transfers of definitive Trust Preferred Securities and entries on the register will be made subject to the provisions concerning transfers of Trust Preferred Securities set out in the Agency Agreement relating to the Trust Preferred Securities and in the Trust Agreement, a copy of which will be available to prospective investors upon request to the Bank or free of charge at the office of the Paying Agent in Luxembourg.

### **Payments and Paying Agents**

Payments in respect of the Trust Preferred Securities shall be made to the address of the holder entitled thereto as such address shall appear on the register. The Common Nominee shall be the registered holder in the case of Trust Preferred Securities evidenced by the global certificate. Payments made to the order of the Common Nominee shall be made by wire transfer and Euroclear or Clearstream, as applicable, will credit the relevant accounts of their participants on the applicable Dividend Payment Dates or redemption dates. Payments in respect of Trust Preferred Securities not evidenced by a global certificate shall be made by wire transfer, direct deposit or check mailed to the address of the holder entitled thereto as such address shall appear on the securities register. The principal paying agent (the "Principal Paying Agent") initially shall be The Bank of New York and any co-paying agent appointed by the Trust and acceptable to the Bank. The Principal Paying Agent and any co-paying agent (collectively, the "Paying Agents") shall be permitted to resign as Paying Agents upon 30 days' written notice to the Trustees and the Company. In the event that The Bank of New York shall no longer be the Principal Paying Agent, the Company shall appoint a successor (which shall be a bank or trust company acceptable to the Trustees) to act as Principal Paying Agent. For as long as any of the Trust Preferred Securities are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, the Trust shall also maintain a co-paying agent in Luxembourg (the "Paying Agent in Luxembourg"), which initially shall be The Bank of New York (Luxembourg) S.A.

### **Registrar and Transfer Agent**

The Bank of New York will act through its New York branch as Registrar and Transfer Agent for the Trust Preferred Securities.

Registration of transfers of Trust Preferred Securities will be effected without charge by or on behalf of the Trust, but the Trustees or the Transfer Agent shall require, prior to registration, payment (or the giving of such indemnity as the Registrar and Transfer Agent may require) of a sum sufficient to cover any tax or other governmental charges that may be imposed in connection with any transfer of definitive Trust Preferred Securities. The Trust will not be required to register or cause to be registered the transfer of definitive Trust Preferred Securities during the period of 15 days before the day of selection for redemption

of such Trust Preferred Securities and ending at the close of business on the day of mailing of the notice of redemption or Trust Preferred Securities that have been called for redemption.

#### **Amendments of the Trust Agreement and Dissolution of the Trust**

The Company and the Trustees may, at any time and from time to time, enter into one or more agreements supplemental to the Trust Agreement without the consent of the holders of the Trust Preferred Securities: (i) to evidence the succession of another entity to the Company and the assumption by any such successor of the covenants of the Company in the Trust Agreement; (ii) to add to the covenants of the Company for the benefit of the holders of the Trust Preferred Securities, or to surrender any right or power conferred in the Trust Agreement upon the Company; (iii) (A) to correct or supplement any provision in the Trust Agreement which may be defective or inconsistent with any other provision therein or (B) to make any other provisions with respect to matters or questions arising under the Trust Agreement, *provided* that any such action taken under this clause (iii) shall not materially adversely affect the interests of the holders of Trust Preferred Securities, as set forth in an Officer's Certificate and an opinion of counsel delivered by the Company to the Trustees; or (iv) to cure any ambiguity or correct any manifest error. Any other amendment of the Trust Agreement must be approved in writing by holders of a majority (by aggregate liquidation preference) of the Trust Preferred Securities; *provided* that, for the purpose of such approval, any Company Preferred Securities that are directly or indirectly held or beneficially owned by the Bank, the Subsidiary, the holder of the Company Common Securities, the Company or any of their respective affiliates shall be treated as if they were not outstanding. The Trustee shall notify the Paying Agents and the holders of the Trust Preferred Securities of any such amendment of the Trust Agreement within a reasonable period of time.

The Trust shall be dissolved upon the earliest to occur of the redemption of all of the Trust Preferred Securities and the payment in full of the redemption price thereof, a final distribution in respect of the Company Preferred Securities and delivery of such distribution to the holders of the Trust Preferred Securities, withdrawal of all of the Company Preferred Securities from the Trust (as described under "*— Withdrawal of Company Preferred Securities*" above), the entry of a decree of judicial dissolution of the Trust by a court of competent jurisdiction, or a dissolution of the Company as described under "*— Effect of Dissolution of the Company or the Trust*" above; *provided, however*, that, to the fullest extent permitted by law, the Trust shall not be dissolved until all payments due to the Trust (as holder of the Company Preferred Securities) under the Subordinated Guarantee have been received and distributions to the holders of Trust Preferred Securities in respect thereof have been made. The Trust Agreement shall terminate upon the filing of a certificate of cancellation as provided in the Delaware Business Trust Act; *provided, however*, that provisions of the Trust Agreement relating to indemnification by the Bank and the Bank's liability of the Company or the Bank for certain fees, charges and expenses shall survive the termination of the Trust Agreement. In addition, the Company may instruct the Trustees to dissolve the Trust and, after satisfaction of creditors of the Trust, if any, to distribute the Company Preferred Securities on a *pro rata* basis to the holders of Trust Preferred Securities if (i) the Trust, at any time, is subject to United States federal income tax with respect to its ownership of the Company Preferred Securities, (ii) the Trust is subject to more than a *de minimis* amount of other taxes, duties or governmental charges, or (iii) the Bank has received an opinion from a nationally recognised U.S. law firm experienced in these matters to the effect that there is more than an insubstantial risk that the Trust is or will be considered an "investment company" which is required to be registered under the 1940 Act on or after the Issue Date.

#### **Expenses of the Trust**

All charges or expenses of the Trust other than payments required under the terms of the Trust Preferred Securities, including the fees, charges and expenses of the Trustees, any agent of the Trustees acting under the Trust Agreement, the Registrar, the Transfer Agent or any Paying Agent, will be paid or caused to be paid by the Company; *provided, however*, that if the Company does not pay or cause to be paid such fees, charges and expenses or can only pay such fees, charges and expenses in a manner that

would allocate such fees, charges and expenses against the interests of the holders of the Company Preferred Securities, the Bank will pay such fees, charges and expenses; *provided, further* that, if the Trustees incur fees, charges or expenses, for which they are not otherwise liable under the Trust Agreement, at the request of a holder of Trust Preferred Securities or other person, such holder or other person will be liable for such fees, charges and expenses.

#### **Expenses of the Paying Agent, Transfer Agent and Registrar**

If the Paying Agent, Transfer Agent or Registrar incurs fees, charges or expenses, for which it is not otherwise liable under the Agency Agreement, at the request of a holder of Trust Preferred Securities or other person, such holder or other person will be liable for such fees, charges or expenses.

#### **Resignation and Removal of the Trustees**

The Trust shall at all times required by the Delaware Business Trust Act have a Delaware Trustee who is a resident of Delaware or an entity that has its principal place of business in the State of Delaware and otherwise meets the requirements of Delaware law and a Property Trustee who is not an affiliate of the grantor having a combined capital and surplus of \$50,000,000. The Delaware Trustee and the Property Trustee are collectively referred to herein as the "Trustees." If any Trustee ceases to be eligible, it will resign.

A Trustee may at any time resign as trustee under the Trust Agreement by notice of its election to do so delivered to the Company, such resignation to take effect upon the appointment of a successor trustee and the successor trustee's acceptance of such appointment. The Trustees may at any time be removed by the Independent Director by notice of such removal delivered to the Trustees, such removal to take effect upon the appointment of a successor trustee and the successor trustee's acceptance of such appointment.

In case at any time the Trustees shall resign or be removed, the Company shall, within 45 days after the delivery of the notice of resignation or removal, as the case may be, appoint a successor trustee or trustees, which shall meet the eligibility requirements set forth above.

#### **Notices**

Notices to the holders of the Trust Preferred Securities will be given by delivery of the relevant notice to Euroclear, Clearstream and any other relevant securities clearing system identified in writing by the parties to the Trust Agreement for communication by each of them to entitled participants, and so long as the Trust Preferred Securities are listed on one or more stock exchanges and the rules of such stock exchange(s) so require, notices shall also be published in such manner as the rules of such stock exchange(s) may require. In addition, notices will be published in one English language daily newspaper of general circulation in Europe and, so long as the Trust Preferred Securities are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, in a daily newspaper of general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

#### **Listing**

Application has been made to list the Trust Preferred Securities on the Luxembourg Stock Exchange.

#### **Governing Law**

The Trust Agreement and the Trust Preferred Securities are governed by, and shall be construed in accordance with, the law of the State of Delaware, United States of America, without regard to conflict of law principles thereof.

## DESCRIPTION OF THE COMPANY PREFERRED SECURITIES

*The following is a summary of certain provisions of the Company Preferred Securities, and is qualified in its entirety by reference to the terms and provisions of the Company Agreement. A copy of the Company Agreement is available to prospective investors upon request to the Bank and free of charge at the specified office of the Paying Agent in Luxembourg.*

### **General**

The Company Preferred Securities are preferred limited liability company interests in the Company, the terms of which are set forth in the Company Agreement. When issued, the Company Preferred Securities will be validly issued, and no additional payments will be required pursuant to the Delaware Limited Liability Company Act for such securities to represent limited liability company interests in the Company. The holders of the Company Preferred Securities will have no preemptive rights with respect to any limited liability company interests in the Company or any other securities of the Company convertible into or carrying rights or options to purchase any such securities. The Company Preferred Securities will not be convertible into the Company Common Securities or any other class or series of limited liability company interests in the Company and will not be subject to any sinking fund or other obligation of the Company for their repurchase or retirement.

The Company Preferred Securities will be issued in definitive form only in denominations of €1,000 and integral multiples thereof. The aggregate liquidation preference of the Company Preferred Securities is €160,000,000. The Company will be precluded by the Company Agreement from issuing any equity interests in the Company of any class or series except for the Company Common Securities and the Company Preferred Securities. Accordingly, the Company may not issue any equity securities that rank senior to the Company Preferred Securities.

### **Dividends**

#### ***Dividends Generally***

Dividends on the Company Preferred Securities will be payable, when, as and if declared or deemed declared by the Company's Board of Directors, on a noncumulative basis (i) from the Issue Date to and including the First Call Date, annually in arrears on July 2 of each year, commencing July 2, 2002 (or if any such date is not a Business Day, the next succeeding Business Day) at a fixed rate per annum on the liquidation preference equal to 8.393% (calculated on an Actual/Actual (Bond) Basis), and (ii) thereafter, quarterly in arrears on each October 2, January 2, April 2 and July 2 (or if any such date is not a Business Day, the next succeeding Business Day) at a variable rate per annum on the liquidation preference equal to 4.70% above three-month EURIBOR (calculated on an Actual/360 Basis) determined on the Determination Date for such Dividend Period. Dividends on the Company Preferred Securities will be mandatorily due and payable on a Dividend Payment Date with respect to the related Dividend Period in the circumstances described under "*Required Dividends*" below. All dividends, redemption amounts and other payments on the Company Preferred Securities will be paid out of funds legally available therefor, including any amounts required to be paid under the Subordinated Guarantee. See "*Description of the Subordinated Guarantee — Guaranteed Support of Dividends, Additional and Redemption Amounts.*"

Dividends will not be cumulative and dividend payments which are not declared or deemed declared will not accumulate or compound. This means that, if dividends are not declared or deemed declared in full or in part on any Dividend Payment Date, holders of the Company Preferred Securities (and, consequently, holders of the Trust Preferred Securities) will not, and will have no right to, receive those dividends at any time, even if dividends or other distributions are paid in the future.

All percentages resulting from any calculations on the Company Preferred Securities will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one-

millionths of a percentage point rounded upward (e.g., 9.876545% (or .09876545) being rounded to 9.87655% (or .0987655)), and all euro amounts used in or resulting from such calculation will be rounded to the nearest .001 euro (with 0.005 being rounded upward).

### ***Limitation on Dividends***

Except when it is required to pay Required Dividends as described under “— *Required Dividends*” below, the Company may elect not to pay dividends on the Company Preferred Securities (and accordingly, distributions of dividends may not be made on the Trust Preferred Securities) when the Bank does not have, according to the unconsolidated annual financial statements of the Bank relating to the financial year immediately preceding the financial year in which such Dividend Payment Date falls or, where such financial statements are not available, the last set of unconsolidated financial statements approved by the Bank, net profits (“Distributable Profits”) that would be available for the payment of a dividend or the making of a distribution on any class of its share capital, and/or the Bank has not declared or paid dividends on any class or series of its share capital for the financial year in which such Dividend Payment Date falls.

Except when it is required to pay Required Dividends as described under “— *Required Dividends*”, the Company will be prohibited from paying dividends on the Company Preferred Securities (and accordingly no distributions of Dividends will be made on the Trust Preferred Securities) when a Capital Deficiency Event has occurred and is continuing or a Capital Deficiency Event would occur as a consequence of the payment of dividends on the Company Preferred Securities.

### ***Required Dividends***

Notwithstanding the foregoing, the Company will be required to declare and pay dividends (“Required Dividends”) in full as set forth below on any Dividend Payment Date (a “Required Dividend Payment Date”) if:

- (i) the Bank or any subsidiary, as the case may be, has redeemed, repurchased or otherwise acquired a Bank Parity Security or Bank Junior Security for any consideration, or any monies are paid to or made available for a sinking fund or for redemption of any such securities during the twelve-month period immediately preceding and including such Dividend Payment Date other than in a Permitted Transaction;
- (ii) the Bank has declared or paid a dividend or distribution or made any other payment with respect to a Bank Junior Security, if any, that pays dividends or other distributions annually during the twelve month period immediately preceding and including such Dividend Payment Date; or
- (iii) the Bank makes a distribution of net income to employees of the Bank pursuant to the Bank’s By-laws or other charter documents during the twelve-month period immediately preceding and including such Dividend Payment Date.

Additionally, and notwithstanding the limitations in clauses (i) through (iii) above, if (x) the Bank or any of its subsidiaries declares or pays any dividends or makes any other payment or distribution in respect of any Bank Parity Securities on any date, and (y) during the twelve-month period ending on and including that date there occurred a Dividend Payment Date as to which the Company paid no dividends or less than full dividends on the Company Preferred Securities, then on that date the Company will be required to pay a special dividend on the Company Preferred Securities. The special dividend (which will be deemed to be a “Required Dividend”) will be payable on that date (a “Special Dividend Payment Date”), whether or not that date is otherwise a Dividend Payment Date and, if it is a Dividend Payment Date, will be in addition to any other Dividends required to be paid on that Dividend Payment Date. The special dividend will be in an amount that, when taken together with dividends previously paid on the Company Preferred Securities during the preceding twelve-month period, represents the same proportion of full dividends on the



Company Preferred Securities for all Dividend Payment Dates during the preceding twelve-month period that the dividend on Bank Parity Securities paid during such period bears to full dividends on such Bank Parity Securities for such period.

Required Dividends will be paid out of funds legally available therefor, including any amounts required to be paid under the Subordinated Guarantee.

If a Dividend Payment Date is a Required Dividend Payment Date or a Special Dividend Payment Date, the Company will be required to pay the Required Dividend Payment Amount as dividends on such Required Dividend Payment Date irrespective of whether (a) a Capital Deficiency Event has occurred or (b) interest is paid on the Subsidiary Subordinated Instrument or other Eligible Investments.

If for any reason any Required Dividend Payment Amount is not declared on any Required Dividend Payment Date or Special Dividend Payment Date, then, under the terms of the Company Agreement, such Required Dividend Payment Amount automatically will be deemed declared and authorised to be paid in full on such Required Dividend Payment Date.

### **Additional Amounts**

If at any time the Trust, the Company or the relevant Paying Agent is required to withhold or deduct any Relevant Tax imposed or levied by or on behalf of a Relevant Jurisdiction that has the power to tax, the Company will be required to pay as additional amounts ("Additional Amounts") included in the dividends or other distributions then otherwise due and payable (and the Bank will be required to include in any related payment made by it under the Subordinated Guarantee) an amount that is sufficient so that the net amount received by each holder of the Trust Preferred Securities or the Company Preferred Securities, as applicable, after the withholding of any such Relevant Tax, will not be less than the dividends or other distributions then otherwise due and payable. However, the Company will not be required to pay any such Additional Amounts to the extent that the Relevant Taxes are imposed or levied by a Relevant Jurisdiction because the holder or beneficial owner of Trust Preferred Securities or Company Preferred Securities (other than the Trust):

- (i) has some connection with such Relevant Jurisdiction, as applicable, other than being a holder or beneficial owner of those Trust Preferred Securities or Company Preferred Securities; or
- (ii) has not made a declaration of non-residence in, or other lack of connection with, such Relevant Jurisdiction, or any similar claim for exemption, if the Company has given the beneficial owner of those Trust Preferred Securities or Company Preferred Securities or its nominee at least 60 days' prior notice of an opportunity to make the declaration or claim.

The Bank will pay under the Subordinated Guarantee and the Bank Subordinated Bonds, the Subsidiary will pay under the Subsidiary Subordinated Instrument and the Company will pay under the Company Preferred Securities as applicable, such Additional Amounts as may be necessary in order that every net payment thereunder, after withholding for or deducting any Relevant Tax, will not be less than the amount otherwise required to be paid, subject to certain exceptions described herein. Additional Amounts will be paid out of funds legally available therefor, including any amounts required to be paid under the Subordinated Guarantee. See "*Description of the Subordinated Guarantee — Guaranteed Support of Dividends, Additional and Redemption Amounts.*"

### **Ranking**

#### **Dividends**

The Company Preferred Securities ordinarily will rank senior to the Company Common Securities as to payment of dividends. The Company will have discretion as to whether full dividends, partial dividends

or no dividends are paid on the Company Preferred Securities on any Dividend Payment Date that is not a Required Dividend Payment Date. See “— *Dividends — Required Dividends.*”

If full dividends on the Company Preferred Securities are paid on any Dividend Payment Date and, after giving effect to such payment, the Company has additional funds available for the payment of dividends, the Company, in its discretion, may apply such additional funds to pay dividends on the Company Common Securities.

### ***Circumstances in which the Company may be Dissolved***

If the Bank is liquidated, whether voluntarily or involuntarily (and whether in connection with the occurrence of a Bankruptcy Event or otherwise), the Company will be dissolved. The Bank, as holder of the Company Common Securities, will agree in the Company Agreement that, for so long as the Company Preferred Securities are outstanding, the Bank, to the fullest extent permitted by law, will not cause the Company to be dissolved unless the Bank is also being liquidated (whether voluntarily or involuntarily). Accordingly, it is expected that investors will receive liquidating distributions only in connection with a concurrent liquidation of the Bank and the Company. Under the Company Agreement and to the fullest extent permitted by applicable law, holders (including the Trust) of Company Preferred Securities will not have the ability to force or initiate commencement of a dissolution of the Company unless the Bank is also being liquidated, whether voluntarily or involuntarily (and, consequently, holders of Trust Preferred Securities will not have such an ability). The Company Agreement will preclude the Company from incurring any indebtedness and, accordingly, the Company does not anticipate having creditors in the ordinary course of business who could initiate the commencement of an involuntary bankruptcy proceeding. In the event that the Company is dissolved, the Trust will be dissolved and will distribute to the holders of Trust Preferred Securities, after satisfaction of claims of creditors of the Trust, if any, as required by law, the Company Preferred Securities held by the Trust to the holders of the Trust Preferred Securities.

### ***Liquidation Preference***

In the event of any voluntary or involuntary dissolution of the Company concurrent with the liquidation of the Bank, the holders of the Company Common Securities will have a claim senior to that of the holders of the Company Preferred Securities to receive as a liquidation distribution, after satisfaction of all Company liabilities to the creditors of the Company, the Subsidiary Subordinated Instrument and other Eligible Investments, if any.

In a dissolution of the Company that is concurrent with a liquidation of the Bank, it is anticipated that the Company's only assets available for making liquidating distributions on the Company Preferred Securities will be amounts realised by the Company pursuant to the undertakings and covenants of the Bank in the Subordinated Guarantee. As a consequence of the foregoing and of the subordinated status of the obligations of the Bank under the Subordinated Guarantee, the Subordinated Guarantee will provide that, in a dissolution of the Company that is concurrent with a liquidation of the Bank, holders of Company Preferred Securities will receive, after the satisfaction of claims of creditors, if any, an amount equal to but not exceeding the amount to which such holders would have been entitled had they instead owned preferred securities or preferred stock issued by the Bank and having the same liquidation preference and dividend rights as the Company Preferred Securities.

Under the terms of the Company Agreement and to the fullest extent permitted by law, the Company shall not be dissolved until all claims under the Subordinated Guarantee shall have been paid in full pursuant to the terms of the Subordinated Guarantee.

In the event of any voluntary or involuntary dissolution of the Company that is not concurrent with that of the Bank, after satisfaction of liabilities to creditors of the Company, if any, holders of the Company Preferred Securities will be entitled to receive out of assets of the Company available for distribution to security holders, before any liquidating distribution of assets is made on the Company Common Securities,

liquidation distributions in respect of the Company Preferred Securities equal to the Liquidation Claim Amount.

### **Voting Rights**

Except as indicated below or under “— *Amendment and Termination of the Company Agreement*,” the holders of Company Preferred Securities will not be entitled to vote. In the event the holders of Company Preferred Securities are entitled to vote as indicated below, each €1,000 liquidation preference of Company Preferred Securities shall be entitled to one vote on matters on which holders of Company Preferred Securities are entitled to vote. The Bank or an affiliate of the Bank will not be entitled to vote any Company Preferred Securities that they hold.

If full dividends are not paid on any Dividend Payment Date, the holders of the Company Preferred Securities shall have the right to remove the initial Independent Director and fill the vacancy created by such removal with a person elected by such holders. The person so elected shall be deemed to be an Independent Director. Such right may be exercised by the holders of a majority (by liquidation preference) of the Company Preferred Securities, and shall continue for so long as the Company Preferred Securities are outstanding. Any vacancy in the office of the Independent Director during such period may be filled only by a vote of the holders of the Company Preferred Securities voting as set forth above.

### **Director Approval**

The Company Agreement will provide that, for so long as any Company Preferred Securities are outstanding, certain actions by the Company must be approved by both a majority of the Board of Directors as a whole and by the Independent Director. See “*The Company — Management of the Company — Independent Director*.”

### **Redemption**

The Company Preferred Securities are not redeemable at the option of the holders of Company Preferred Securities at any time and are not redeemable at the option of the Company prior to the Dividend Payment Date regularly scheduled to occur on the First Call Date, except in whole upon the occurrence of a Tax Event, an Investment Company Act Event or a Tier 1 Disqualification Event (each, a “Special Event”). On the First Call Date or any subsequent Dividend Payment Date, the Company Preferred Securities may be redeemed at the option of the Company, in whole or in part, at the Company Preferred Securities Base Redemption Price; subject to compliance with all applicable regulatory requirements, including the approval of the Bank of Italy, if then required.

The Company will also have the right upon the occurrence of a Special Event prior to the First Call Date, to redeem Company Preferred Securities at any time, in whole (but not in part). The Redemption Price per Company Preferred Security for such Special Event redemptions, unless the Special Event is a Tax Event arising out of a Change in Tax Law, will be equal to the greater of (i) the Company Preferred Securities Base Redemption Price and (ii) the Company Preferred Securities Make Whole Amount. The Redemption Price per Company Preferred Security for a redemption triggered by a Tax Event arising out of a Change in Tax Law will be the Company Preferred Securities Base Redemption Price.

In the event that fewer than all the outstanding Company Preferred Securities are to be redeemed, the securities to be redeemed shall be determined by lot or *pro rata*, as may be determined by the Company, in its sole discretion, to be equitable, *provided* that such method satisfies any applicable requirements of any securities exchange on which the Company Preferred Securities may then be listed. The Company shall promptly notify the Registrar and Transfer Agent for the Company Preferred Securities in writing of the securities selected for redemption and, in the case of any partial redemption, the liquidation preference thereof to be redeemed.

Any redemption of the Company Preferred Securities is subject to the Company having given not less than 30 nor more than 60 days' notice of its intent to redeem the Company Preferred Securities.

Any redemption of the Company Preferred Securities is subject to compliance with applicable regulatory requirements, including the prior approval of the Bank of Italy, if then required.

The Company Preferred Securities will not be subject to any sinking fund or mandatory redemption. Any Company Preferred Securities redeemed shall be cancelled. There shall be no prescription period in respect of uncollected dividends on the Company Preferred Securities.

### **Registrar and Transfer Agent**

The Bank of New York, or another entity that the Board of Directors may designate from time to time, will act as Registrar and Transfer Agent for the Company Preferred Securities.

Registration of transfers of Company Preferred Securities will be effected without charge by or on behalf of the Company, but upon payment of any tax or other governmental charges that may be imposed in connection with any transfer or exchange. The Company will not be required to register the transfer or exchange of Company Preferred Securities after such Company Preferred Securities have been called for redemption, except, in the case of any Company Preferred Securities to be redeemed in part, any portion thereof not to be redeemed and during a period beginning at the opening of 15 business days before the selection for redemption of such Company Preferred Securities and ending at the close of business on the day of mailing of the notice of redemption.

See "*Notice to Purchasers*" and "*Plan of Distribution*" for certain restrictions on transfer.

### **Amendment and Termination of the Company Agreement**

The Bank may, at any time and from time to time, enter into one or more agreements supplemental to the Company Agreement without the consent of the holders of the Company Preferred Securities: (i) to evidence the succession of another entity to the Bank and the assumption by any such successor of the covenants of the Bank in the Company Agreement; (ii) to add to the covenants of the Bank for the benefit of the holders of the Company Preferred Securities, or to surrender any right or power therein conferred upon the Bank; (iii) to correct or supplement any provision in the Company Agreement which may be defective or inconsistent with any other provision therein or to make any other provisions with respect to matters or questions arising under the Company Agreement, *provided* that any such action shall not materially adversely affect the interests of the holders of the Company Preferred Securities; or (iv) to cure any ambiguity or correct any manifest error; *provided* that any such amendment shall not cause the Company to be required to register as an investment company under the 1940 Act, become a tax resident in Italy, be taxable as a corporation in the United States, or be taxable as a corporation or otherwise in Italy. Any other amendment of the Company Agreement must be approved by holders of a majority (by liquidation preference) of the Company Preferred Securities; *provided* that, for the purpose of such approval, any Company Preferred Securities that are directly or indirectly held or beneficially owned by the Bank, the Subsidiary, the holder of the Company Common Securities, the Company or any of their respective affiliates shall be treated as if they were not outstanding.

The Company Agreement will terminate upon the earliest to occur of the redemption of all of the Company Preferred Securities, a final distribution in respect of the Company Preferred Securities and delivery of such distribution to the holders of the Company Preferred Securities, respectively, or dissolution, winding up and termination of the Company or any event causing the Company to terminate under the Delaware Limited Liability Company Act.

**Expenses of the Company**

All charges or expenses of the Company will be paid by the Company itself; *provided, however*, that if the Company does not pay such charges or expenses or can only pay such charges or expenses in a manner that would allocate such charges or expenses against the interests of the holders of the Company Preferred Securities, the Bank will pay such charges or expenses; and *provided, further*, that, if the Company incurs fees, charges or expenses, for which it is not otherwise liable under the Company Agreement, at the request of a holder of Company Preferred Securities or other person, such holder or other person will be liable for such fees, charges and expenses.

**Notices**

Notices to holders of the Company Preferred Securities will be mailed by first-class mail, postage prepaid, to the holders' addresses appearing in the securities register of the Company.

**Governing Law**

The Company Agreement, the Company Preferred Securities and the Company Common Securities will be governed by, and construed in accordance with, the law of the State of Delaware, United States of America, without regard to conflict of laws principles thereof.

## DESCRIPTION OF THE SUBSIDIARY SUBORDINATED INSTRUMENT

*The following is a summary of certain provisions of the Subsidiary Subordinated Instrument and is qualified in its entirety by reference to the terms and provisions of the Subsidiary Subordinated Instrument. A copy of the form of the Subsidiary Subordinated Instrument is available to prospective investors upon request to the Bank and free of charge at the specified office of the Paying Agent in Luxembourg.*

### General

The Company will apply the proceeds from the issuance of the Company Preferred Securities (and the Company Common Securities, except to the extent such proceeds are invested in other Eligible Investments) to acquire a subordinated debt instrument, to be issued by the Subsidiary in connection with the Offering (the "Subsidiary Subordinated Instrument"). The Company will be prohibited by the Company Agreement from selling the Subsidiary Subordinated Instrument.

The Subsidiary Subordinated Instrument will be an unconditional, unsecured and subordinated obligation of the Subsidiary and will rank *pari passu* with any subordinated instrument of the Subsidiary not ranking junior to it.

Interest on the Subsidiary Subordinated Instrument will be payable on a cumulative basis (i) from the Issue Date to and including the First Call Date, annually in arrears on July 2 of each year, commencing July 2, 2002 (or, if any such date is not a Business Day, on the next succeeding Business Day) at a fixed rate per annum on the principal amount from time to time outstanding equal to 7.8263% (calculated on an Actual/Actual (Bond) Basis), and (ii) thereafter, quarterly in arrears on each October 2, January 2, April 2 and July 2 (or, if any such date is not a Business Day, on the next succeeding Business Day) at a variable rate per annum on the principal amount equal to 3.85% above three-month EURIBOR (calculated on an Actual/360 Basis) determined on the Determination Date for such Interest Period.

The Subsidiary Subordinated Instrument will mature on July 2, 2031 (*provided, however, that such date may be extended by the mutual consent of the Company and the Subsidiary*).

Upon the occurrence of a Capital Deficiency Event, the obligations of the Subsidiary in respect of principal and cumulative interest from prior periods under the Subsidiary Subordinated Instrument will be reduced by an amount equal to the lesser of the Bank Loss and the amount necessary to reinstate the consolidated risk-based capital ratio of the Bank to a percentage that is higher than 5.00%. Any such reduction shall (a) be made on a pro rata basis with any *Strumenti Innovativi di Capitale* issued by the Bank, or issued by any subsidiary of the Bank with the benefit of a Bank Parity Guarantee, which are subject to loss absorption provisions on a consolidated basis similar to those described herein and outstanding upon occurrence of a Capital Deficiency Event, and (b) apply first to any unpaid cumulative interest from prior periods, and subsequently to principal. The obligations of the Subsidiary in respect of principal and interest under the Subsidiary Subordinated Instrument will be reinstated in the event of any voluntary or involuntary dissolution, liquidation or winding up of the Bank.

In addition, to the extent that the Bank at any time suffers losses which would require the Bank to reduce its capital below the Minimum Capital required for Italian banks (currently €6.3 million), the obligation of the Subsidiary in respect of interest under the Subsidiary Subordinated Instrument would be reduced to the extent necessary to enable the Bank to maintain at least the Minimum Capital. The obligations of the Subsidiary in respect of interest under the Subsidiary Subordinated Instrument will be reinstated in case of dissolution, liquidation or winding up, whether voluntary or involuntary, of the Bank or reinstatement of the Minimum Capital.

The Subsidiary is not required to pay interest on the Subsidiary Subordinated Instrument in respect of any Interest Payment Period during which the Bank, pursuant to the Applicable Banking Regulations, defers interest payments on the Bank Subordinated Bonds.

During a deferral period, interest will continue to accrue on the Subsidiary Subordinated Instrument at the Subsidiary Subordinated Instrument Coupon Rate. Also, the deferred interest will itself accrue interest at the Subsidiary Subordinated Instrument Coupon Rate. Deferred interest (together with any interest thereon) will be due and payable on the Subsidiary Subordinated Instrument (i) in part, *pari passu* and *pro rata* if the Bank makes payments of, or in respect of, amounts of interest on, or in relation to, any other *pari passu* claims and (ii) in full, on the earliest of (A) the Interest Payment Date falling on or after the date on which a dividend is approved or paid on the Bank Junior Securities, or interest or dividends are paid on any Bank Parity Securities, (B) the date of repayment of the Subsidiary Subordinated Instrument and (C) the date on which the Bank is subject to liquidation.

In the case of an event of default, the holder of the Subsidiary Subordinated Instrument may not accelerate the maturity of the Subsidiary Subordinated Instrument.

Decisions with respect to enforcement of the Subsidiary Subordinated Instrument and actions to be taken by the Subsidiary upon a default will be made by the Company.

### **Redemption**

The Subsidiary Subordinated Instrument is not redeemable at the option of the holder at any time and is not redeemable at the option of the Subsidiary prior to the First Call Date, except in whole (subject to the approval of the Bank of Italy, if then required, and of the Bank) upon the occurrence of a Special Event. The Redemption Price for such Special Event redemption, unless the Special Event is a Tax Event arising out of a Change in Tax Law, will be the greater of (i) the Subsidiary Subordinated Instrument Make Whole Amount and (ii) the Subsidiary Subordinated Instrument Base Redemption Price. The Redemption Price for a redemption triggered by a Tax Event arising out of a Change in Tax Law will be the Subsidiary Subordinated Instrument Base Redemption Price.

On the First Call Date or any subsequent Interest Payment Date, the Subsidiary Subordinated Instrument may be redeemed at the option of the Subsidiary (subject to the approval of the Bank and the Bank of Italy, if then required), in whole or in part, at the Subsidiary Subordinated Instrument Base Redemption Price.

If the proceeds from the Subsidiary Subordinated Instrument upon the redemption thereof are not used to redeem the Company Preferred Securities, the Company is required to reinvest such proceeds in other Eligible Investments so long as any such reinvestment will not cause the Company to become subject to the registration requirements of the 1940 Act or cause a Tax Event or cause the Company to be taxable as a corporation for U.S. federal income tax purposes.

### **Additional Amounts**

If the Subsidiary is required to deduct or withhold any Relevant Tax imposed or levied by or on behalf of a Relevant Jurisdiction that has the power to tax in respect of the Subsidiary Subordinated Instrument, the Subsidiary will be required to make such additional payment to the Company so that the net amount received by the Company under the Subsidiary Subordinated Instrument after the withholding or deduction of any such Relevant Tax, will not be less than the amount of dividends or distributions then otherwise due and payable.

### **Failure of Payment**

If the Subsidiary fails to pay an installment of interest when due or repay principal in a liquidation, dissolution or winding up of the Subsidiary, the only remedies available to the Company will be to bring suit for the amount of interest and/or principal not paid when due.

**Liquidation**

If the Bank is liquidated and, upon commencement of the related liquidation proceedings, the Subsidiary Subordinated Instrument is still outstanding, then the Subsidiary Subordinated Instrument or other Eligible Investments will be distributed by the Company to the Bank, as holder of the Company Common Securities.

**Transfer of the Subsidiary Subordinated Instrument**

The Subsidiary Subordinated Instrument will be represented by a single definitive note in registered form. The Subsidiary Subordinated Instrument may not be sold or otherwise transferred by the Company without the consent of the Subsidiary, and the Company will be prohibited by the Company Agreement from selling the Subsidiary Subordinated Instrument.

**Modification and Amendment of the Subsidiary Subordinated Instrument**

The Subsidiary Subordinated Instrument may be modified or amended only by the written agreement of the Subsidiary and the Company.

**Governing Law**

The Subsidiary Subordinated Instrument will be governed by, and construed in accordance with, the law of the Grand Duchy of Luxembourg, without regard to conflict of laws principles thereof.



## DESCRIPTION OF THE BANK SUBORDINATED BONDS

*The following is a summary of certain provisions of the Bank Subordinated Bonds and is qualified in its entirety by reference to the terms and provisions of the Bank Subordinated Bonds. A copy of the Bank Subordinated Bonds is available to prospective investors upon request to the Bank and free of charge at the specified office of the Paying Agent in Luxembourg.*

### General

The Subsidiary will apply the proceeds from the issuance of the Subsidiary Subordinated Instrument toward the acquisition of subordinated debt instruments to be issued by the Bank in connection with the issuance of the Trust Preferred Securities (the "Bank Subordinated Bonds"). The Bank Subordinated Bonds will be unconditional, unsecured and subordinated obligations of the Bank and will rank *pari passu* without any preference with all Upper Tier 2 subordinated instruments of the Bank.

Interest on the Bank Subordinated Bonds will be payable on a cumulative basis (i) from the Issue Date to and including the First Call Date, annually in arrears on July 2 of each year, commencing July 2, 2002 (or, if any such date is not a Business Day, on the next succeeding Business Day) at a fixed rate per annum on the principal amount from time to time outstanding equal to 7.625% (calculated on an Actual/Actual (Bond) Basis), and (ii) thereafter, quarterly in arrears on each October 2, January 2, April 2 and July 2 (or, if any such date is not a Business Day, on the next succeeding Business Day) at a variable rate per annum on the principal amount equal to 3.725% above three-month EURIBOR (calculated on an Actual/360 Basis) determined on the Determination Date for such Interest Period. The Bank Subordinated Bonds will mature on July 2, 2031, *provided, however*, that such date may be extended by the mutual consent of the Bank and the Subsidiary.

To the extent that the Bank at any time suffers losses which would require the Bank to reduce its capital below the Minimum Capital, the obligations of the Bank in respect of principal and interest under the Bank Subordinated Bonds would be reduced to the extent necessary to enable the Bank to maintain at least the Minimum Capital. The obligations of the Bank in respect of the principal and interest under the Bank Subordinated Bonds will be reinstated in case of dissolution, liquidation or winding up, whether voluntary or involuntary, of the Bank or reinstatement of the Minimum Capital.

In addition, the Subsidiary will apply a portion of the proceeds from the issuance of the Subsidiary Subordinated Instrument toward the acquisition of a subordinated note to be issued by an affiliate of the Bank. Such instrument will have substantially the same terms as to ranking, interest, maturity, deferral and reduction as the Bank Subordinated Bonds.

### Redemption

The Bank Subordinated Bonds are not redeemable at the option of the holders at any time and are not redeemable at the option of the Bank prior to the First Call Date, except in whole upon the occurrence of a Special Event (subject to the approval of the Bank of Italy, if then required). The Redemption Price per Bank Subordinated Bond for such Special Event redemption, unless such a Special Event is a Tax Event arising out of a Change in Tax Law, will be the greater of (i) the Bank Subordinated Bonds Make Whole Amount and (ii) the Bank Subordinated Bonds Base Redemption Price. The Redemption Price for a redemption triggered by a Tax Event arising out of a Change in Tax Law will be the Bank Subordinated Bonds Base Redemption Price.

On the First Call Date or any subsequent Interest Payment Date, the Bank Subordinated Bonds may be redeemed at the option of the Bank (subject to the approval of the Bank of Italy, if required), in whole or in part, at the Bank Subordinated Bonds Base Redemption Price.

In the case of an event of default, the holder of the Bank Subordinated Bonds may not accelerate the maturity of the Bank Subordinated Bonds.

### **Additional Amounts**

If the Bank is required to deduct or withhold any Relevant Tax imposed or levied by or on behalf of a Relevant Jurisdiction that has the power to tax in respect of the Bank Subordinated Bonds, the Bank will be required to make such additional payment on the Bank Subordinated Bonds (and any affiliate of the Bank that issues related securities will be required to make such additional payments) to the Subsidiary so that the net amount received by the Subsidiary, after the deduction or withholding of any such Relevant Tax, will not be less than the amount of dividends or distributions then otherwise due and payable.

### **Transfer of the Bank Subordinated Bonds**

The Bank will have the right to substitute a branch of the Bank as obligor under the Bank Subordinated Bonds upon the satisfaction of certain conditions, as described in the Bank Subordinated Bonds Underwriting Agreement between the Bank and the Subsidiary dated as of the Issue Date. In addition, the Bank may cause the Subsidiary to reinvest the redemption proceeds or the proceeds upon maturity of the Bank Subordinated Bonds into other Eligible Investments. Under the terms of the Subordinated Guarantee, the Bank may make such substitution or cause such reinvestment only if (i) each rating agency then rating the Trust Preferred Securities or if not outstanding, the Company Preferred Securities, if then rated, shall have informed the Bank in writing that such substitution or reinvestment will not result in the downgrading of the rating then assigned by such rating agency, (ii) no Tax Event would occur as a consequence of such substitution or reinvestment, (iii) the Bank receives written confirmation from the Bank of Italy approving such substitution or reinvestment and indicating that no Tier 1 Disqualification Event would occur as a consequence of such substitution or reinvestment, (iv) no Investment Company Act Event would occur as a consequence of such substitution or reinvestment, (v) the Company would not be taxable as a corporation and the Trust would be classified as a grantor trust, in each case for US federal income tax purposes, and (vi) the Bank delivers to the Independent Director an officer's certificate and an opinion of counsel certifying compliance with all conditions precedent to any substitution or reinvestment and, based on such information, the Independent Director gives his written consent to such substitution or reinvestment. The Bank Subordinated Bonds may not be sold or otherwise transferred by the Subsidiary without consent of the Bank and the Independent Director.

### **Deferral of Payments on the Bank Subordinated Bonds**

The Bank may defer interest on the Bank Subordinated Bonds on an Interest Payment Date if (A) no annual dividend has been approved, paid or set aside for payment by a shareholders' meeting of the Bank or paid in respect of any class of shares of the Bank during the 12-month period ending on, but excluding, the relevant Interest Payment Date or (B) the board of directors of the Bank has announced, at the time of the release of any interim accounts published during the six-month period ending on, but excluding, the relevant Interest Payment Date, that, based on such interim accounts, no sums are available at such time for the payment of interim dividends, in accordance with Article 2433-*bis* of the Italian Civil Code.

During a deferral period, interest will continue to accrue on the Bank Subordinated Bonds at the Bank Subordinated Bonds Coupon Rate. Also, the deferred interest will itself accrue interest at the Bank Subordinated Bonds Coupon Rate. Deferred interest (together with any interest thereon) will be due and payable on the Bank Subordinated Bonds (i) in part, *pari passu* and *pro rata* if the Bank makes payments of, on in respect of, amounts of interest on, or in relation to, any other claims ranking *pari passu* with the Bank Subordinated Bonds and (ii) in full, on the earliest of (A) the Interest Payment Date falling on or after the date on which a dividend is approved or paid on any Bank Junior Security or interest or dividends are paid on any Bank Parity Security, (B) the date of repayment of the Bank Subordinated Bonds and (C) the date on which the Bank is subject to liquidation.

**Governing Law**

The Bank Subordinated Bonds will be governed by, and construed in accordance with, the laws of the Republic of Italy.

## DESCRIPTION OF THE COMPANY COMMON SECURITIES

*The following summary of the terms of the Company Common Securities does not purport to be complete and is subject in all respects to the applicable provisions of the Delaware Limited Liability Company Act and the Company Agreement. A copy of the Company Agreement is available upon request to the Bank and free of charge at the specified office of the Paying Agent in Luxembourg.*

### General

Upon consummation of the Offering, the Company will have outstanding 1,000 Company Common Securities, all of which will be held by the Bank. As set forth in the Subordinated Guarantee, so long as any Company Preferred Securities are outstanding, the Bank will maintain direct or indirect ownership of 100% of the outstanding Company Common Securities.

Any sale, assignment or other transfer by the Bank of the Company Common Securities to a subsidiary of the Bank will require the receipt by the Bank of (i) written consent of the Bank of Italy, if required, and (ii) an opinion of a nationally recognised law firm in the United States experienced in such matters to the effect that (a) the Company will not be taxable as a corporation for United States federal income tax purposes and (b) such transfer will not cause the Company or the Trust to be required to register under the 1940 Act.

The Company will be precluded by the Company Agreement from issuing any equity interests in the Company other than the Company Common Securities and the Company Preferred Securities. Accordingly, the Company may not issue any equity securities that rank senior to the Company Preferred Securities.

No additional payments will be required pursuant to the Delaware Limited Liability Company Act for Company Common Securities to represent limited liability company interests in the Company upon issuance against full payment of the purchase price therefor.

### Dividends

The Company Common Securities will ordinarily rank junior to the Company Preferred Securities as to payment of dividends. Holders of Company Common Securities will only receive dividends out of interest payments received by the Company on the Subsidiary Subordinated Instrument and other Eligible Investments, if any, not required to be applied to fund dividends with respect to the Company Preferred Securities or expenses of the Company. So long as any Company Preferred Securities are outstanding, no dividends or other distributions (including redemptions and purchases) may be made with respect to Company Common Securities unless full dividends on the Company Preferred Securities have been paid. See *"The Company — Business and Strategy of the Company — Dividends."*

If full dividends on the Company Preferred Securities are paid on any Dividend Payment Date and, after giving effect to such payment, the Company has additional funds available for the payment of dividends, the Company, in its discretion, may apply such additional funds to pay dividends on the Company Common Securities.

### Voting Rights

Subject to the limited rights of the holders of the Company Preferred Securities, all voting rights of the security holders of the Company are vested in the Company Common Securities. The holders of Company Common Securities are entitled to vote in proportion to the stated amounts represented by their Company Common Securities.

**Rights Upon Liquidation**

In the event of any voluntary or involuntary dissolution of the Company that is not concurrent with the liquidation of the Bank, after all debts and liabilities of the Company have been satisfied and there have been paid or set aside for the holders of the Company Preferred Securities the full preferential amounts to which such holders are entitled, the holders of Company Common Securities will be entitled to share equally and ratably in any assets remaining.

In the event of any voluntary or involuntary dissolution of the Company concurrent with the liquidation of the Bank, the holders of the Company Common Securities will have a claim senior to that of the holders of the Company Preferred Securities to receive as a liquidation distribution, after satisfaction of all Company liabilities to creditors of the Company, if any, the Subsidiary Subordinated Instrument and the other Eligible Investments, if any.

## **THE BANKING SECTOR IN ITALY**

### **Structure of the Italian Banking System**

Since the early 1990s, the Italian banking system has been undergoing a process of reorganisation and consolidation which has led to growth in the average size of banks and in the number of their branches but has reduced the total number of banks. The reorganisation has been the consequence of changes in banking regulations and the competitive stimulus resulting from the liberalisation of European financial markets and the advent of the euro. At the end of 1998, according to the Bank of Italy, Italy had 922 banks (compared to 1,037 at the end of 1993) and the process of reorganisation and consolidation is expected to continue.

Historically, the Italian banking system divided banking institutions into different specialised types and limited the activities in which each type could engage. The system was based on a strict regime of prior approval for the business and structural decisions of banks. In sharp contrast, the new system emphasizes the freedom of banks to decide which banking and related financial activities to engage in and which structures to adopt, subject to generally applicable rules of prudence. The framework of the Italian banking regulations now largely mirrors the EC Second Banking Directive (as defined below). The effect of the regulatory changes and Europe-wide liberalization has been a significant increase in competition in the Italian banking industry.

The principal components of regulatory and structural changes in Italy have been the Consolidated Banking Act (as defined below), the Dini Directive, the Ciampi Law (as defined below) and certain fiscal changes (which implement the EC Banking Directives and Treaties). Taken together, these regulatory changes have altered the basic structure of the Italian banking industry.

### **Background**

Italy's banking industry was regulated for over 50 years under the Banking Act of 1936 (the "Banking Act"), a law that set out the structure for the banking industry and regulated the different types of institutions permitted to operate in that market. The Banking Act was significantly modified by (i) EC Directive No. 77/80, implemented in 1985 (the "EC First Banking Directive"), which facilitated the creation of new banking institutions and the opening in Italy of branches of banks based in other EU countries, (ii) the Amato Law and its implementing legislation, discussed below, and (iii) Legislative Decree No. 481 of December 14, 1992, implementing EC Directive No. 89/646 (the "EC Second Banking Directive").

Prior to 1993, the Banking Act divided the banking industry into two broad categories: "Ordinary Credit Institutions" and "Special Credit Institutions." Generally, Ordinary Credit Institutions provided mainly short-term credit (less than 18 months maturity). Special Credit Institutions provided medium- and long-term credit and mortgage loans financed predominantly in the medium- and long-term debt markets. Ordinary and Special Credit Institutions fell into two further classes, those entities organised as public entities and those organised as joint stock corporations, the shares of which were primarily owned in whole or in part by the government or by state-owned holding companies.

As of January 1, 1994, pursuant to the Consolidated Banking Act, the distinction between Ordinary Credit Institutions and Special Credit Institutions was formally eliminated. Banking activities may now be performed by a single category of banks, which may collect demand and savings deposits from the public, issue bonds and extend medium- and long-term credit, subject to regulations issued by the Bank of Italy. Furthermore, subject to their respective by-laws and applicable regulations, banks may engage in all of the business activities that are described as integral to banking in the EC Second Banking Directive.

In addition, pursuant to the provisions of the Amato Law, most of the Ordinary and Special Credit Institutions organised as public entities have been transformed into joint stock companies.

Consequently, Italian banks are now either (a) banks in the legal form of joint stock companies owned directly or indirectly by the private or public sector or by public law foundations (mostly controlled by local authorities), (b) co-operative banks ("*banche popolari*" and "*banche di credito cooperativo*") or (c) institutions which provide centralised management services to other, usually small sized, banks.

Furthermore, in Italy, non-Italian EU banks may carry out banking business and business activities that are described as integral to banking in the EC Second Banking Directive and that they are authorized to carry out in their home country, provided the Bank of Italy is informed by the entity supervising the relevant non-Italian EU bank. Such supervising entity retains primary control over the relevant non-Italian EU bank (the principle of "home-country control").

### **Consolidated Banking Act**

Legislative Decree No. 385 of September 1, 1993 (the "Consolidated Banking Act") repealed and replaced, among others, the Banking Act. The Consolidated Banking Act governs the role of the supervisory authorities, investment in banks, the definition of banking and related activities, the authorization of banking activities, the scope of banking supervision (in particular on a consolidated basis), special bankruptcy procedures for banks and the supervision of financial companies.

Generally, Italian banks are currently able to decide which banking and related financial activities to carry out and which structure to adopt, subject only to generally applicable prudential rules and the bank's own by-laws.

### **The Amato Law**

The Amato Law was enacted in July 1990 with the aim of strengthening the capital base of the Italian Banking System, creating incentives for its consolidation and permitting greater private investment. The restructuring process under the Amato Law was intended to create larger and more efficient institutions capable of providing better services and which could compete more effectively both in Italy and abroad.

The Amato Law contained two principal provisions:

- *Conversion and organisation:* Ordinary and Special Credit Institutions organised as public law entities were allowed to convert into, or to transfer their banking business to, one or more joint-stock companies known as "*società conferitarie*." The Amato Law also allowed banks to be members of a holding company structure.
- *Tax incentives:* The tax incentives provided for in the Amato Law applied to mergers, conversions, contributions and spin-offs of assets relating to credit institutions organised as public entities completed prior to the end of 1995. Registration tax and other indirect taxes applicable to such reorganisations were substantially reduced. In addition, in order to encourage consolidation, the surviving banks following such reorganizations were permitted to deduct from their taxable income over a period of between three to five years sums set aside into a special reserve. Such sums could, over such period, be up to 1.2% (measured at the time of such consolidation) of the difference between the sum of customer loans and customer deposits of the larger component bank. Other favourable tax rules concern asset write-ups and capital gains on asset contributions.

### **The Dini Directive**

The Dini Directive, enacted in November 1994, provided certain fiscal incentives for Italian banking foundations to encourage them to reduce their participations in the *società conferitarie*. The Dini Directive stipulates that, in order to benefit from such fiscal incentives, within five years of the directive's enactment, a foundation is required to:

- (i) cover more than 50% of its expenses with revenues from sources other than the *società conferitarie*; or
- (ii) hold a participation in the *società conferitarie* whose value does not exceed 50% of the foundation's total assets.

The reduction of the foundation's participation must be carried out either through public offerings or sales to banks, broker-dealers or insurance companies. Capital gains arising from transfers of shares which enable the foundation to meet the parameters above are tax-free.

### **The Ciampi Law**

In order to promote the consolidation of the Italian banking system and to cause Italian banking foundations to further reduce their shareholdings in *società conferitarie*, Law No. 461 of December 23, 1998 (the "Ciampi Law") was enacted setting forth the basic principles of the reform of the banking foundations to be incorporated in the legislative decree which the Italian Government finally approved on May 14, 1999. The new legislative decree provides for the transformation of the banking foundations into non-profit private institutions through, *inter alia*, the final dismissal of any controlling participation in banks or financial institutions, upon full implementation of the principles contained in the Amato Law. The main provisions of such legislative decree may be summarized as follows:

- adoption, within 180 days from the entry into force of the legislative decree, of new by-laws providing that the foundations shall have the exclusive scope to pursue projects of social importance in the "relevant areas" of scientific research, education and healthcare, as well as a new corporate structure based on the subdivision of assignments between three main corporate bodies with strategic policy, managing and auditing functions;
- the members of the managing body of the foundation may not be appointed as members of the board of directors of the *società conferitarie*;
- the Minister of Treasury will supervise and ensure compliance with the new statutory purposes of the foundations through, *inter alia*, the exercise of extraordinary powers, such as the power to substitute the managing bodies of the foundations with *ad acta* officers appointed by the Ministry;
- application of new accounting policies for the foundations which will be required to keep separate accounts for their direct activities in the "relevant areas" and new rules for the drafting and publication of financial statements;
- application of the tax regime provided for non-profit private institutions (reduction of 50% of the income tax and IRAP) to those foundations which will have disposed of their controlling stakes in banks within four years from the coming into force of the decree;
- the provision of a final deadline of six years from the coming into force of the decree, for the foundation, to finally dispose of their controlling banking participation; and
- certain favourable corporate and tax rules for the restructuring of the *società conferitarie*.

### **Italian Banking Regulatory Bodies**

Italian banks, including the Bank, are regulated by the *Comitato Interministeriale per il Credito e il Risparmio* (the Interministerial Committee for Credit and Savings or the "CICR"), the Treasury and the Bank of Italy. In addition, CONSOB regulates the securities activities of the Bank and the Group, while the Institute for the Supervision of Private and Public Insurance Companies ("ISVAP") monitors the Group's insurance companies.



### ***The CICR***

The CICR is composed of the Minister of the Treasury, who acts as chairman, and certain other ministers of the Italian Government. The Governor of the Bank of Italy, although not a member of the CICR, attends all meetings of the CICR but does not have the right to vote at such meetings. The CICR establishes the general guidelines that the Bank of Italy must follow when adopting regulations applicable to banks.

### ***The Treasury Ministry***

The Treasury has broad powers in relation to banking and financial activities. The Treasury, in consultation with the Italian Ministry of Foreign Affairs, authorises the establishment in Italy of the first branch of non-EU banks and sets eligibility standards to be met by holders of significant equity interests in the share capital of a bank together with the level of professional experience and requirements of good moral standing which must be met by directors and executives of banks and other financial intermediaries. The Treasury may, in case of urgency, adopt measures which are generally within the sphere of CICR's powers and may also impose administrative sanctions against banks and their managers and place banks in involuntary liquidation ("*liquidazione coatta amministrativa*") or extraordinary management ("*amministrazione straordinaria*").

### ***The Bank of Italy***

The Bank of Italy implements the general guidelines laid down by the CICR by adopting regulations applicable to banks, including regulations governing capital adequacy, risk exposure, equity participation and administrative and accounting organization and internal controls. The Bank of Italy also issues regulations in other fields (such as transparency in banking and financial operations of credit institutions).

The Bank of Italy supervises banks through its own auditing body, by granting authorisations for, among other things, the acquisition of significant equity interests in the share capital of a bank, bank mergers and significant investments by banks and examining the reports that banks are required to file with the Bank of Italy on a regular basis or with respect to specific transactions. The main supervisory powers of the Bank of Italy include review of bank financial statements and other statistical data, prior review of by-law amendments, bank inspections and the verification of capital ratios, reserve requirements and exposure limits for individual banks. Audits may be ordinary or special (which are directed toward specific aspects of banking activity). Matters covered by an audit include the accuracy of reported data, compliance with banking laws and regulations, conformity with a bank's own by-laws and compliance with exposure limits.

The Bank of Italy requires all banks to report monthly information related to all financial components of their non-consolidated balance sheet.

In addition to its supervisory and regulatory role, the Bank of Italy acts as antitrust authority for the Italian banking system. Finally, the Bank of Italy is a lender of last resort for Italian banks and is banker to the Italian Treasury. It also operates services for the banking industry as a whole, most notably the *Centrale del rischi*, a central information database on credit risk.

The Bank of Italy retains some responsibility for monitoring Italian money supply. In order to control the money supply, the Bank of Italy principally uses open market operations in Italian government securities, currency and securities repurchase agreements and its power to fix the rate on fixed term advances. By injecting or absorbing funds through the purchase and sale, respectively, of Italian government securities, providing Italian banks with ordinary and extraordinary advances and setting the rates at which such advances are available, the Bank of Italy may increase or decrease liquidity in the banking system.

The Bank of Italy also utilises compulsory reserves to control the money supply. See “ — *Italian Banking Regulation — Reserve Requirements*” below. Following the introduction of the euro on January 1, 1999, the European System of Central Banks is responsible for the monetary policy in the EU participating Member States and, in particular, for monitoring interest rates.

### **CONSOB**

CONSOB is the government entity which monitors and regulates the securities markets and public offerings of securities in Italy. As a result, CONSOB monitors and regulates the Bank's securities and investment services activities.

### **ISVAP**

ISVAP exercises supervisory powers over the activities of Italian insurance companies and non-EU insurance companies conducting any insurance or reinsurance activities in Italy, including the insurance companies of the Bank. ISVAP, among other things, is responsible for authorising the conduct of insurance activities. ISVAP's purposes include:

- oversight of technical, financial and asset management;
- review of financial statements;
- supervision of the activities of insurance brokers and agencies;
- advising the Ministry of Industry of its views regarding business plans submitted by companies seeking authorization to conduct insurance activities;
- proposing disciplinary measures, including revocation of authorizations;
- approving restructuring plans;
- advising the Ministry of Industry with respect to admission to the forced liquidation procedure for financially troubled concerns; and
- communicating and collaborating with other EU insurance oversight bodies. In order to implement its purposes, ISVAP has the power to request information from insurance companies, conduct audits of their activities and question their legal representatives, managing directors and statutory auditors and to convene shareholders', directors' and statutory auditors' meetings in order to propose measures necessary to conform the management of the insurance company to the requirements of law.

## **Italian Banking Regulation**

### **Reserve Requirements**

In the context of the European System of Central Banks (the “ESCB”), the European Central Bank (the “ECB”) is responsible, *inter alia*, for identifying and implementing monetary policy objectives, which are to be met with the co-operation of national central banks. Among the instruments employed by ECB to reach its goals is the compulsory reserve, permitting ESCB to stabilize interest rates in EU currency markets and to monitor the system's needs of liquidity. Pursuant to article 19 of the by-laws of ESCB/ECB and EU Council Regulation No. 2531/98, each Italian bank must deposit with the Bank of Italy an interest bearing reserve equal to 2% of an aggregate of overnight deposits, certificates of deposits with original maturities up to two years or redeemable on demand, debt securities with original maturities up to two years and money market paper (all of the above liabilities being denominated either in Italian lira or in foreign currencies and due both to residents and non-residents). A fixed deduction of €100,000 is applied on the amount so determined. The compulsory reserve is to be maintained for a period of 30 days from the

24th day of each month to the 23rd day of the succeeding month; the first period started on January 1, 1999 and ended on January 23, 1999, relating to the aggregate subject to reserve calculated on December 31, 1998. Obligations relating to the reserve are deemed complied with if, in the period of maintenance, the average amount of the daily balances of the reserve accounts is not lower than the reserve to be due (average reserve obligation). Upon formal request to the Bank of Italy for authorization, the banks may also fulfill their obligations indirectly through another bank acting as intermediary, although ECB and the Bank of Italy may revoke such authorization for certain reasons. Failure to comply, in full or in part, with the reserve obligations, may cause ECB to apply sanctions on the bank or its intermediary in accordance with article 7.1 of the above mentioned EU Council Regulation.

The rate of interest on the compulsory reserve was previously determined by decree of the Ministry of Treasury. As at December 31, 1998 such rate was equal to 4% per annum.

### ***Risk Based Capital Requirements and Solvency Ratios***

Capital adequacy requirements are regulated principally by EC Directive No. 89/299 (as amended), the EC Second Banking Directive No. 89/647, the Basle Committee's Risk Based Capital Guidelines, the Consolidated Banking Law, CICR Regulation of January 12, 1994 and by regulations issued by the Bank of Italy. According to such regulations, Italian banking groups are required to have a ratio of total capital to Risk-Weighted Assets of at least 8% on a consolidated basis, and Italian banks belonging to a banking group are required to have a ratio of total capital to Risk-Weighted Assets of at least 7% on an unconsolidated basis. Italian banks not belonging to a banking group are required to have a ratio of total capital to Risk-Weighted Assets of at least 8%. To calculate Risk-Weighted Assets, assets and off-balance sheet items are weighted in relation to the nature of the debtors, the country risk and the guarantees and securities collateral received and are assigned one of five risk-weightings: 0%, 20%, 50%, 100% and 200%. For a calculation of the Group's capital ratios, see "*Capitalisation of the Trust, the Company, the Subsidiary and the Group — Capital Adequacy of the Bank.*"

At least half of the required total capital must consist of Tier 1 capital ("core capital") and the rest may consist of Tier 2 capital ("supplementary capital"). Core capital includes paid-in share capital, capital reserves, retained earnings reserves, *strumenti innovativi di capitale* and a special reserve denominated "*fondo per rischi bancari generali*," less treasury shares, intangible assets and losses carried forward and incurred in the fiscal year. Supplementary capital includes asset revaluation reserves, subordinated debt, hybrid quasi-equity instruments (such as non-redeemable loans), general allowance for loan losses, less net losses on securities, and other items. Subordinated debt included as supplementary capital may not exceed 50% of the core capital.

### ***Loan Exposure Limitations***

The EC Directive No. 92/121 on the monitoring and control of large exposures of credit institutions (the "Large Exposures Directive") is intended to spread credit risks through the banking system and to limit a bank's exposure to any single borrower. In compliance with the criteria specified by the Treasury, the Bank of Italy issued supervisory regulations on the concentration of risk, which implement the provisions of the Large Exposures Directive. These regulations require banks to limit the aggregate loans to any single customer or group of related customers to 25% of a bank's total capital and the aggregate of their large exposures (loans exceeding 10% of their total capital) to no more than 800% of the bank's total capital, as defined pursuant to the Bank of Italy's regulations. A lower limit (20% of total capital) applies to the aggregate exposure to persons or entities affiliated with the bank, who is defined to include (i) shareholders who control, directly or indirectly, the bank or own at least 15% of the share capital of the bank or of its parent company and (ii) companies controlled by the bank or of which the bank owns at least 20% of the share capital, excluding consolidated subsidiaries of the same banking group. The Bank of Italy adopted certain transitional provisions permitted under the Large Exposures Directive in implementing its provisions. Until December 31, 1998 large exposures were defined as those loans exceeding 15% (rather

than 10%) of a bank's total capital and the limit for any single customer (or group of related customers) was 40% (and not 25% as stated above).

If, at the time when the Bank of Italy issued such large exposure regulations (October 1993), the aggregate amount of a bank's large exposures exceeded 800% of a bank's total capital, the bank was required to deliver a programme to the Bank of Italy setting forth its plan to reduce its risks by December 31, 1998. For such purposes, any loan made by a bank to a single client or group of related clients was required to be reduced to 60% of the bank's total capital by December 31, 1996, 40% by December 31, 1998 and 25% by December 31, 2001.

With respect to exposures within a banking group, banks belonging to banking groups are not required to conform to these limits on a consolidated basis. On an individual basis, banks belonging to banking groups must limit their loan exposure to any single customer or group of related customers to 40% of the bank's total capital (60% until December 31, 1998).

### ***Provisions for Credit Risks and Write-offs***

Until the end of fiscal year 1994, the Italian banking system was subject to severe restrictions on the amount of net adjustments to loans and other provisions for possible credit losses that could be deducted from taxable income. Provisions for credit risks related to loans to customers were only deductible from taxable income up to an amount per year equal to 0.5% of total loans to customers at year-end subject to a maximum on the total cumulative loan loss allowance equal to 5% of customer loans. These restrictions proved to be a fiscal disincentive to prudent adjustment and provisions. In 1995, Italian tax law was changed to permit any net adjustment in excess of 0.5% of loans to customers to be deducted from taxable income on a straight-line basis over seven years. In addition, write-offs not previously included in net adjustments relating to borrowers subject to administration, insolvency or similar proceedings became fully deductible from taxable income, provided such amounts do not exceed amounts relating to loans to such borrowers already deducted in previous years. As a result of these reforms, the fiscal disincentive to make adjustments has been reduced. Pursuant to a recent amendment to the above mentioned rules about to become effective, the 0.5% threshold will be increased to 0.6% and the period over which the allowance is available will be set at nine years as opposed to seven.

### ***Equity Participations by Banks***

Since 1993, Italian banks have been permitted to make equity investments in all types of companies, subject to certain restrictions.

Prior approval of the Bank of Italy is required for any equity investment by a bank in other banks or financial or insurance companies (i) exceeding 10% of consolidated total capital of the acquiring bank, (ii) exceeding 10% or 20% of the share capital of the bank or financial or insurance company, respectively, being acquired or (iii) resulting in the control of the share capital of the bank or financial or insurance company being acquired. The aggregate of investments by banks in insurance companies cannot exceed 40% of the acquiring bank's consolidated total capital. In relation to banks belonging to banking groups, the aggregate investments in insurance companies may not exceed 60% of the total capital of the acquiring bank or 40% of the acquiring bank group's consolidated total capital. As a general limit, equity investments by a bank may not in the aggregate exceed, together with real estate investments, 100% of a bank's total capital. Equity investments in industrial or commercial companies (other than banks or financial or insurance companies) by banks authorised by the Bank of Italy which have at least Lit. 2,000 billion in total capital and satisfy the solvency ratios ("banca abilitata"), such as the Bank, are permitted within the following limits:

- the aggregate amount of a bank's equity participations may not exceed 50% (on a consolidated and unconsolidated basis) of the bank's total capital (25% as to investments in unlisted companies);

- equity investments in a single non-financial company or in a group of non-financial companies may not exceed 6% of the bank's total capital; and
- generally banks may not acquire more than 15% of the voting shares of any non-financial company. Such 15% limit may be exceeded, *however provided* that:
- the amount of the equity investment does not exceed 2% of the acquiring bank's total capital; and
- the aggregate amount of the part of the equity investments made by the bank in excess of the above limit of 15% does not exceed 2% of the acquiring bank's total capital. The Bank of Italy has established lower limits for banks with total capital lower than Lit. 2,000 billion ("*banca ordinaria*") and higher limits for banks which, besides meeting the above-mentioned requirements, collect medium- and long-term funds and take no demand deposits ("*banca specializzata*").

Finally, prior approval of the Bank of Italy is required for any acquisition by banks of control of companies, which carry on activities related to banking activities, such as bank information processing activities.

### ***Restrictions on Foreign Investment***

The Bank of Italy must request authorisation from the Treasury to permit the purchase of more than 5% of the capital of an Italian bank by a national of a state (other than an EU member state) that applies discriminatory measures with regard to similar acquisitions by an Italian national. The President of the Italian Council of Ministers may deny the authorisation upon the proposal of the Treasury.

### **Recent Developments**

The Bank is currently considering the implications of two recent court decisions that effect the banking sector in Italy generally:

- On November 17, 2000, the Italian Supreme Court (*Corte di Cassazione*) issued a ruling on interest rates on bank loans in excess of limits (usury rates) established by the Italian Ministry of Treasury pursuant to Law no. 108/96. The effect of this ruling is still being considered by members of the Italian banking community, including the Bank. One interpretation of this ruling is that Italian banks which issued loans before the enactment of Law no. 108/96 at fixed rates in excess of the usury rates, will, with effect from the enactment, only be legally entitled to recover interest from borrowers in respect of such loans up to the applicable usury rates. An alternative interpretation is that banks will only be legally entitled to recover the principal amount of any loan on its scheduled maturity and any interest payment due to the enactment of the Law no. 108/96, whether or not in excess of the usury rates, will not be recoverable. In consideration of the sharp decrease in Italian and European interest rates during the period from 1998-1999, the Italian government issued Legislative Decree no. 394 of December 29, 2000. According to this decree, Italian banks that issued loans before the enactment of Law no.108/98 at fixed rates in excess of the average interest rate (calculated by taking into account rates over the past 25 years) of government bonds having a maturity of more than one year, will, with effect from January 2, 2001, only be legally entitled to recover interest, in respect of such loans, up to such average interest rate (12.21% for 2001).
- On October 17, 2000, the Italian Constitutional Court (*Corte Costituzionale*) ruled that Article 25, paragraph 3 of Legislative Decree no. 342/99 is illegal on the basis that such provision had sought to validate certain legislation relating to bank interest rates payable on current accounts with retrospective effect and was therefore *ultra vires* and void. In the absence of further legislative changes, Italian banks might be required to apply equality of treatment to compounding of interest, including frequency, to both debit and credit positions on current accounts with the same customer, to bank accounts opened between October 1999 and April 2000. Italian banks are already required

by Legislative Decree no. 342/99 to apply equal treatment in this regard to accounts opened after April 2000.

### **Insurance on Deposits**

Depositors are protected against the loss of up to Lit. 200 million per depositor per bank of their deposited funds by a member-funded *Fondo Interbancario di Tutela dei Depositi* (the “Interbank Deposit Guarantee Fund”), established in 1987 by a group of Italian banks. The Interbank Deposit Guarantee Fund complies with the requirements of EC Directive No. 94/19.

The Interbank Deposit Guarantee Fund, of which the Bank is a member, intervenes when a bank is in either supervisory management or involuntary liquidation. In the event of supervisory management, the Interbank Deposit Guarantee Fund may make payments to support the business of the bank, which may take various forms (for example, debt financing or taking equity stakes in the bank). In the case of involuntary liquidation, the Interbank Deposit Guarantee Fund guarantees the refund of deposits to banking customers up to a maximum of Lit. 200 million per depositor per bank — approximately € 20,000 of which must be repaid within three months of a decree for the bank's compulsory administrative liquidation.

The Interbank Deposit Guarantee Fund does not cover, *inter alia*, the following: customer deposit instruments in bearer form, deposits by financial and insurance companies and by collective investment vehicles and deposits by bank managers and executives at the bank which employs them.

### **Mutual Fund Regulation**

All mutual funds are supervised by the Bank of Italy and CONSOB, which monitors the funds' compliance with the law, financial stability and risk management policies. Italian mutual funds are subject to investment limits with respect to single sectors or companies and overall portfolio diversification requirements. In addition, periodic reports including a review of fund performance and any material events affecting the fund are required to be distributed to the fund's investors and filed with the CONSOB. Legislative Decree No. 58 has introduced new regulations with respect to supervision and management of mutual funds.

## **TAXATION**

### **U.S. Taxation**

#### ***Certain U.S. Federal Income Tax Consequences***

The following summary of the principal U.S. federal income tax consequences relating to an investment in the Trust Preferred Securities is based on the advice of Clifford Chance Rogers & Wells LLP, counsel to the Bank. This summary addresses the tax consequences to a Trust Preferred Securityholder that is not a U.S. Person (a "Non-U.S. Holder"). A "Trust Preferred Securityholder" is a beneficial owner of Trust Preferred Securities that acquires the Trust Preferred Securities on their original issue at their original offer price. A "U.S. Person" is (a) a citizen or resident of the United States, (b) a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, (c) an estate the income of which is subject to United States federal income taxation regardless of its source, or (d) a trust if (i) a U.S. court is able to exercise primary supervision over the trust's administration and (ii) one or more United States persons have the authority to control all of the trust's substantial decisions.

This summary does not address all tax consequences that may be applicable to a beneficial owner of the Trust Preferred Securities. In particular, this summary does not address issues that may arise after a Capital Deficiency Event. This summary is based upon the Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations, Internal Revenue Service ("IRS") rulings and pronouncements and judicial decisions as of the date hereof, all of which are subject to change (possibly with retroactive effect). Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to the tax treatment of the Trust Preferred Securities and no assurance can be given that the IRS will not take contrary positions. Moreover, no assurance can be given that the tax consequences described herein will not be challenged by the IRS or, if challenged, that such a challenge will not be successful.

In purchasing the Trust Preferred Securities, each Trust Preferred Securityholder agrees with the Bank, the Company and the Trustee that the Bank, the Company, the Trustee and the Trust Preferred Securityholders will treat Trust Preferred Securityholders for all purposes as holders of an undivided interest in Trust assets, including the Company Preferred Securities, and will not treat the Trust Preferred Securityholders or the holders of the Company Preferred Securities as holders of an underlying interest in the Bank or in the Subsidiary or in any other person, and the following discussion is based on the assumption that such treatment will apply for U.S. federal income tax purposes. Likewise, in acquiring the Company Preferred Securities, each of the Trustee and the Trust Preferred Securityholders (including Trust Preferred Securityholders who exchange their Trust Preferred Securities for Company Preferred Securities) agrees with the Bank and the Company that the Bank, the Company and such holder will treat the holders of the Company Preferred Securities for all purposes as holders of Company Preferred Securities, and will not treat the holders of the Company Preferred Securities or the Trust Preferred Securityholders as holders of an underlying interest in the Bank or in the Subsidiary or in any other person, and the following discussion is based on the assumption that such treatment will apply for U.S. federal income tax purposes.

#### ***U.S. Federal Income Tax Treatment of the Trust***

Assuming full compliance with the terms of the Trust Agreement (and certain other transaction documents described herein), the Trust will be classified for U.S. federal income tax purposes as a grantor trust and not as a corporation.

#### ***U.S. Federal Income Tax Treatment of the Company***

Assuming full compliance with the terms of the Company Agreement (and certain other transaction documents described herein), the Company will not be taxable as a corporation.

## ***Income and Withholding Tax***

The Company intends to operate so that it will not be treated as engaged in the conduct of a U.S. trade or business. Moreover, the Company intends to invest in securities that will be exempt from withholding of U.S. federal income tax when income attributable to such securities is distributed or allocated to beneficial holders of the Company Preferred Securities.

Accordingly, a Non-U.S. Holder will not be subject to withholding of U.S. federal income tax on payments in respect of the Trust Preferred Securities. A Non-U.S. Holder also will not be subject to U.S. federal income tax on its allocable share of the Company's income unless such income is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States.

A Non-U.S. Holder will not be subject to U.S. federal income or withholding tax on gain realized on the sale or exchange of the Trust Preferred Securities, unless (i) such gain is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States or (ii) in the case of gain realized by an individual Non-U.S. Holder, the Non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

## ***Information Reporting and Backup Withholding***

In general, a Non-U.S. Holder who holds the Trust Preferred Securities through a non-U.S. bank or other non-U.S. financial institution that is a participant in Clearstream or Euroclear will not be required to provide certification of non-U.S. status for withholding purposes. In other contexts, however, Non-U.S. Holders may be required to comply with applicable certification procedures to establish that they are not U.S. Holders in order to avoid the application of information reporting requirements and backup withholding tax. Non-U.S. holders who exchange Trust Preferred Securities for Company Preferred Securities may also be required to comply with such certification procedures.

U.S. information reporting and backup withholding requirements (including providing forms W-8BEN or any successor form) generally will not apply to Non-U.S. Holders with respect to payments made outside the United States of dividends on Trust Preferred Securities or Company Preferred Securities, or to a payment made outside the United States of the proceeds of a sale of Trust Preferred Securities or Company Preferred Securities through an office outside the United States of a non-U.S. broker. However, U.S. information reporting requirements (but not backup withholding) will apply to payments of dividends on Trust Preferred Securities or Company Preferred Securities that an investor holds through a broker, custodian, nominee or other agent (a) that is a U.S. Person; (b) that derives 50% or more of its gross income for a specified three-year period from the conduct of a trade or business in the United States; (c) that is a "controlled foreign corporation" as to the United States; or (d) that is a foreign partnership, but only (i) if at any time during its tax year, one or more of the partners are U.S. Persons who in the aggregate hold more than 50% of the income or capital interest in such foreign partnership; or (ii) if at any time during its tax year, such foreign partnership is engaged in a U.S. trade or business; or (iii) if the payment is made outside the United States and such foreign partnership does not have documentary evidence in its files that the holder or beneficial owner is a non-U.S. Person or the holder or beneficial owner otherwise establishes an exemption.

## ***Italian Taxation***

The following is a summary of the material Italian tax consequences of the purchase, ownership and disposition of the Trust Preferred Securities. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Trust Preferred Securities and addresses only beneficial owners who will hold non-qualified interest in the Trust. Prospective investors in the Trust Preferred Securities should consult with their professional advisers as to the tax consequences of purchasing, holding and disposing of the Trust Preferred Securities, including, in particular, the effect of tax laws of any other jurisdiction. The following



summary is based upon the law and published practice of the Italian tax authorities as in effect on the date of this Offering Circular and is subject to any change in law and practice that may take effect after such date. The following disclosure is based on the advice of Studio Vitali Romagnoli Piccardi e Associati.

The Italian tax treatment of the Trust Preferred Securities will depend upon whether the Trust Preferred Securities are classified by the Italian tax authorities as (i) "*azioni*" (shares), (ii) "*obbligazioni o titoli similar*" (bonds or similar securities), or (iii) "*titoli atipici*" (atypical securities).

The following analysis is based on the assumption that no redemption of the Trust Preferred Securities occurs within 18 months from the date of issue.

The following analysis is intended as a general guide to the alternative Italian tax regimes provided for under the currently applicable tax provisions.

**All prospective purchasers should consult with their own professional advisors as to the Italian tax consequences of the purchase, ownership and disposition of the Trust Preferred Securities.**

### **Income From Capital**

- A. Should the Trust Preferred Securities be qualified as bonds or similar securities, payments in respect of the Trust Preferred Securities received by Italian resident beneficial owners of Trust Preferred Securities (including (i) any difference between the redemption amount and the issue price and (ii) in case of sale for consideration of the Trust Preferred Securities, any element of the sale proceeds which represents accrued and expressly or implicitly recognized interest and other proceeds in respect of Trust Preferred Securities sold) would be qualified as interest and subject to the following regime:

- (i) in case of Italian resident beneficial owners who are real estate investment funds, such payments will be subject to a 12.5% final substitute tax. This substitute tax is required to be applied by Italian resident qualified financial intermediaries that will intervene, in any way, in the collection of payments on the Trust Preferred Securities or in the transfer of the Trust Preferred Securities.

Where payments on the Trust Preferred Securities are not received through the intervention of an Italian resident qualified financial intermediary and as such no substitute tax is applied, the recipient will be required to declare the payments in its tax return and subject them to a final substitute tax at a rate of 12.5%;

- (ii) in case of Italian resident beneficial owners who are investment funds and SICAVs or pension funds (in case of pension funds, for interest accrued starting from January 1, 2001), payments received on the Trust Preferred Securities will not be subject to any Italian "entrance" withholding tax or substitute tax and will be included in the calculation of the aggregate management result of the funds and SICAVs accrued in each year. Such result will be subject to a 12.5% final substitute tax (11% substitute tax in case of pension funds);
- (iii) in case of Italian resident beneficial owners who are non-commercial entities, government entities and entities exempt from corporate income tax, payments received on the Trust Preferred Securities will be subject to a 12.5% final substitute tax.

This substitute tax is required to be applied by Italian resident qualified financial intermediaries that will intervene, in any way, in the collection of payments on the Trust Preferred Securities or in the transfer of the Trust Preferred Securities.

Where payments on the Trust Preferred Securities are not received through the intervention of an Italian resident qualified financial intermediary and as such no substitute tax is applied, the recipient will be required to declare the payments in its tax return and subject them to a final substitute tax at a rate of 12.5%;

- (iv) in case of Italian resident beneficial owners who are corporate entities, payments received on the Trust Preferred Securities will not be subject to any Italian “entrance” withholding tax or substitute tax and will form part of their aggregate taxable business income subject to tax in Italy according to the ordinary tax provisions. A tax credit for any withholding taxes levied outside Italy should be generally available;
- (v) in case of Italian resident beneficial owners who are individuals holding Trust Preferred Securities not in connection with entrepreneurial activities, payments received on the Trust Preferred Securities will be subject to final Italian substitute tax at a rate of 12.5%.

Such substitute tax will be applied by Italian resident qualified financial intermediaries that will intervene, in any way, in the collection of payments on the Trust Preferred Securities or in the transfer of the Trust Preferred Securities.

Where payments on the Trust Preferred Securities are not received through the intervention of an Italian resident qualified financial intermediary and as such no substitute tax is applied, the individual beneficial owners will be required to declare the payments in their income tax return and subject them to a final substitute tax at a rate of 12.5%. The individual beneficial owners may elect instead to pay ordinary personal income tax at the progressive rates applicable to them in respect of the payments: if so, the beneficial owners should generally benefit from a tax credit for withholding taxes applied outside Italy, if any.

If the Trust Preferred Securities form part of a portfolio of securities managed by a qualified Italian professional intermediary, for payments in respect of the Trust Preferred Securities received, and any gain from the disposal of the Trust Preferred Securities derived, by Italian resident individuals holding Trust Preferred Securities not in connection with entrepreneurial activities, an alternative method of taxation (the so-called “*risparmio gestito*” regime) may be available. Under the “*risparmio gestito*” regime, according to Art. 7, paragraph 3, of Legislative Decree 21 November 1997, No. 461, the payments will not be subject to any Italian substitute tax. Under the “*risparmio gestito*” regime, the payments will be included in the calculation of the total net appreciation of the portfolio accrued at the end of each year. Such appreciation will be subject to a 12.5% final substitute tax.

- B. Should the Trust Preferred Securities be qualified as shares, payments in respect of the Trust Preferred Securities received by Italian resident beneficial owners of Trust Preferred Securities would be qualified as dividends and subject to the following regime:

- (i) in case of Italian resident beneficial owners who are real estate investment funds, if such payments are received through an account maintained with an Italian bank or an Italian financial intermediary, the payments will be subject to a 12.5% Italian final “entrance” withholding tax.

Where payments on the Trust Preferred Securities are not received through an account maintained with an Italian bank or an Italian financial intermediary and as such no “entrance” withholding tax is applied, the recipient will be required to declare the payments in its tax return and subject them to a final substitute tax at a rate of 12.5%;

- (ii) in case of Italian resident beneficial owners who are investment funds and SICAVs or pension funds (in case of pension funds, for dividends which become payable starting from January 1, 2001), payments received on the Trust Preferred Securities will not be subject to any Italian “entrance” withholding tax and will be included in the calculation of the aggregate management result of the funds and SICAVs accrued in each year. Such result will be subject to a 12.5% final substitute tax (11% substitute tax in case of pension funds);
- (iii) in case of Italian resident beneficial owners who are entities exempt from corporate income tax, if payments on the Trust Preferred Securities are received through an account maintained with an Italian bank or an Italian financial intermediary, such payments will be subject to a 27% final “entrance” withholding tax.

Where payments on the Trust Preferred Securities are not received through an account maintained with an Italian bank or an Italian financial intermediary and as such no “entrance” withholding tax is applied, the recipient will be required to declare the payments in its tax return and subject them to a final substitute tax at a rate of 27%;

- (iv) in case of Italian resident beneficial owners who are corporate entities, payments on the Trust Preferred Securities will not be subject to any Italian “entrance” withholding tax and will form part of their aggregate taxable business income subject to tax in Italy according to the ordinary tax provisions. A tax credit for withholding taxes applied outside Italy, if any, on beneficial owners should be generally available;
- (v) in case of Italian resident beneficial owners who are individuals holding Trust Preferred Securities not in connection with entrepreneurial activities, if payments received on the Trust Preferred Securities are collected through an account maintained with an Italian bank or an Italian financial intermediary, such payments will be subject to Italian “entrance” withholding tax at a rate of 12.5% on account of personal income tax due and then will be included in the beneficial owners’ taxable income and subject as such to the progressive tax rate applicable to them. A tax credit for withholding taxes applied outside Italy, if any, on beneficial owners should be generally available.

If payments on the Trust Preferred Securities are not received through an account maintained with an Italian bank or an Italian financial intermediary and as such no “entrance” withholding tax is required to be levied, such payments will be included in the individual beneficial owners’ taxable income and subject as such to the progressive tax rates applicable to them, generally with a tax credit for withholding taxes applied outside Italy, if any.

If the Trust Preferred Securities form part of a portfolio of securities managed by a qualified Italian professional intermediary, for payments in respect of the Trust Preferred Securities received, and any gain from the disposal of the Trust Preferred Securities derived, by Italian resident individuals holding Trust Preferred Securities not in connection with entrepreneurial activities, an alternative method of taxation (the so-called “*risparmio gestito*” regime) may be available. Under the “*risparmio gestito*” regime, according to Art. 7, paragraph 3, of Legislative Decree No. 461/1997, the payments will not be subject to any Italian “entrance” withholding tax, provided that such payments do qualify as dividends from shares of a foreign company listed on a regulated market. In this case, under the “*risparmio gestito*” regime, the payments will be included in the calculation of the total net appreciation of the portfolio accrued at the end of each year. Such appreciation will be subject to a 12.5% final substitute tax.

- C. Should the Trust Preferred Securities be qualified as atypical securities, payments in respect of the Trust Preferred Securities received by Italian resident beneficial owners of Trust Preferred Securities would be subject to the following regime:

- (i) in case of Italian resident beneficial owners who are real estate investment funds, pension funds, investment funds, SICAVs, entities exempt from corporate income tax, if the Trust Preferred Securities are sold ("*collocati*") in Italy and an entrusted Italian resident bank or financial intermediary intervenes in the collection of payments on the Trust Preferred Securities, in the repurchase or in the transfer of the Trust Preferred Securities, such Italian bank or financial intermediary will levy a final Italian "entrance" withholding tax at a rate of 27% on payments on the Trust Preferred Securities.

If the Trust Preferred Securities are not sold ("*collocati*") in Italy and payments on the Trust Preferred Securities are not received through an entrusted Italian resident bank or financial intermediary that intervenes in the collection of payments on the Trust Preferred Securities, in the repurchase or in the transfer of the Trust Preferred Securities, and as such no "entrance" withholding tax is required to be levied, the recipient will be required to declare the payments in its tax return and subject them to a final substitute tax at a rate of 27%;

- (ii) in case of Italian resident beneficial owners who are corporate entities, payments on the Trust Preferred Securities will not be subject to any Italian "entrance" withholding tax and will form part of their aggregate taxable business income subject to tax in Italy according to the ordinary tax provisions. A tax credit for withholding taxes applied outside Italy, if any, on beneficial owners should be generally available;
- (iii) in case of Italian resident beneficial owners who are individuals holding Trust Preferred Securities not in connection with entrepreneurial activities, if the Trust Preferred Securities are sold ("*collocati*") in Italy an entrusted Italian resident bank or financial intermediary intervenes in the collection of payments on the Trust Preferred Securities, in the repurchase or in the transfer of the Trust Preferred Securities, such Italian bank or financial intermediary will levy a final Italian "entrance" withholding tax at a rate of 27% on payments on the Trust Preferred Securities.

If the Trust Preferred Securities are not sold ("*collocati*") in Italy and payments on the Trust Preferred Securities are not received through an entrusted Italian resident bank or financial intermediary that intervenes in the collection of payments on the Trust Preferred Securities, in the repurchase or in the transfer of the Trust Preferred Securities, and as such no "entrance" withholding tax is required to be levied, the individual beneficial owners will be required to declare the payments in their income tax return and subject them to a final substitute tax at a rate of 27%. The individual beneficial owners may elect instead to pay ordinary personal income tax at the progressive rates applicable to them in respect of the payments: if so, the beneficial owners should generally benefit from a tax credit for withholding taxes applied outside Italy, if any.

- D. Under current Italian tax law and practice, payments on the Trust Preferred Securities received by beneficial owners who are not resident of Italy for tax purposes, without a permanent establishment in Italy to which the Trust Preferred Securities are effectively connected, should not be subject to any Italian withholding or substitute tax, except as indicated below for the case of payments to beneficial owners of Trust Preferred Securities made by the Bank, as Guarantor under the Subordinated Guarantee (the Guarantor).

Due to the lack of any tax authorities ruling on the tax treatment of Trust Preferred Securities, there may be no assurance that payments will be subject to the 12.5% Italian tax rather than the 27% withholding tax.

- E. The European Union is currently considering proposals for a new Directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States 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, subject to the right of certain Member States to opt instead for a withholding tax for a transitional period in relation to such payments.

### **Payments Made By the Bank Under the Subordinated Guarantee**

In accordance with one interpretation of Italian fiscal law, payments of liabilities equal to interest or dividends to beneficial owners of Trust Preferred Securities (depending on the classification of the Trust Preferred Securities as described above) made by the Bank, as the Guarantor under the Subordinated Guarantee may be subject in certain circumstances to a final withholding tax at a rate of 12.5% if the beneficial owners are Italian resident real estate investment funds, pension funds, investment funds or SICAVs. If the beneficial owners are Italian resident individuals holding Trust Preferred Securities not in connection with entrepreneurial activities or non-commercial entities, payments to them by the Guarantor under the Subordinated Guarantee may be subject to withholding tax at a rate of 12.5% on account of income tax due thereon and then should be included in the beneficial owners' taxable income and subject as such to the income tax rates applicable to them. In case of Italian resident beneficial owners who are corporate entities, payments to them by the Guarantor under the Subordinated Guarantee should not be subject to any withholding tax and should form part of their aggregate taxable business income subject to tax in Italy according to the ordinary tax provisions.

*In the case of beneficial owners which are non-resident of Italy for tax purposes, final withholding tax on payments to them by the Guarantor under the Subordinated Guarantee agreement may be applied at a rate of 27% (if the payment is treated as dividend) or 12.5% (if treated as interest). Double taxation treaties entered into by Italy may apply allowing for a lower (or, in certain cases, nil) rate of withholding. In case of payments by the Guarantor under the Subordinated Guarantee to non-Italian resident beneficial owners who are resident for tax purposes in tax haven countries listed by Decree of the Ministry of Finance 24 April 1992, as amended from time to time, final withholding tax should in any case apply at a rate of 27%.*

In accordance with another interpretation, payments by the Guarantor to beneficial owners of Trust Preferred Securities under the Subordinated Guarantee should be treated in certain circumstances as payments by the Trust and subject to the tax treatment described under the caption "*— Capital Gains.*"

### **Capital Gains**

Any gain realized by Italian resident investment funds, SICAVs and pension funds (for pension funds, with reference to capital gains realized starting from January 1, 2001) upon disposal of the Trust Preferred Securities will be included in the calculation of the aggregate management result of the funds and SICAVs accrued in each year and will be subject to a 12.5% substitute tax (11% substitute tax in case of pension funds).

Any gain realized by Italian resident corporate entities upon disposal of the Trust Preferred Securities will be treated as part of their aggregate taxable business income subject to tax in Italy according to the relevant tax provisions.

Any gain realized by Italian resident individuals holding Trust Preferred Securities not in connection with entrepreneurial activities upon disposal of the Trust Preferred Securities will be subject to a 12.5% substitute tax.

If the Trust Preferred Securities form part of a portfolio of securities managed by a professional intermediary, for any gain upon disposal of the Trust Preferred Securities derived by Italian resident individuals holding Trust Preferred Securities not in connection with entrepreneurial activities, two different systems of taxation (the so-called "*risparmio amministrato*" and "*risparmio gestito*" regimes) may be available, at the taxpayers' election, as an alternative to the filing of the tax return:

- (i) under the "*risparmio amministrato*" regime, intermediaries acting as security depositories will apply a 12.5% substitute tax on each gain derived upon disposal of the Trust Preferred Securities;
- (ii) under the "*risparmio gestito*" regime, any gain derived upon disposal of the Trust Preferred Securities will be included in the calculation of the total net appreciation of the portfolio accrued in each year. Such result will be subject to a 12.5% substitute tax.

Under the filing of the tax return and the "*risparmio amministrato*" regimes, in the event that the period between the purchase of the Trust Preferred Securities and their subsequent disposal exceeds 12 months, the amount on which substitute tax on capital gains is to be charged will be determined by multiplying the capital gains realized by an adjustment factor (referred to as "*equalizzatore*") provided for by Ministerial Decree 4 August 2000.

### **Early Redemption**

The early redemption of Trust Preferred Securities may create capital gain/capital loss computed considering the difference between the redemption value and the purchase price (with certain adjustments) to be treated in connection with the fiscal regime of each beneficial owner as described above.

### **Transfer Tax**

Legislative Decree November 21, 1997, No. 435, introduced a reform of Italian transfer tax generally applicable in respect of transfers of securities. The currently applicable rules provide that in general transfer tax does not apply, *inter alia*, to the following:

- (i) contracts concluded in regulated markets regarding the transfer of listed securities, shares, quotas and participation in corporations of any kind, including contracts between a qualified intermediary and his principal and between qualified intermediaries;
- (ii) off-market contracts regarding securities listed on a regulated market, provided that such contracts occurred:
  - (a) between banks or other investment companies regulated by Legislative Decree 23 July 1996, No. 415, as superseded by Legislative Decree No. 58 of February 24, 1998, or stock brokers;
  - (b) between the subjects mentioned above under (a), on the one hand, and non-Italian residents, on the other hand;
  - (c) between the subjects mentioned above under (a), also non-resident in Italy, on the one hand, and undertakings for collective investment in transferable securities, on the other hand;
- (iii) contracts related to public sale offering ordered to the listing on regulated markets or involving financial instruments already listed on regulated markets;

- (iv) contracts regarding securities not listed on a regulated market entered into between the subjects mentioned above under (ii), letter (a), on the one hand, and non-Italian residents, on the other hand.

Where applicable, upon transfer of Trust Preferred Securities by or to Italian residents, Italian transfer tax will be payable at a rate between a maximum of Lit. 140 and a minimum of Lit. 9 per Lit. 100,000 (or fraction thereof) of the price at which the Trust Preferred Securities are transferred. In certain cases, Italian transfer tax due in respect of transfers of Trust Preferred Securities cannot exceed Lit. 1,800,000.

### **Inheritance and Gift Tax**

Italian inheritance and gift tax may be payable on transfers of Trust Preferred Securities (i) by reason of death of Italian residents or donation by Italian residents, even if the Trust Preferred Securities are held outside Italy and (ii) by reason of death of non-Italian residents or donation by non-Italian residents, if the Trust Preferred Securities are held in Italy.

Inheritance and gift taxes paid in a foreign country in respect of the same estate on assets existing in that foreign country are deductible in whole or in part from Italian inheritance and gift tax due in respect of such estate.

### **Tax Monitoring Obligations**

Italian resident individuals will be required to report in their yearly income tax return, for tax monitoring purposes:

- (a) the amount of Trust Preferred Securities held at the end of each tax year, if exceeding in the aggregate 20 million lire;
- (b) the amount of any transfers from abroad, towards abroad and occurred abroad, related to the Trust Preferred Securities, occurred during each tax year, if exceeding in the aggregate 20 million lire. This also applies in the case that at the end of the tax year Trust Preferred Securities are no longer held by Italian individuals.

Italian individuals will however not be required to comply with the above reporting requirements in respect of Trust Preferred Securities deposited for management with qualified Italian financial intermediaries and in respect of contracts entered into through their intervention, upon condition that the items of income derived from the Trust Preferred Securities are received through the intervention of the same intermediaries.

## NOTICE TO PURCHASERS

This Offering Circular has been prepared by the Bank, the Subsidiary, the Trust and the Company for use by the Managers in making offers and sales of the Trust Preferred Securities outside the United States to non-U.S. Persons in reliance on Regulation S under the Securities Act.

Each purchaser of the Trust Preferred Securities offered hereby will be deemed to have represented and agreed that such purchaser understands that the Trust Preferred Securities and the Company Preferred Securities have not been registered under the Securities Act and may not be offered, sold or delivered in the United States or to, or for the account or benefit of, any U.S. Person, unless the Trust Preferred Securities and the Company Preferred Securities are registered under the Securities Act, or an exemption from the registration requirements thereof is available. The Trust Preferred Securities will bear a legend to that effect, unless the Bank, the Subsidiary, the Trust and the Company determine otherwise in compliance with applicable law (terms used above that are defined in Regulation S are used above as therein defined).

**THE TRUST PREFERRED SECURITIES WILL INITIALLY BE REPRESENTED BY A TEMPORARY GLOBAL CERTIFICATE EXCHANGEABLE FOR INTERESTS IN A PERMANENT GLOBAL CERTIFICATE ON OR AFTER THE DATE WHICH IS 40 DAYS AFTER THE LATER OF THE DATE OF OFFERING OR CLOSING OF THE TRUST PREFERRED SECURITIES UPON CERTIFICATION OF NON-U.S. BENEFICIAL OWNERSHIP.**

No employee benefit plan subject to the fiduciary responsibility provisions of ERISA, no "plan" as defined in Section 4975(e)(1) of the Code, no governmental or other plan subject to similar requirements and no entity whose assets include "plan assets" may purchase either the Trust Preferred Securities or the Company Preferred Securities.

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

Each purchaser of the Trust Preferred Securities offered hereby will be deemed to have represented and agreed that, in connection with the Offering, it has not offered or sold and will not offer or sell, directly or indirectly, the Trust Preferred Securities to the public in the Republic of Italy, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in the Republic of Italy, this Offering Circular or any other offering material relating to the Trust Preferred Securities, and that such offers, sales and distributions have been and shall only be made in the Republic of Italy (i) to certain professional investors (as defined in Section 31, paragraph 2, of CONSOB Regulation No. 11522 of July 1, 1998, as amended: the "Professional Investors") and (ii) in circumstances that are exempted from the rules on solicitation of investments (the "Exemptions") pursuant to Section 100 of Legislative Decree No. 58 of February 24, 1998 (the "Unified Financial Act") and Section 33, paragraph 1, of CONSOB regulation No. 11971 of May 14, 1999, as amended and adopted pursuant to the Unified Financial Act.



Each purchaser of the Trust Preferred Securities offered hereby will be deemed to have represented and agreed that the offer or sale of the Trust Preferred Securities or any distribution of this Offering Circular or any rendering of advice in respect of an investment in the Trust Preferred Securities or Company Preferred Securities, within Italy in connection with this offering, will be conducted by registered securities dealing firms (*società d'intermediazione mobiliare* or "SIMs"), authorised banks or investment firms (as described in the Unified Financial Act) or financial companies enrolled in the special register described in Section 107 of Legislative Decree No. 385 of September 1, 1993 and in compliance with Section 129 of Legislative Decree No. 385 of September 1, 1993 (and implementing guidelines of the Bank of Italy).

Each purchaser of the Trust Preferred Securities offered hereby will be deemed to have represented and agreed that it will comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Trust Preferred Securities or possesses or distributes this Offering Circular or any offering material and will obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the Trust Preferred Securities under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales.

## PLAN OF DISTRIBUTION

Subject to the terms and conditions stated in the Purchase Agreement dated June 25, 2001, each of the Managers below (collectively, the “Managers”) severally and not jointly agreed to purchase, and the Trust has agreed to sell to the Managers all of the Trust Preferred Securities. The initial commitments of the Managers are set forth below. A copy of the Purchase Agreement is available to prospective investors upon request to the Bank and free of charge at the specified office of the Paying Agent in Luxembourg.

	<b>Amount of Trust Preferred Securities</b> (by liquidation amount)
<i>Managers</i>	
Goldman Sachs International.....	€80,000,000
Banca IMI .....	€80,000,000
Total .....	<u>€160,000,000</u>

The Purchase Agreement provides that the obligations of the Managers to purchase the Trust Preferred Securities are subject to approval of certain legal matters by counsel and to certain other conditions. The Managers must purchase all the Trust Preferred Securities if they purchase any of them.

The purchase price for the Trust Preferred Securities will be the initial offering price on the cover page of this Offering Circular (the “Offering Price”). In view of the fact that the proceeds of the sale of the Trust Preferred Securities will be ultimately invested in the Bank Subordinated Bonds, the Bank has agreed to pay the Managers as a management and underwriting commission and selling concession 1% of the aggregate purchase price of the Trust Preferred Securities. Each Manager proposes to offer Trust Preferred Securities at the Offering Price only in offshore transactions in reliance on Regulation S. Each purchaser of Trust Preferred Securities offered hereby in making its purchase will be deemed to have made certain representations, warranties and agreements as set forth under “*Notice to Purchasers*.” The Offering Price and other selling terms may from time to time be varied by the Managers.

The Company has not been registered under the 1940 Act. The Trust Preferred Securities and the Company Preferred Securities have not been and will not be registered under the Securities Act, and may not be offered, sold, pledged or otherwise transferred except in certain transactions exempt from the registration requirements of the Securities Act. See “*Notice to Purchasers*.”

Accordingly, each Manager has agreed that, except as permitted by the Purchase Agreement and set forth in the “*Notice to Purchasers*,” it will not offer or sell the Trust Preferred Securities within the United States or to, or for the account or benefit of, U.S. persons (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, and it will have sent to each dealer to which it sells Trust Preferred Securities during the 40-day restricted period a confirmation or other notice setting forth the restrictions on offers and sales of the Trust Preferred Securities within the United States or to, or for the account or benefit of, U.S. persons.

The Managers represent and warrant in the Purchase Agreement that (i) they have not offered or sold, and, prior to the expiration of six months from the closing of the offering of the Trust Preferred Securities, will not offer or sell, any Trust Preferred Securities to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments, whether as principal or agent, for purposes of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, (ii) they have complied and will comply with all applicable provisions of the Financial Services Act 1986 of the United Kingdom with respect to anything done by them in relation to the Trust Preferred Securities in, from or otherwise involving the United Kingdom and (iii) they have only

issued or passed on and will only issue or pass on, in the United Kingdom, any documentation received by them in connection with the issue of the Trust Preferred Securities, if that person is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom the document may otherwise lawfully be issued or passed on.

Each of the Managers has represented and agreed in the Purchase Agreement that, in connection with the Offering, it has not offered or sold and will not offer or sell, directly or indirectly, the Trust Preferred Securities to the public in the Republic of Italy, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in the Republic of Italy, this Offering Circular or any other offering material relating to the Trust Preferred Securities, and that such offers, sales and distributions have been and shall only be made in the Republic of Italy (i) to certain professional investors (as defined in Section 31, paragraph 2, of CONSOB Regulation No. 11522 of July 1, 1998, as amended: the "Professional Investors") and (ii) in circumstances that are exempted from the rules on solicitation of investments (the "Exemptions") pursuant to Section 100 of Legislative Decree No. 58 of February 24, 1998 (the "Unified Financial Act") and Section 33, paragraph 1, of CONSOB regulation No. 11971 of May 14, 1999, as amended and adopted pursuant to the Unified Financial Act.

Each of the Managers has represented and agreed in the Purchase Agreement that, in connection with the Offering, the offer or sale of the Trust Preferred Securities or any distribution of this Offering Circular or any rendering of advice in respect of an investment in the Trust Preferred Securities or Company Preferred Securities, within Italy in connection with this offering, will be conducted only by registered securities dealing firms (*società d'intermediazione mobiliare* or "SIMs"), authorised banks or investment firms (as described in the Unified Financial Act) or financial companies enrolled in the special register described in Section 107 of Legislative Decree No. 385 of September 1, 1993 specifically authorised to carry out underwriting services and in compliance with Section 129 of Legislative Decree No. 385 of September 1, 1993 (and implementing guidelines of the Bank of Italy).

The Trust Preferred Securities may only be issued, offered or sold, directly or indirectly, in the Republic of Italy in accordance with the Unified Financial Act and other applicable regulations of CONSOB and the Bank of Italy.

The securities may not be offered, sold, transferred or delivered in or from The Netherlands, as part of their initial distribution or as part of any re-offering, and neither this Offering Circular nor any other document in respect of the Offering may be distributed or circulated in The Netherlands, other than to individuals or legal entities which include, but are not limited to, banks, brokers, dealers, institutional investors and undertakings with a treasury department, who or which trade or invest in securities in the conduct of a business or profession.

Each Manager has agreed that it will comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Trust Preferred Securities or possesses or distributes this Offering Circular or any offering material and will obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the Trust Preferred Securities under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales and none of the Bank, the Company, or the Trust shall have any responsibility therefor.

None of the Bank, the Company, the Subsidiary, the Trust or the Managers represents that the Trust Preferred Securities may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder or assumes any responsibility for facilitating such sale.

The Trust Preferred Securities are a new issue of securities with no established trading market. Application has been made to list the Trust Preferred Securities on the Luxembourg Stock Exchange. However, no assurance can be given that an active trading market will develop or as to the liquidity of the Trust Preferred Securities. The Bank and the Company have been advised by Goldman Sachs International

that it currently intends to make a market in Trust Preferred Securities. However, Goldman Sachs International is not obligated to do so and any such market making activity will be subject to the limits imposed by applicable law and may be interrupted or discontinued at any time without notice. Accordingly, no assurance can be given as to the liquidity of or the trading market for the Trust Preferred Securities. See *"Investment Considerations — No Prior Market for Trust Preferred Securities; Resale Restrictions."*

The Bank, the Company and the Trust have agreed that, from the date of the Purchase Agreement and continuing until the date 30 days after the time of delivery for the Trust Preferred Securities, they will not offer, sell, contract to sell or otherwise dispose of, any securities of the Bank or any of the Bank's subsidiaries or affiliates that have terms that are substantially similar to the Trust Preferred Securities without the prior written consent of the Managers. Goldman Sachs International in its sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

The Bank, the Company and the Trust have agreed to indemnify the Managers and certain other persons against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the Managers may be required to make in respect of any of these liabilities.

Purchasers of Trust Preferred Securities may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the Offering Price.

In connection with the issue of the Trust Preferred Securities and the Company Preferred Securities, Goldman Sachs International may over-allot or effect transactions which stabilise or maintain the market price of such securities at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.

## VALIDITY OF SECURITIES

For the Bank, the Subsidiary, the Company and the Trust, (i) Richards, Layton & Finger, P.A. will pass upon the validity of the Company Preferred Securities and the Trust Preferred Securities and certain matters of Delaware law related to the Offering, (ii) Grimaldi Clifford Chance will pass upon the validity of the Bank Subordinated Bonds and certain matters of Italian law related to the Offering, (iii) Clifford Chance Limited Liability Partnership will pass upon the validity of the Subordinated Guarantee and certain matters of New York and U.S. law related to the Offering and (iv) Elvinger, Hoss & Prussen will pass upon the validity of the *Subsidiary Subordinated Instrument* and certain matters of Luxembourg law relating to the Offering. Studio Vitali Romagnoli Piccardi e Associati will pass upon certain matters of Italian taxation for the Bank. Sullivan & Cromwell will pass upon the validity of the Subordinated Guarantee for the Managers. Clifford Chance Limited Liability Partnership and Sullivan & Cromwell will rely upon the opinions of Richards, Layton & Finger, P.A. as to all matters of Delaware law. Clifford Chance Limited Liability Partnership will rely upon the opinion of Grimaldi Clifford Chance as to certain matters of Italian law and of Elvinger, Hoss & Prussen as to certain matters of Luxembourg law.

## **GENERAL INFORMATION**

### **Listing**

Application has been made to list the Trust Preferred Securities on the Luxembourg Stock Exchange, in accordance with the rules thereof. Prior to such listing, a legal notice relating to the issue of the Trust Preferred Securities will be filed with the Chief Registrar of the District Court of Luxembourg (*Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*) where such legal notice will be available for inspection free of charge and where copies of such documents will be obtainable upon request.

Upon listing, the Trust Preferred Securities will be freely transferable on the Luxembourg Stock Exchange. Once executed, transactions carried out on the Luxembourg Stock Exchange may not be cancelled.

### **Clearing Systems**

The Trust Preferred Securities have been accepted for clearance by Clearstream and Euroclear. The Common Code for the Trust Preferred Securities is 013174962 and the International Security Identification Number (ISIN) for the Trust Preferred Securities is XS0131749623.

### **Authorisation**

The issue of the Trust Preferred Securities was authorised by the Trustee of the Trust and the Company, as Grantor of the Trust, on June 19, 2001. The issue of the Company Preferred Securities will be authorised by the Board of Directors of the Company on July 2.

### **Documents**

Copies of the Company Agreement, the Trust Agreement and the Subordinated Guarantee will, so long as any Trust Preferred Securities are outstanding, be available free of charge for inspection during usual business hours at the specified office of the Paying Agent in Luxembourg.

For so long as the Trust Preferred Securities are listed on the Luxembourg Stock Exchange, a copy of the English translation of the Statutes and By-laws ("*statuto*") of the Bank will be available for inspection at the specified office of the Paying Agent in Luxembourg.

For so long as the Trust Preferred Securities are listed on the Luxembourg Stock Exchange, copies of the audited annual consolidated financial statements, the unaudited consolidated interim financial statements for the quarters ending March 31 and September 30 and the consolidated semi-annual financial statements for the periods ending June 30 published by the Group, and the annual audited non-consolidated financial statements published by the Bank will be available in the English language, free of charge, at the specified office of the Paying Agent in Luxembourg. The Company and the Trust do not publish financial statements and the Subsidiary does not publish statutory financial statements.

### **No Material Adverse Change**

Except as disclosed in this Offering Circular, there has been no adverse change in the financial position of the Trust, the Company, the Subsidiary or the Bank since December 31, 2000 or their respective dates of establishment (being June 19, 2001, in the case of the Trust and the Company and June 19, 2001 in the case of the Subsidiary), which is material in the context of the issue of the Trust Preferred Securities.

## **Litigation**

The Trust and the Company are not involved in any litigation, arbitration or administrative proceeding relating to claims or amounts which are material in the context of the issues of the Trust Preferred Securities and the Company Preferred Securities to which the Trust or the Company is a party, nor, to the best of the knowledge and belief of the Trust or the Company, are there any threatened litigation, arbitration or administrative proceedings relating to claims or amounts which are material in the context of the issues of the Trust Preferred Securities and the Company Preferred Securities which would in either case jeopardise their ability to discharge their respective obligations in respect of the present issues of the Trust Preferred Securities and the Company Preferred Securities.

There are no litigation, arbitration or administrative proceedings relating to claims or amounts which are material in the context of the issues of the Trust Preferred Securities and the Company Preferred Securities to which the Bank is a party, nor, to the best of the knowledge and belief of the Bank, are there any threatened litigation, arbitration or administrative proceedings relating to claims or amounts which are material in the context of the issues of the Trust Preferred Securities and the Company Preferred Securities which would in either case jeopardise its ability to discharge its obligations under the Guarantee and the present issues of the Trust Preferred Securities and the Company Preferred Securities.

## **ERISA Considerations**

No Trust Preferred Security or Company Preferred Security, if applicable, may be purchased or transferred to: (i) an "employee benefit plan" that is subject to the fiduciary responsibility provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (ii) a "plan" within the meaning of Section 4975 of the Code, (iii) a person whose underlying assets include plan assets by reason of Department of Labor Regulation Section 2510.3-101 or otherwise, or (iv) a governmental plan that is subject to any federal, state or local law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code. Each Manager, and each subsequent transferee of a Trust Preferred Security or Company Preferred Security by its purchase or acquisition of any such Trust Preferred Security or Company Preferred Security, is deemed to represent that it is not a plan or person described in the preceding sentence.

## **Governing Law**

The Company Agreement, the Company Preferred Securities, the Company Common Securities, the Trust Agreement and the Trust Preferred Securities will be governed by, and construed in accordance with, the law of the State of Delaware, United States of America, without regard to conflict of laws principles thereof. The Subordinated Guarantee will be governed by, and construed in accordance with, the law of the State of New York, United States of America, without regard to conflict of laws principles thereof. The Subsidiary Subordinated Instrument will be governed by, and construed in accordance with, the law of Luxembourg. The Bank Subordinated Bonds will be governed by, and construed in accordance with, the law of the Republic of Italy.

## GLOSSARY

<i>"1940 Act"</i>	means the U.S. Investment Company Act of 1940, as amended.
<i>"Actual/360 Basis"</i>	means the actual number of days in the Calculation Period divided by 360.
<i>"Actual/Actual (Bond) Basis"</i>	means the number of days, from and including the date from which dividends or interest, as applicable, begin to accrue to but excluding the date on which such dividends or interest falls due, divided by the number of days in the Calculation Period in which the relevant period falls (including the first such day but excluding the last day).
<i>"Additional Amounts"</i>	means such additional amounts as the Company, the Subsidiary or the Bank, as applicable, will be required to pay so that the net amount received by each holder of the Trust Preferred Securities or Company Preferred Securities, as applicable, after the withholding of any Relevant Tax required by law, will not be less than the dividends or distributions otherwise then due and payable, as further described and subject to the limitations set forth under <i>"Description of the Company Preferred Securities — Dividends — Additional Amounts."</i>
<i>"Administration Agreement"</i>	means the Administration Agreement dated as of the Issue Date between the Bank and the Company described under <i>"The Company — Business and Strategy of the Company — Employees and Administration Agreement."</i>
<i>"Administrative Action"</i>	means any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) by any legislative body, court, governmental authority or regulatory body having appropriate jurisdiction.
<i>"Agency Agreement"</i>	means the Agency Agreement dated on or about the Issue Date entered into among the Bank, the Trust and The Bank of New York, pursuant to which the Company appoints The Bank of New York as Registrar, Transfer Agent and Principal Paying Agent for the Trust Preferred Securities, as such agreement may be amended, modified or supplemented from time to time.
<i>"Applicable Banking Regulations"</i>	means at any time the capital adequacy regulations then in effect of the Bank of Italy or other regulatory authority in Italy (or if the Bank becomes domiciled in a jurisdiction other than Italy, such other jurisdiction) having primary bank supervisory authority with respect to the Bank. All references made to the Applicable Banking Regulations will be deemed to refer to those provisions as amended from time to time or to any other statutory or regulatory provisions by which they may be replaced from time to time.
<i>"Bank"</i>	means Banca Popolare di Milano S.C.a r.l., organised under the laws of the Republic of Italy.



<b>"Bank Loss"</b>	means an amount equal to the net losses reported on the most recent of the Bank's annual or semiannual consolidated financial statements showing net losses.
<b>"Bank of Italy"</b>	means the <i>Banca d'Italia</i> or any successor that administers the Applicable Banking Regulations.
<b>"Bank Junior Securities"</b>	means all share capital of the Bank, including its preferred shares (" <i>Azioni Privilegiate</i> "), ordinary shares and savings shares (" <i>Azioni di Risparmio</i> "), now or hereafter issued, other than any share capital of the Bank that expressly or effectively ranks on a parity with or senior to the Subordinated Guarantee or any Bank Parity Security.
<b>"Bank Parity Guarantees"</b>	means the Bank's guarantees (whether through an agreement or instrument labeled as a guarantee, as a support agreement, or with some other name but with an effect similar to a guarantee or support agreement) of preferred securities or preferred or preference shares issued by any of its subsidiaries, if such guarantees or support agreements rank <i>pari passu</i> with or junior to the Bank's obligations under the Subordinated Guarantee.
<b>"Bank Parity Securities"</b>	means (1) the most senior preferred securities or preferred or preference shares issued directly by the Bank, if any, (2) any guarantee or similar instrument (other than the Subordinated Guarantee) issued by the Bank of preferred equity securities or preferred or preference shares issued by any subsidiary through similarly linked structures as the Trust and the Company, which guarantee or similar instrument ranks equally with the most senior preferred securities or preferred or preference shares of the Bank and (3) the preferred equity securities or preferred or preference shares issued by a subsidiary through similarly linked structures as the Trust and the Company with the benefits of a guarantee or similar instrument from the Bank, which guarantee or similar instrument ranks equally with the Subordinated Guarantee; <i>provided</i> , that notwithstanding the foregoing, any security that is a Bank Junior Security shall not be a Bank Parity Security.
<b>"Bank Subordinated Bonds"</b>	means the subordinated debt instruments to be issued by the Bank in connection with the Offering.
<b>"Bank Subordinated Bonds Base Redemption Price"</b>	means (i) the principal amount of the Bank Subordinated Bonds, plus (ii) an amount equal to unpaid interest thereon accrued on a daily basis through the date fixed for redemption.
<b>"Bank Subordinated Bonds Coupon Rate"</b>	means the prevailing rate applicable to the coupons due with respect to the principal amount of the Bank Subordinated Bonds.
<b>"Bank Subordinated Bonds Make Whole Amount"</b>	means an amount, as determined by a Quotation Agent, equal to the sum of (a) the present value of the aggregate outstanding principal balance of the Bank Subordinated Bonds discounted from the First Call Date, (b) the present values of scheduled annual interest payments from the Special Event Redemption Date to the First Call Date and (c) any unpaid definitive interest with respect to prior Dividend Periods without interest and without accumulation of unpaid non-definitive interest for any prior Dividend Period. The

present values calculated in (a) and (b) above shall be calculated as set out in the Bank Subordinated Bonds.

***"Bankruptcy Event"***

means the occurrence of either of the following events: (i) the commencement of compulsory administrative liquidation proceedings or other bankruptcy proceedings in respect of the Bank under Italian law or (ii) the notification by the Bank of Italy, in its sole discretion, to the Bank and the Company that it has determined, in view of the deteriorating financial condition of the Bank, that the foregoing clause (i) would apply in the near term.

***"BdL"***

means Banca di Legnano S.p.A., organised under the laws of the Republic of Italy.

***"Business Day"***

means a day (i) which is a TARGET Settlement Date and (ii) on which banks are open for business in New York, New York, U.S.A., Wilmington, Delaware, U.S.A., London, England and in the case of payments by the Paying Agent, in Luxembourg, Luxembourg.

***"Calculation Agent"***

the calculation agent appointed by the Bank, the Subsidiary, the Company and the Trust, which initially shall be The Bank of New York.

***"Calculation Date"***

means the third TARGET Settlement Date prior to the Special Event Redemption Date.

***"Calculation Period"***

means a Dividend Period or Interest Period, as applicable.

***"Capital Deficiency Event"***

means an event that will be deemed to occur if, (1) as a result of losses incurred by the Bank, the total risk-based capital ratio of the Bank, on a consolidated basis, as calculated in accordance with applicable Italian banking laws and regulations, either (a) reported in the Bank's annual or semi-annual consolidated accounts or (b) determined by the Bank of Italy and communicated to the Bank, falls below the then minimum requirements of the Bank of Italy specified in its February 2000 regulations governing *Strumenti Innovativi di Capitale*, as amended (currently, 5.00%); or (2) the Bank of Italy in its sole discretion, notifies the Bank that it has determined that the Bank's financial condition is deteriorating such that the event specified in (1) will occur.

***"Change in Tax Law"***

means the receipt by the Bank of an opinion of a nationally recognised law firm or other tax adviser in any Relevant Jurisdiction, as appropriate, experienced in such matters, to the effect that, a Tax Event has occurred or will occur as a result of (i) any amendment to, or clarification of, or change (including any announced prospective change) in, the laws or treaties (or any regulations promulgated thereunder) of the Relevant Jurisdiction or any political subdivision or taxing authority thereof or therein affecting taxation, (ii) any Administrative Action or (iii) any amendment to, clarification of, or change in the official position or the interpretation of such Administrative Action or any interpretation or pronouncement that provides for a position with respect to such Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental, administrative,

	regulatory authority or body, irrespective of the manner in which such amendment, clarification or change is made known, which amendment, clarification or change is effective, or which pronouncement or decision is announced, on or after the Issue Date.
<i>"Clearstream"</i>	means Clearstream Bank, S.A. or its successor.
<i>"Code"</i>	means the U.S. Internal Revenue Code of 1986, as amended.
<i>"Common Depositary"</i>	means the common depositary for Euroclear and Clearstream.
<i>"Common Nominee"</i>	means the common nominee for Euroclear and Clearstream.
<i>"Company"</i>	means BPM Capital I LLC, a Delaware limited liability company.
<i>"Company Agreement"</i>	means the Limited Liability Company Agreement of BPM Capital I LLC, as amended and restated as of the Issue Date.
<i>"Company Common Securities"</i>	means the common limited liability company interests in the Company.
<i>"Company Preferred Securities"</i>	means the 8.393% Noncumulative Perpetual Company Preferred Securities, liquidation preference €1,000 per security and aggregate liquidation preference €160,000,000, offered by the Company.
<i>"Company Preferred Securities Adjusted Yield"</i>	means the German Bund Rate plus 0.25%.
<i>"Company Preferred Securities Base Redemption Price"</i>	means (i) the liquidation preference of the Company Preferred Securities, plus (ii) an amount equal to unpaid dividends, if any, thereon with respect to the current Dividend Period accrued on a daily basis through the date fixed for redemption, plus (iii) an amount equal to unpaid definitive dividends for any prior Dividend Period, without interest and without accumulation of unpaid nondefinitive dividends for any prior Dividend Period.
<i>"Company Preferred Securities Make Whole Amount"</i>	means an amount, as determined by a Quotation Agent, equal to the sum of (a) the present value of the aggregate liquidation preference of the Company Preferred Securities discounted from the First Call Date, (b) the present values of scheduled annual noncumulative dividend payments from the Special Event Redemption Date to the First Call Date and (c) any unpaid definitive dividends with respect to prior Dividend Periods without interest and without accumulation of unpaid nondefinitive dividends for any prior Dividend Period. The present values calculated in (a) and (b) above shall be calculated by discounting the relevant amounts to the Special Event Redemption Date on an annual basis at the Company Preferred Securities Adjusted Yield.
<i>"Comparable German Bund Issue"</i>	means the German Bund security selected by the Quotation Agent as having a maturity comparable to July 2, 2011 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities having a maturity of July 2, 2011.

<i>"Comparable German Bund Price"</i>	means (A) the average of five Reference German Bund Dealer Quotations for the Special Event Redemption Date, after excluding the highest and lowest such Reference German Bund Dealer Quotations or (B) if the Quotation Agent obtains fewer than five such Reference German Bund Dealer Quotations, the average of all such Reference German Bund Dealer Quotations.
<i>"Corresponding Amount"</i>	means (i) for each €1,000 liquidation preference of Trust Preferred Securities, €1,000 liquidation preference of Company Preferred Securities and (ii) for each €1,000 liquidation preference of Company Preferred Securities, €1,000 liquidation preference of Trust Preferred Securities.
<i>"Delaware Business Trust Act"</i>	means the Delaware Business Trust Act, 12 Del. C. § 3801, <i>et seq.</i> , as amended from time to time.
<i>"Delaware Limited Liability Act"</i>	means the Delaware Limited Liability Company Act, 6 Del. C. § 18-101, <i>et seq.</i> , as amended from time to time.
<i>"Delaware Trustee"</i>	means The Bank of New York (Delaware), as Delaware trustee under the Trust Agreement, or its successors in such capacity.
<i>"Determination Date"</i>	for a Dividend Period or Interest Period, as applicable, means the date that is two TARGET Settlement Days preceding the first day of such Dividend Period or Interest Period, as applicable.
<i>"Distributable Profits"</i>	means net profits determined according to the unconsolidated annual accounts relating to the financial year immediately preceding the year in which the relevant Dividend Payment Date falls or, where such accounts are not available, the last set of annual unconsolidated financial accounts approved by the Bank.
<i>"dividend(s)"</i>	means, when used with respect to Company Preferred Securities, any distribution on the Company Preferred Securities described under <i>"Description of the Company Preferred Securities — Dividends"</i> and includes, as to any Dividend Payment Date, Additional Amounts calculated as though full distributions were paid on the Company Preferred Securities.
<i>"Dividend Payment Date"</i>	means (i) from the Issue Date to and including the First Call Date, July 2 of each year, commencing July 2, 2002 (or, if any such day is not a Business Day, the next succeeding Business Day) and (ii) after the First Call Date, each October 2, January 2, April 2 and July 2 (or, if any such day is not a Business Day, the next succeeding Business Day).
<i>"Dividend Period"</i>	means each period from and including a Dividend Payment Date or the Issue Date, as applicable, to but not including the next Dividend Payment Date.
<i>"Eligible Investments"</i>	means (i) the Subsidiary Subordinated Instrument and other instruments of the Bank or one or more subsidiaries of the Bank, each of which is deemed to be a "company controlled" by the Bank within the meaning of Rule 3a-5 of the 1940 Act and (ii) commercial paper and similar securities that are exempt under Section 3(a)(3)

	of the United States Securities Act of 1933; <i>provided, however</i> , that no security that gives rise to income from sources within the United States, as defined for U.S. federal income tax purposes, shall be an Eligible Investment.
"ERISA"	means the U.S. Employee Retirement Income Security Act of 1974, as amended.
"EURIBOR"	with respect to a Determination Date, means the rate (expressed as a percentage per annum) for deposits in euro for a three-month period commencing on the second TARGET Settlement Date immediately following such Determination Date that appears on Telerate Page 248 as of 11:00 a.m. (Brussels time) on such Determination Date. If such rate does not appear on Telerate Page 248, EURIBOR will be determined by the Calculation Agent on the basis of the rates at which deposits in euro are offered to prime banks in the Euro-zone interbank market for a twelve-month period commencing on the second TARGET Settlement Date immediately following that Determination Date and in a principal amount equal to an amount of not less than €1,000,000 that is representative for a single transaction in the Euro-zone interbank market at such time, by four major banks in the Euro-zone interbank market selected by the Calculation Agent, at approximately 11:00 a.m. (Brussels time) on such Determination Date. The Calculation Agent will request the principal Euro-zone office of each of such banks to provide a quotation of its rate. If at least two such quotations are provided, EURIBOR in respect of that Determination Date will be the arithmetic mean of such quotations. If fewer than two quotations are provided, EURIBOR in respect of that Determination Date will be the arithmetic mean of the rates quoted by three major lending banks in the Euro-zone selected by the Calculation Agent at approximately 11:00 a.m. (Brussels time), on that Determination Date for loans in euro to leading European banks for a twelve-month period commencing on the second TARGET Settlement Day immediately following that Determination Date and in a principal amount equal to an amount of not less than €1,000,000 that is representative for a single transaction in such market at such time; <i>provided, however</i> , that if the banks selected as aforesaid by the Calculation Agent are not quoting as mentioned in this sentence, EURIBOR for the applicable period will be the same as EURIBOR as determined on the previous Determination Date.
"Euro" and "€"	mean the single currency introduced at the start of the third stage of the European Economic and Monetary Union on January 1, 1999.
"Euroclear"	means the 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 adopt the single currency in accordance with the Treaty establishing the European Community, as amended from time to time.

<b>"Exchange Date"</b>	has the meaning set forth under <i>"Description of the Trust Preferred Securities — Denomination, Form and Exchange."</i>
<b>"First Call Date"</b>	means the Dividend Payment Date occurring on July 2, 2011 or, if such date is not a Business Day, the next succeeding Business Day.
<b>"German Bund Rate"</b>	means the rate per annum equal to the annual yield to maturity of Comparable German Bund Issue, assuming a price for the Comparable German Bund Issue (expressed as a percentage of its principal amount) equal to the Comparable German Bund Price.
<b>"Glossary"</b>	means this list of definitions of certain terms used in this Offering Circular.
<b>"Group"</b>	means the Bank and its consolidated subsidiaries and affiliates.
<b>"Guarantee Payments"</b>	means any payments by the Bank under the Subordinated Guarantee as described in <i>"Description of the Subordinated Guarantee — Guaranteed Support of Dividends, Additional and Redemption Amounts."</i>
<b>"Guarantee Trustee"</b>	means The Bank of New York, as guarantee trustee under the Subordinated Guarantee, or its successors in such capacity.
<b>"Independent Director"</b>	means (i) an individual who is not, and has not been during the preceding three years, an officer or employee of the Bank or any affiliate of the Bank and who does not own Bank Junior Securities having a fair value of €500,000 or more or (ii) any individual elected by holders of the Company Preferred Securities under the circumstances described in <i>"Description of the Company Preferred Securities — Voting Rights,"</i> regardless of whether such individual meets the independence test set forth in part (i) hereof.
<b>"Interest Payment Date"</b>	means (i) from the Issue Date to and including the First Call Date, July 2 of each year (or, if any such date is not a Business Day, the next succeeding Business Day) and (ii) after the First Call Date, each October 2, January 2, April 2 and July 2 (or, if any such date is not a Business Day, the next succeeding Business Day).
<b>"Interest Period"</b>	means each period from and including an Interest Payment Date or the Issue Date, as applicable, to but not including the next Interest Payment Date.
<b>"Investment Company Act Event"</b>	means that the Bank shall have requested and received an opinion of a nationally recognised U.S. law firm experienced in such matters to the effect that there is more than an insubstantial risk that the Trust or the Company is or will be considered an "investment company" within the meaning of the 1940 Act as a result of any judicial decision, any pronouncement or interpretation (irrespective of the manner made known), the adoption or amendment of any law, rule or regulation, any notice or announcement (including any notice or announcement of intent to adopt such rule or regulation) by any U.S. legislative body, court, governmental agency or regulatory authority.

<i>"Investment Policies"</i>	means the Company's initial investment policies established pursuant to the Company Agreement.
<i>"IRS"</i>	means the U.S. Internal Revenue Service.
<i>"Issue Date"</i>	means the date of initial issuance of the Company Preferred Securities and the Trust Preferred Securities, expected to be on or about July 2, 2001.
<i>"Liquidation Claim Amount"</i>	means (i) the €1,000 liquidation preference per Company Preferred Security, plus (ii) unpaid dividends, if any, thereon with respect to the current Dividend Period accrued on a daily basis to the date of dissolution, plus (iii) unpaid definitive dividends for any prior Dividend Period, but without interest and without accumulation of unpaid nondefinitive dividends for any prior Dividend Period, and including any Additional Amounts required to be paid.
<i>"Managers"</i>	has the meaning set forth under <i>"Plan of Distribution."</i>
<i>"Minimum Capital"</i>	means the minimum regulatory capital required for Italian banks under the Applicable Banking Regulations (currently €6.3 million).
<i>"Non-U.S. Holder" or "Non-United States Holder"</i>	means an individual who is not a citizen or resident of the United States, a foreign corporation, an estate that is not subject to United States federal income tax on its income without regard to the source thereof, or a trust if no court within the United States is able to exercise primary supervision over the administration of the trust and no U.S. Person has the authority to control all substantial decisions of the trust and the trust does not have a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. Person.
<i>"Offering"</i>	means the offering by the Trust of the Trust Preferred Securities and the related issuance to the Trust by the Company of its Company Preferred Securities.
<i>"Offering Circular"</i>	means this Offering Circular, as the same may be supplemented or amended.
<i>"Offering Price"</i>	means the initial purchase price of the Trust Preferred Securities as set forth on the cover page of this Offering Circular.
<i>"Paying Agent"</i>	means the Principal Paying Agent and any co-paying agent, including the Paying Agent in Luxembourg.
<i>"Paying Agent in Luxembourg"</i>	means the co-paying agent with respect to the Trust Preferred Securities that is located in the Grand Duchy of Luxembourg, which initially shall be The Bank of New York (Luxembourg) S.A.
<i>"Permitted Transaction"</i>	means an acquisition of Bank Parity Securities or Bank Junior Securities (i) in the case of Bank Parity Securities, by conversion into or in exchange for Bank Junior Securities, (ii) in connection with transactions effected by or for the account of customers of the Bank or any of its subsidiaries or in connection with distribution, trading or market-making in respect of such securities, (iii) in connection with the satisfaction by the Bank or any of its subsidiaries of its

obligations under any employee benefit plans or similar arrangements with and for the benefit of employees, officers, directors or consultants, (iv) as a result of a reclassification of the capital stock of the Bank or any of its subsidiaries or the exchange or conversion of one class or series of capital stock for another class or series of capital stock or (v) the purchase of fractional interests in shares of the capital stock of the Bank or any of its subsidiaries pursuant to the conversion or exchange provisions of such capital stock or the securities being converted or exchanged.

<i>"Primary German Bund Dealer"</i>	means any credit institution or financial services institution that regularly deals in bonds and other debt securities.
<i>"Principal Paying Agent"</i>	means the principal paying agent with respect to the Trust Preferred Securities and the Company Preferred Securities, as applicable, which initially shall be The Bank of New York.
<i>"Professional Investors"</i>	include persons defined as professional investors in Section 31, paragraph 2, of CONSOB Regulation No. 11522 of July 1, 1998, as amended and adopted pursuant to the "Unified Financial Act".
<i>"Property Trustee"</i>	means The Bank of New York, in its capacity as property trustee under the Trust Agreement, or its successors in such capacity.
<i>"Purchase Agreement"</i>	means the purchase agreement dated as of June 25, 2001 by and among the Company, the Trust, the Bank, and Goldman Sachs International, as representative of the Managers, as described under <i>"Plan of Distribution."</i>
<i>"Quotation Agent"</i>	means Goldman Sachs International and its successors, provided, however, that if the foregoing shall cease to be a Primary German Bund Dealer in London, the Company will be entitled to appoint another Quotation Agent that is a Primary German Bund Dealer in London.
<i>"Redemption Price"</i>	means (a) with respect to Company Preferred Securities, Subsidiary Subordinated Instruments or Bank Subordinated Bonds redeemed on any redemption date that is not a Special Event Redemption Date or on a Special Event Redemption Date triggered by a Tax Event that arises out of a Change in Tax Law, the Company Preferred Securities Base Redemption Price, the Subsidiary Subordinated Instrument Base Redemption Price or the Bank Subordinated Bonds Base Redemption Price, as applicable, and (b) with respect to Company Preferred Securities, Subsidiary Subordinated Instruments or Bank Subordinated Bonds redeemed on a Special Event Redemption Date other than a Special Event Redemption Date triggered by a Tax Event that arises out of a Change in Tax Law, the greater of (i) the Company Preferred Securities Make Whole Amount, the Subsidiary Subordinated Instrument Make Whole Amount or the Bank Subordinated Bonds Make Whole Amount, as applicable, and (ii) the Company Preferred Securities Base Redemption Price, the Subsidiary Subordinated Instrument Base Redemption Price or the Bank Subordinated Bonds Base Redemption Price, as applicable.



<b><i>"Reference German Bund Dealer"</i></b>	means (a) the Quotation Agent or (b) any other Primary German Bund Dealer selected by the Quotation Agent after consultation with the Company.
<b><i>"Reference German Bund Dealer Quotations"</i></b>	means with respect to each Reference German Bund Dealer and the Special Redemption Date, the average, as determined by the Calculation Agent, of the bid and asked prices for the Comparable German Bund Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Calculation Agent by such Reference German Bund Dealer at 3:30 a.m. (Frankfurt time) on the third German Business Day immediately preceding the Special Event Redemption Date.
<b><i>"Registrar"</i></b>	means the registrar with respect to the Trust Preferred Securities and the Company Preferred Securities, which will initially be The Bank of New York.
<b><i>"Regulation S"</i></b>	means Regulation S under the Securities Act, as such rule may be amended from time to time.
<b><i>"Relevant Jurisdiction"</i></b>	means (i) Italy, (ii) Luxembourg, (iii) any jurisdiction in which a branch, other office or subsidiary of the Bank issuing Eligible Investments held by the Company or the Subsidiary is located, (iv) the United States, or (v) any authority of or in any of the jurisdictions referred to in (i) – (iv) above that has the power to tax.
<b><i>"Relevant Tax"</i></b>	means any present or future taxes, duties, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of a Relevant Jurisdiction.
<b><i>"Required Dividend"</i></b>	has the meaning set forth in <i>"Description of the Company Preferred Securities — Dividends — Required Dividends."</i>
<b><i>"Required Dividend Payment Amount"</i></b>	means, as to a Required Dividend Payment Date or Special Dividend Payment Date, the amount of dividends required to be paid on such date.
<b><i>"Required Dividend Payment Date(s)"</i></b>	means each Dividend Payment Date or Special Dividend Payment Date on which some amount of dividends on the Company Preferred Securities is required to be paid as set forth in <i>"Description of the Company Preferred Securities — Dividends — Required Dividends."</i>
<b><i>"Securities"</i></b>	means the Trust Preferred Securities, the Company Preferred Securities and the Subsidiary Subordinated Instrument.
<b><i>"Securities Act"</i></b>	means the U.S. Securities Act of 1933, as amended.
<b><i>"Senior Indebtedness of the Bank"</i></b>	means all deposits and other liabilities of the Bank (including those in respect of bonds, notes and debentures, whether senior or subordinated or instruments constituting Upper Tier 2 capital of the Bank on a solo basis under Applicable Banking Regulations) other than other <i>pari passu</i> claims. For purposes of the foregoing, "other <i>pari passu</i> claims" means claims of creditors of the Bank which are subordinated so as to rank <i>pari passu</i> with the claims of the holders

	of the Company Preferred Securities in respect of the Subordinated Guarantee.
<i>"Special Dividend Payment Date"</i>	has the meaning set forth in <i>"Description of the Company Preferred Securities — Dividends — Required Dividends."</i>
<i>"Special Event"</i>	means the occurrence of a Tax Event, an Investment Company Act Event or a Tier 1 Disqualification Event.
<i>"Special Event Redemption Date"</i>	means a date that occurs on or before the First Call Date on which Company Preferred Securities are redeemed in connection with the occurrence of a Special Event.
<i>"Subordinated Guarantee"</i>	means the Subordinated Guarantee Agreement among the Bank, the Guarantee Trustee and the Property Trustee (as the initial holder of the Subordinated Guarantee), executed on the Issue Date in connection with the Offering.
<i>"Subsidiary"</i>	means BPM Luxembourg S.A., a directly controlled subsidiary of the Bank organised under the laws of the Grand Duchy of Luxembourg.
<i>"Subsidiary Subordinated Instrument"</i>	means the subordinated debt instrument to be issued by the Subsidiary in connection with the Offering, as described under <i>"Description of the Subsidiary Subordinated Instrument."</i>
<i>"Subsidiary Subordinated Instrument Base Redemption Price"</i>	means (i) the principal amount of the Subsidiary Subordinated Instrument, plus (ii) an amount equal to unpaid interest thereon accrued on a daily basis through the date fixed for redemption.
<i>"Subsidiary Subordinated Instrument Coupon Rate"</i>	means the prevailing rate applicable to the coupons due with respect to the principal amount of the Subsidiary Subordinated Instrument.
<i>"Subsidiary Subordinated Instrument Make Whole Amount"</i>	means an amount, as determined by a Quotation Agent, equal to the sum of (a) the present value of the aggregate principal of the Subsidiary Subordinated Instrument discounted from the First Call Date, (b) the present values of scheduled annual interest payments from the Special Event Redemption Date to and including the First Call Date and (c) any unpaid definitive interest with respect to prior Interest Periods without interest and without accumulation of unpaid nondefinitive interest for any prior Interest Period. The present values calculated in (a) and (b) above shall be calculated as set out in the Subsidiary Subordinated Instrument.
<i>"TARGET Settlement Date"</i>	means a day on which the Trans-European Automated Real Time Gross Settlement Express Transfer System ("TARGET") is operating.
<i>"Tax Event"</i>	means the receipt by the Bank of an opinion of a nationally recognised law firm or other tax adviser in any Relevant Jurisdiction, as appropriate, experienced in such matters, to the effect that there is more than an insubstantial risk that (a) Additional Amounts will be required to be paid by the Company, with respect to payments on the Company Preferred Securities, the Subsidiary, with respect to payments on the Subsidiary Subordinated Instrument, or the Bank,

	with respect to payments on the Bank Subordinated Bonds, (b) the Trust or the Company is or will be subject to more than a <i>de minimis</i> amount of taxes, duties or other governmental charges or (c) any interest deduction or other similar direct or indirect tax benefit available to the Bank in respect of the issuance of the Bank Subordinated Bonds, to the Subsidiary in respect of the issuance of the Subsidiary Subordinated Instrument, to the Company in respect of the issuance of the Company Preferred Securities or to the Trust in respect of the issuance of the Trust Preferred Securities (and transactions related thereto) is or will be eliminated, reduced or otherwise adversely affected in any material respect.
<i>"Telerate Page 248"</i>	means the display designated as "Page 248" on the Bridge/Telerate Service (or such other page as may replace Page 248 on that service or such other service or services as may be nominated by the European Banking Federation as the information vendor for the purpose of displaying Euro-zone interbank offered rates for euro deposits).
<i>"Tier 1 Disqualification Event"</i>	means that the Bank shall be notified by the Bank of Italy to the effect that the Company Preferred Securities may not be included in the Tier 1 capital of the Bank on a consolidated basis.
<i>"Transfer Agent"</i>	means the transfer agent with respect to the Trust Preferred Securities and the Company Preferred Securities, which will initially be The Bank of New York (with The Bank of New York (Luxembourg) S.A. acting as additional Transfer Agent in Luxembourg).
<i>"Treasury Regulations"</i>	means the income tax regulations promulgated under the Code.
<i>"Trust"</i>	means BPM Capital Trust I, a Delaware statutory business trust.
<i>"Trust Agreement"</i>	means the Trust Agreement to be entered into between the Company, as grantor, the Delaware Trustee and the Property Trustee, as amended and restated as of the Issue Date.
<i>"Trust Preferred Securities"</i>	means the 8.393% Noncumulative Perpetual Trust Preferred Securities, liquidation preference €1,000 per security and aggregate liquidation preference €160,000,000 offered by the Trust, representing an equal amount of Company Preferred Securities.
<i>"Trustees"</i>	means the Property Trustee and the Delaware Trustee, collectively.
<i>"Unified Financial Act"</i>	means Legislative Decree No. 58 of February 24, 1998.
<i>"U.S. Holder"</i>	means (i) an individual citizen or resident of the United States, (ii) a corporation, company or partnership organised in or under the laws of the United States or any state thereof or the District of Columbia, (iii) an estate or trust the income of which is subject to United States federal income tax regardless of source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.
<i>"U.S. Person"</i>	means, unless otherwise specified, (i) any natural person resident in the United States, (ii) any company or corporation organised or

incorporated under the laws of the United States, (iii) any estate of which any executor or administrator is a U.S. person, (iv) any trust of which any trustee is a U.S. person, (v) any agency or branch of a foreign entity located in the United States, (vi) any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a U.S. person, (vii) any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organised, incorporated, or (if an individual) resident in the United States and (viii) any company or corporation if: (A) organised or incorporated under the laws of any foreign jurisdiction; and (B) formed by a U.S. person principally for the purpose of investing in securities not registered under the Securities Act, unless it is organised or incorporated, and owned, by accredited investors (as defined in Rule 501(a) under the Securities Act) who are not natural persons, estates or trusts.

*"Upper Tier 2"*

means instruments constituting "upper Tier 2" capital of the Bank on a solo basis under Applicable Banking Regulations.

*"United States"*

means the United States of America, its territories and possessions, any state of the United States and the District of Columbia.

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**Banca Popolare di Milano**