



## PROSPECTUS

# BANCA ITALEASE

### BANCA ITALEASE CAPITAL TRUST

**€150,000,000 Aggregate Liquidation Preference of Non-cumulative Guaranteed Floating Rate Perpetual Trust Preferred Securities**

(liquidation preference €50,000, plus integral multiples of €1,000 above €50,000, per Trust Preferred Security) representing a corresponding amount of

**Non-cumulative Guaranteed Floating Rate Perpetual LLC Preferred Securities of**

**BANCA ITALEASE FUNDING LLC**

guaranteed on a subordinated basis by

**BANCA ITALEASE S.p.A.**

Each non-cumulative guaranteed floating rate perpetual trust preferred security (a “Trust Preferred Security”, and collectively, the “Trust Preferred Securities”) issued by Banca Italease Capital Trust (the “Trust”) represents an undivided beneficial ownership interest in the assets of the Trust. The Trust Preferred Securities will be perpetual, will be denominated in euro and will have a floating rate of cash distributions of 1.3% per annum above the Euro Interbank Offered Rate (“EURIBOR”) for three-month deposits on the liquidation preference until 6 June 2016. From 6 June 2016, the Trust Preferred Securities will have a floating rate of cash distributions equal to 2.3% per annum above EURIBOR for three-month euro deposits on the liquidation preference as described in this Prospectus. The assets of the Trust will consist of a corresponding amount of non-cumulative guaranteed floating rate perpetual preferred limited liability company interests (the “LLC Preferred Securities” and, together with the Trust Preferred Securities, the “Preferred Securities”) in Banca Italease Funding LLC (the “LLC”).

Dividends and redemption and liquidation payments paid by the LLC on the LLC Preferred Securities will be used by the Trust to make cash distributions on the Trust Preferred Securities.

Banca Italease S.p.A. (the “Bank” or the “Guarantor”) will guarantee on a subordinated basis all payments in respect of the LLC Preferred Securities and the Trust Preferred Securities to the extent described in this Prospectus and in the Subordinated Guarantees (as defined below). Except as otherwise provided in this Prospectus, the LLC will directly own all of the common securities of the Trust, and the Bank will directly own all of the common securities of the LLC.

**See “Risk Factors” beginning on page 19 for a discussion of certain risks relating to an investment in the Trust Preferred Securities.**

Application has been made to the *Commission de Surveillance du Secteur Financier* (the “CSSF”), as competent authority under Directive 2003/71/EC (the “Prospectus Directive”) for this Prospectus to be approved as a prospectus in compliance with such Directive. Application has also been made for the Trust Preferred Securities to be listed and admitted to trading on the regulated market of the Luxembourg Stock Exchange. The Trust Preferred Securities are expected to be listed on the regulated market of the Luxembourg Stock Exchange on or about 6 June 2006.

***Offering Price: 100% of the liquidation preference per Trust Preferred Security plus accrued dividends, if any, from the date the Trust Preferred Securities are issued.***

The Trust Preferred Securities are expected to be assigned on issue a rating of Baa2 by Moody’s Investors Service Limited (“Moody’s”) and a rating of BBB+ by Fitch Ratings Limited (“Fitch”). Investors should be aware that the ratings on the Preferred Securities are subject to change. See “Risk Factors—Ratings” for a discussion of certain risks that could have a material adverse effect on the ratings of the Preferred Securities and the Bank.

None of the Trust Preferred Securities or the Subordinated Guarantees (as defined below) have been or will be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), or any U.S. state securities laws. The Trust Preferred Securities may not be offered or sold within the United States or to, or for the account of, U.S. persons (as defined in Regulation S under the Securities Act (“Regulation S”)), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws. The Trust Preferred Securities are being offered and sold only outside the United States in compliance with Regulation S and the applicable laws of the jurisdictions where those offers and sales occur. See “Subscription and Sale”.

The Trust Preferred Securities will initially be represented on issue by a temporary global certificate in registered form (the “Temporary Global Certificate”), which will be deposited with, a common depository for Euroclear Banking S.A./N.V. as operator of the Euroclear system (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”) on or around 6 June 2006. The Temporary Global Certificate will be exchanged, not earlier than 40 days after that date, for beneficial interests in a registered permanent global certificate (the “Permanent Global Certificate” and, together with the Temporary Global Certificate, the “Global Securities”). In certain limited circumstances described in “Description of the Trust Preferred Securities”, the Permanent Global Certificate may be exchanged for definitive Trust Preferred Securities.

Structuring Adviser

**BNP PARIBAS**

Joint Lead Managers and Bookrunners

**BNP PARIBAS**

**GOLDMAN SACHS INTERNATIONAL**

**LEHMAN BROTHERS**

5 June 2006

**This Prospectus does not constitute an offer or an invitation to subscribe for or purchase any Trust Preferred Securities and should not be considered as a recommendation by the Bank, the Trust, the LLC or the Joint Lead Managers (as defined under “Certain Defined Terms”) or any of them that any recipient of this Prospectus should subscribe for or purchase any Trust Preferred Securities. Each recipient of this Prospectus shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Bank, the Trust and the LLC. In making an investment decision, prospective investors must rely on their own examination of the Bank, the Trust, the LLC and the terms of this offering, including the merits and risks involved. Prospective investors should satisfy themselves that they understand all the risks associated with making investments in the Trust Preferred Securities. If prospective investors are in any doubt whatsoever as to the risks involved in investing in the Trust Preferred Securities, they should consult their professional advisers.**

No person has been authorised to give any information or to make any representations other than those contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by the Bank, the Trust, the LLC or any of the Joint Lead Managers. Neither the delivery of this Prospectus nor any subscription, sale or purchase made in connection herewith shall, in any circumstances, create any implication that there has been no change in the affairs of the Bank, the Trust or the LLC since the date hereof or that the information contained herein is correct as of any time after its date.

This Prospectus comprises a prospectus for the purposes of Article 5 of the Prospectus Directive and for the purposes of giving information with regard to the Bank, the LLC and the Trust which, according to the particular nature of the Trust Preferred Securities, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Bank, the LLC and the Trust.

The Bank, the Trust and the LLC, having taken all reasonable care to ensure that such is the case, confirm that the information contained in this Prospectus is, to the best of their knowledge and belief, in accordance with the facts and contains no omissions likely to affect its import.

### **Restrictions on Offers and Sales**

This Prospectus may not be used for the purpose of an offer to sell or the solicitation of an offer to buy in any circumstances in which such offer or solicitation is unlawful.

The distribution of this document and the offering of the Trust Preferred Securities in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Bank, the Trust, the LLC and the Joint Lead Managers to inform themselves about, and to observe, these restrictions.

No action has been taken as a matter of the laws of any jurisdiction to permit the public offering of the Trust Preferred Securities in any jurisdiction. Accordingly, the Trust Preferred Securities may not be offered or sold, directly or indirectly, and this Prospectus may not be distributed, in any jurisdiction, except in accordance with the legal requirements applicable in that jurisdiction. In particular, the Trust Preferred Securities have not been, and will not be, registered under the Securities Act and may not be offered or sold within the United States or to, or for the account of, U.S. persons (as defined in Regulation S), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws. Further information with regard to restrictions on offers and sales of the Trust Preferred Securities and the distribution of this Prospectus is set out under “Subscription and Sale.”

The Trust Preferred Securities are not deposits or other obligations of the Bank and are not insured by any governmental agency.

Until 40 days after the commencement of this offering, an offer or sale by any dealer (whether or not participating in this offering) of the Trust Preferred Securities may violate the registration requirements of the Securities Act if such offer or sale is made in the United States or to, or for the account or benefit of, any U.S. person (as defined in Regulation S).

The offering of the Trust Preferred Securities has not been submitted to the clearance procedure of the *Commissione Nazionale per la Società e la Borsa* (“CONSOB”), the Italian securities authority, pursuant to Italian securities legislation and, accordingly, no Trust Preferred Securities may be offered, sold or delivered, nor may copies of the Prospectus or of any other document relating to the Trust Preferred Securities be distributed in the Republic of Italy, except as described herein. See “Subscription and Sale.”

**IN CONNECTION WITH THIS OFFERING, BNP PARIBAS, GOLDMAN SACHS INTERNATIONAL AND LEHMAN BROTHERS INTERNATIONAL (EUROPE) AS STABILISING MANAGERS (THE “STABILISING MANAGERS”) (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGERS) MAY OVER-ALLOT TRUST PREFERRED SECURITIES (PROVIDED THAT THE AGGREGATE LIQUIDATION PREFERENCE OF THE TRUST PREFERRED SECURITIES ALLOTTED DOES NOT EXCEED 105% OF THEIR AGGREGATE LIQUIDATION PREFERENCE) OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE TRUST PREFERRED SECURITIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGERS (OR ANY PERSONS ACTING ON BEHALF OF THE STABILISING MANAGERS) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE TRUST PREFERRED SECURITIES IS MADE AND, IF COMMENCED, MAY BE ENDED AT ANY TIME BUT MUST END NO LATER THAN THE EARLIER OF (I) 30 DAYS AFTER THE ISSUE DATE OF THE TRUST PREFERRED SECURITIES AND (II) 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE TRUST PREFERRED SECURITIES. SUCH STABILISING SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

#### **CERTAIN DEFINED TERMS**

In this Prospectus and unless otherwise specified:

- (a) references to the “Bank” are to Banca Italease S.p.A. and references to the “Group” are to the Bank and its consolidated subsidiaries;
- (b) references to “Factorit” are to Factorit S.p.A., which merged by incorporation into the Bank in May 2005, and references to “Italease Factorit” are to Italease Factorit S.p.A., a wholly owned subsidiary of the Bank which carries on the factoring business previously carried on by Factorit until the merger;
- (c) references to “Italy” are to the Republic of Italy, references to “Luxembourg” are to the Grand Duchy of Luxembourg and references to “EU” are to the European Union;
- (d) references to laws and regulations are to the relevant laws and regulations as amended and supplemented from time to time;
- (e) references to “€” or “euro” are to the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Communities (as amended), references to “dollar”, “dollars”, “U.S. dollars”, “U.S.\$” or “\$” are to the lawful currency of the United States of America and references to “billions” are to thousands of millions; and
- (f) references to the “Joint Lead Managers” are to BNP Paribas, Goldman Sachs International and Lehman Brothers International (Europe).

#### **FORWARD-LOOKING STATEMENTS**

Certain sections of this Prospectus, including, among others, “Risk Factors”, “Summary” and “Business of the Bank” contain various forward-looking statements which represent management’s expectations or beliefs concerning future events and are subject to known and unknown risks and uncertainties. Forward-looking statements can be identified by, among other things, the use of forward-looking terminology such as

“believes”, “estimates”, “expects”, “may”, “should”, “seeks”, “anticipates” or “intends” or other similar expressions or by discussions of strategy or intentions. A number of factors, including the investment considerations noted under “Risk Factors” and other risks and uncertainties noted throughout the Prospectus, could cause actual results, performance or events to be materially different from those expressed or implied by such forward-looking statements. These factors include, but are not limited to, the following: the competitive environment in the business of the Bank and the Group in general and in the Group’s specific market segments; changes in or failure to comply with applicable regulations; economic conditions in general and in the Group’s specific market segments; changes in operating strategy or development plans and other factors described herein including those described in “Risk Factors”. Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. The Bank does not have any obligation to release publicly any revisions of any forward-looking statement to reflect events, circumstances or unanticipated events occurring after the date of this Prospectus.

#### **MARKET SHARE INFORMATION AND STATISTICS**

Unless otherwise indicated, information and statistics presented in this Prospectus regarding the size of certain markets, market trends and the market share of the Group are either derived from, or are based upon, the Bank’s analysis of data obtained from Assilea—*Associazione Italiana Leasing* (the Italian Leasing Association) and Assifact—*Associazione Italiana per il Factoring* (the Italian Factoring Association). Although the data has been reproduced accurately in this Prospectus and although the sources are believed to be reliable, none of the Trust, the LLC or the Bank has independently verified such information.

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## SUMMARY

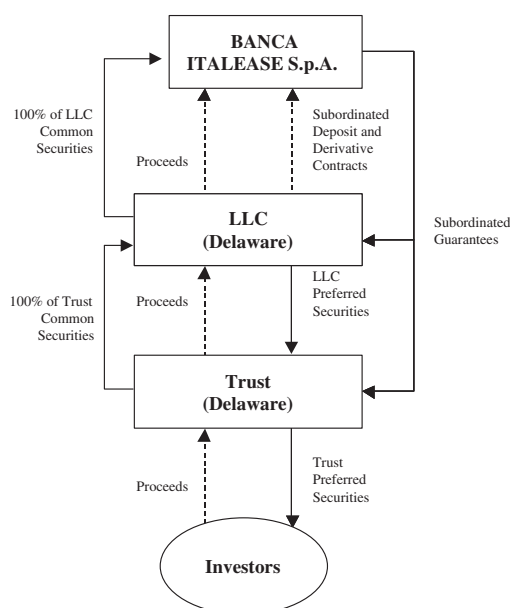
*This summary must be read as an introduction to this Prospectus and any decision to invest in any Trust Preferred Securities should be based on a consideration of this Prospectus as a whole, including the documents incorporated by reference.*

*Special attention should be paid to the “Risk Factors” section to determine whether an investment in the Trust Preferred Securities is appropriate to that investor. For a more complete description of the terms of the Trust Preferred Securities, the LLC Preferred Securities, the Derivative Contracts, the Subordinated Guarantees and the Subordinated Deposits referred to in the following summary, see “Description of the Trust Securities”, “Description of the LLC Securities”, “Description of the Initial Derivative Contract,” “Description of the Subordinated Guarantees” and “Description of the Eligible Investments”. Words and expressions defined in those sections or elsewhere in this Prospectus have the same meanings in this summary.*

### Introduction

#### *Explanatory Diagram*

The diagram below outlines the relationship among investors in the Trust Preferred Securities, the Trust, the LLC and the Bank following the completion of the offering:



### General

The Trust Preferred Securities will provide investors with rights to distributions and redemption and liquidation payments that are similar to those to which they would be entitled if they had purchased the most senior ranking non-cumulative perpetual preferred securities issued directly by the Bank that have financial terms equivalent to those of the LLC Preferred Securities.

The LLC will receive payments under the Subordinated Deposits (which term includes the Initial Subordinated Deposit, and any renewals and replacements of such deposits) and other Eligible Investments and is expected to use these payments to pay dividends on the LLC Preferred Securities.

The Trust will use any dividends, redemption payments or liquidation payments that it receives from the LLC on the LLC Preferred Securities to make payments to the holders of the Trust Preferred Securities.

Under the Subordinated Guarantees, the Bank will guarantee, on a subordinated basis, the respective dividend, redemption and liquidation payment obligations of the LLC and the Trust under the LLC Preferred Securities and the Trust Preferred Securities, respectively.

Under the Derivative Contracts (which term includes the Initial Derivative Contract, together with any renewals or replacements thereof, if any), the LLC will agree to make payments to the Bank upon the occurrence of certain events described below (see “Description of the Initial Derivative Contract”).

The LLC will initially own all of the common securities issued by the Trust (the “Trust Common Securities” and, together with the Trust Preferred Securities, the “Trust Securities”) and the Bank will own all of the common securities issued by the LLC (the “LLC Common Securities” and, together with the LLC Preferred Securities, the “LLC Securities”).

### ***Capital treatment***

The LLC Preferred Securities are expected to qualify as consolidated Tier I capital of the Bank and the Subordinated Deposits are expected to qualify as non-consolidated Tier I capital of the Bank under the relevant regulatory capital guidelines of the Bank of Italy.

### **The Bank and the Group**

The Bank’s business focuses primarily on providing credit in the form of financial leasing, factoring and medium-term and long-term lending. The Bank also offers, through its subsidiaries, products and services which complement the provision of credit, such as insurance, instruments to hedge against interest rate risk, and the management of and, at the termination of leasing agreements, the placement in the market of, the assets and real property leased by the Bank. The Group had a total of 888 employees as at 31 December 2005 and the Bank’s current shareholders are predominantly cooperative banks.

The Bank is the leading operator in the Italian leasing market with a market share of 14.3% as at 31 December 2005, moving to its present position from third place in 2003 with a market share of 5.7% and second place in 2004 with a market share of 12.5% (Source: *Assilea*).

In addition, since the merger of Factorit with the Bank in May 2005, the Group has been one of the leading operators in the factoring market. Italease Factorit, a wholly owned subsidiary of the Bank, now carries on the business previously carried on by Factorit and was ranked third in the Italian market based on turnover volumes of €12,834 million for the year ended 31 December 2005. Over the last three years, Italease Factorit (and, prior to the merger, Factorit) has steadily increased its market share from 9.1% in 2003 to 10.9% in 2004 and 12.7% in 2005. (Source: *Assifact*)

The Bank’s distribution network covers the whole of Italy. The Bank is directly present through its 27 offices which handle leasing arrangements, ten branch offices specialising in factoring services, and also operates through branches of other banks, approximately 4,900 of which sell leasing products and approximately 8,200 of which sell factoring services. Under an agreement entered into in 2004 with Poste Italiane S.p.A. (“Poste Italiane”), the Italian post office, the Bank’s leasing products are currently available at approximately 1,050 branches of BancoPosta (Poste Italiane’s banking division) dedicated to corporate customers and, following the recent renewal of this agreement, this has been extended to cover the Bank’s mortgage and insurance products. The Bank also has a network of more than 1,000 intermediaries which sell its products. See “—Distribution Channels”.

In 2005 the Bank recorded a consolidated net income of €93.5 million, representing an increase of 62% compared to the previous year’s consolidated pro forma net income of €57.7 million. The Bank’s consolidated return on equity was 17.6% in 2005. These results reduced the Bank’s operating costs as a proportion of interest margin to 32.8% in 2005 from 38.9% in 2004. The average amount of capital invested in leasing transactions rose by 31% in 2005 to €8,712 million, as compared to €6,648 million in 2004. Including mortgages (which the Bank began providing in 2004) and factoring, the total average amount of capital invested in 2005 was €10,588 million. In connection with the growth in its business, the Bank was able to improve the credit quality of its portfolio, which despite increases in volume remained relatively unchanged as compared to prior years. The ratio of net non-performing receivables to total receivables was 0.80%. The total outstanding amounts due to the Group as at 31 December 2005 were €12.0 billion (up 38% on the previous year end on a pro forma basis including the business of Factorit), of which 78% was derived from leasing, 18% from factoring and 4% from medium- and long-term financing. In relation to the Group’s



leasing business, outstanding amounts due were broken down by segment as follows: 64% real property; 28% equipment; 5% sea vessels; and 3% vehicles.

### **Banca Italease Capital Trust**

The Trust is a Delaware statutory trust formed solely for the purpose of this transaction. The Trust will:

- hold the LLC Preferred Securities;
- issue the Trust Preferred Securities to investors;
- issue the Trust Common Securities to the LLC;
- perform all of its obligations and enforce all of its rights pursuant to the Trust Securities and the Trust Agreement; and
- perform any functions necessary or incidental thereto.

The LLC Preferred Securities will be the only assets of the Trust.

The principal executive office of the Trust is located at c/o Deutsche Bank Trust Company Delaware, 1011 Centre Road, Suite 200, Wilmington, DE 19805, United States.

### **Banca Italease Funding LLC**

The LLC is a Delaware limited liability company formed in connection with this transaction. The LLC will:

- issue the LLC Preferred Securities to the Trust;
- issue the LLC Common Securities to the Bank;
- enter into the Initial Derivative Contract with the Bank;
- perform all of its obligations and enforce all of its rights pursuant to the LLC Securities, the LLC Agreement and the Derivative Contracts;
- deposit a substantial portion of the proceeds of the issue of the LLC Preferred Securities and the LLC Common Securities and of the up-front fee payable by the Bank under the Initial Derivative Contract with the Bank in the form of the Initial Subordinated Deposit; and
- perform any functions necessary or incidental thereto.

The principal executive office of the LLC is located at c/o Deutsche International Corporate Services (Delaware) LLC, 1011 Centre Road, Suite 200, Wilmington, DE 19805, United States.



## **The Offering**

### ***Offered Securities***

The Trust Preferred Securities issued by the Trust will have an aggregate liquidation preference of €150,000,000 and liquidation preferences of €50,000, plus integral multiples of €1,000 above €50,000, per Trust Preferred Security (each a “Trust Liquidation Preference”). The Trust Preferred Securities represent undivided beneficial ownership interests in the assets of the Trust. The assets of the Trust will consist of a corresponding amount of LLC Preferred Securities. The Trust Preferred Securities will have terms substantially identical to the terms of the LLC Preferred Securities.

### ***Issue Date***

On 6 June 2006 (the “Issue Date”).

### ***Risk Factors***

There are certain risk factors which may affect the Trust, the LLC and/or the Bank’s ability to fulfil their obligations under the Trust Preferred Securities, the LLC Preferred Securities and the Subordinated Guarantees (as the case may be). These are set out under “Risk Factors” beginning on page 19 and include risks relating to competition and other general banking risks, including credit risk and exchange rate risk, together with certain factors which are material for the purpose of assessing risks associated with the Trust Preferred Securities.

### ***Dividends***

*Dividends Generally.* Periodic cash distributions (“Dividends”) on the Trust Preferred Securities with respect to each Dividend Period (as defined in “Description of the Trust Securities”) will be paid to the extent that Dividends on the LLC Preferred Securities have been declared or deemed declared and, in each case, paid to the Trust by the LLC or paid by the Bank under the Subordinated Guarantees with respect to the relevant Dividend Period. Amounts paid to holders of the Trust Preferred Securities in respect of Dividends and other distributions will be limited to: (i) payments received by the Trust from the LLC in accordance with the terms and conditions of the LLC Preferred Securities or from the Bank under the LLC Subordinated Guarantee; and (ii) amounts received from the Bank under the Trust Subordinated Guarantee.

Dividends on the LLC Preferred Securities will accrue on a non-cumulative basis at a floating rate per annum (the “Initial Dividend Rate”) of 1.3% above EURIBOR for three-month deposits on the liquidation preference of €50,000, plus integral multiples of €1,000 above €50,000, per LLC Preferred Security (each a “LLC Liquidation Preference”) during each Dividend Period until the Dividend Period that begins on 6 June 2016 and during each Dividend Period thereafter at a floating rate per annum (the “Subsequent Dividend Rate”) of 2.3% above EURIBOR for three-month deposits.

Dividends will be payable quarterly in arrear, if declared or deemed declared on 6 March, 6 June, 6 September and 6 December each year (each, a “Dividend Payment Date”), as follows:

- (i) on each Dividend Payment Date up to and including 6 June 2016, at the Initial Dividend Rate; and
- (ii) thereafter, at the Subsequent Dividend Rate.

The first Dividend Payment Date shall be on 6 September 2006.

*Mandatory Dividends.* The LLC is required to pay Dividends in full (“Mandatory Dividends”) on the LLC Preferred Securities on each Dividend Payment Date unless:

- (i) the Bank, according to its non-consolidated annual financial statements relating to the financial year immediately preceding the Dividend Payment Date or, where such financial statements are not available, the last set of annual non-consolidated financial statements approved by the Bank, does not have 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, or the Bank has not declared or paid dividends on any class of its share capital based on the financial statements used to calculate the relevant Distributable Profits;
- (ii) the Bank is otherwise prohibited under applicable Italian banking laws or regulations from declaring a dividend or making a distribution on any class of its share capital; or
- (iii) a Capital Deficiency Event has occurred and is continuing or would result from the payment thereof; provided that the LLC will be prohibited from paying Dividends for any Dividend Period upon the occurrence and during the continuation of a Capital Deficiency Event.

Notwithstanding the foregoing, if (A) Dividends or other distributions have been declared or paid or (B) certain redemptions, repurchases or other acquisitions have been made by the Bank or any Subsidiary (as defined in “Description of the LLC Securities”), as the case may be, on or in respect of any Parity Securities (as defined in “Description of the LLC Securities”) or any Junior Securities (as defined in “Description of the LLC Securities”), the LLC will be required to declare and pay Dividends on the LLC Preferred Securities.

If for any reason the LLC does not declare or pay any Mandatory Dividends on any Dividend Payment Date, then, under the terms of the LLC’s Amended and Restated Limited Liability Company Agreement (the “LLC Agreement”), such Mandatory Dividends will be automatically deemed declared and authorised to be paid on such Dividend Payment Date

Dividends on the LLC Preferred Securities will not be cumulative and Dividends which are not declared (or deemed declared) for payment will not accumulate or compound from Dividend Period to Dividend Period. This means that, if Dividends are not declared (or deemed declared) in full or in part on the LLC Preferred Securities in respect of any Dividend Period, holders of the LLC Preferred Securities (and, consequently, holders of the Trust Preferred Securities) will not receive, and will have no right to receive, those Dividends or the unpaid portion of those Dividends at any time, even if Dividends or other distributions are declared (or deemed declared) or paid for any future Dividend Period.

Dividend payments on the LLC Preferred Securities, and therefore on the Trust Preferred Securities, will be reduced on a *pro rata* basis in certain circumstances on the occurrence of a Capital Deficiency Event (as defined below) as described below *provided, however, that*, if the

Mandatory Dividends are due, the LLC will be obliged to pay Dividends in full.

***The Subordinated Guarantees***

*Guarantees Generally.* The Bank will give guarantees, on a subordinated basis, in respect of certain payments on the LLC Preferred Securities (the “LLC Subordinated Guarantee”) and certain payments on the Trust Preferred Securities (the “Trust Subordinated Guarantee” and, together with the LLC Subordinated Guarantee, the “Subordinated Guarantees”). The Subordinated Guarantees are intended to provide, respectively, holders of the Trust Preferred Securities with rights to Dividends and Additional Amounts (as defined below) and holders of the LLC Preferred Securities with rights to Dividends and LLC Additional Amounts (as defined below) and, in each case, rights upon redemption and liquidation that are equivalent to those to which the holders would have been entitled if the Trust Preferred Securities or the LLC Preferred Securities, as the case may be, were issued directly by the Bank.

*Trust Subordinated Guarantee.* To the extent any amount is not otherwise paid in accordance with the terms of the Trust Preferred Securities, the Bank will be obligated unconditionally (without duplication in case of payment made or required under the LLC Subordinated Guarantee) under the Trust Subordinated Guarantee to pay: (1) Dividends on the Trust Preferred Securities to the extent Dividends have been declared (or deemed declared) on the LLC Preferred Securities; (2) the applicable Redemption Price (as defined below) with respect to any Trust Preferred Securities called for redemption by the Trust; (3) upon liquidation of the Trust (other than in connection with the distribution of LLC Preferred Securities to holders of the Trust Preferred Securities upon the occurrence of a Trust Special Event), the liquidation preference of €50,000, plus integral multiples of €1,000 above €50,000, per Trust Preferred Security; and (4) Additional Amounts, if any, with respect to any payment referred to in (1), (2) or (3), plus, in each case, interest accrued thereon from the date of making the claim under the Trust Subordinated Guarantee.

*LLC Subordinated Guarantee.* In addition, to the extent any amount is not otherwise paid in accordance with the terms of the LLC Preferred Securities, the Bank will be obligated unconditionally (without duplication in case of payment made or required under the Trust Subordinated Guarantee) under the LLC Subordinated Guarantee to pay: (1) Dividends that have been declared (or deemed declared) on the LLC Preferred Securities; (2) the applicable Redemption Price with respect to any LLC Preferred Securities called for redemption by the LLC; (3) upon liquidation of the LLC, the liquidation preference of €50,000, plus integral multiples of €1,000 above €50,000, per LLC Preferred Security; and (4) LLC Additional Amounts, if any, with respect to any payment referred to in (1), (2) or (3), plus, in each case, interest accrued thereon from the date of making the claim under the LLC Subordinated Guarantee.

*Related Guarantee Provisions.* Notwithstanding the restrictions on the declaration and payment of Dividends by the LLC, the Bank will be permitted to make payments to the Trust, as holder of the LLC Preferred Securities, or to holders of the Trust Preferred Securities, in each case under the Subordinated Guarantees or otherwise in its

discretion; provided that the Bank will be prohibited from making any Subordinated Guarantee Payment so long as a Capital Deficiency Event (as defined below) has occurred and is continuing. Notwithstanding the foregoing, if: (A) dividends or other distributions have been declared or paid on or in respect of any Parity Securities or Junior Securities; or (B) certain redemptions, repurchases or other acquisitions have been made by the Bank or any Subsidiary, as the case may be, on or in respect of any Parity Securities or Junior Securities, the Bank will be required to make a Subordinated Guarantee Payment in respect of Mandatory Dividends on the LLC Preferred Securities, as described herein under “Description of the LLC Securities—LLC Preferred Securities—Dividends” and “Description of the Subordinated Guarantees—General”.

*Ranking of Subordinated Guarantees.* Subject to applicable law, the Bank’s obligations under the Subordinated Guarantees constitute unsecured obligations of the Bank and will rank subordinate and junior to all indebtedness of the Bank (other than any instrument or contractual right expressed to rank *pari passu* with the Subordinated Guarantees), *pari passu* with each other and with the most senior Tier I qualifying securities of the Bank, if any, and senior to the share capital of the Bank, including its *azioni privilegiate*, ordinary shares and *azioni di risparmio*.

#### ***Derivative Contracts***

Upon entering into the Initial Derivative Contract, the Bank will pay an up-front fee to the LLC in the amount of €2,625,000, which the LLC will invest in Eligible Investments. Under the Derivative Contracts, the LLC will agree to make a Capital Deficiency Payment to the Bank upon the occurrence of a Capital Deficiency Event.

The Subordinated Deposits will secure the LLC’s payment obligations under the Derivative Contracts. The Derivative Contract can only be terminated by the mutual consent of the Bank and the LLC, with the prior approval, if then required, of the Bank of Italy in the event of redemption of the LLC Preferred Securities. The Derivative Contracts will be automatically terminated upon the liquidation, dissolution or winding-up of (or similar proceedings in accordance with the applicable Italian law with respect to) the Bank.

Upon the occurrence of a Capital Deficiency Event, under the Derivative Contracts the LLC will be obligated to pay to the Bank, 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 guarantee ranking *pari passu* with the Subordinated Guarantees; an amount equal to the lesser of: (1) the amount that is sufficient to cure the Capital Deficiency Event; and (2) the outstanding amount payable by the LLC under the Derivative Contracts.

#### ***Capital Deficiency Event***

A “Capital Deficiency Event” will be deemed to have occurred if:

- (i) as a result of losses incurred by the Bank, on a consolidated or stand-alone basis, the total risk-based capital ratio of the Bank, on a consolidated or stand-alone basis, as calculated in accordance with applicable Italian banking laws and regulations, and either (a) reported in the Bank’s annual or semi-annual consolidated or stand-alone accounts or (b) determined by the Bank of Italy and communicated to the Bank, in either case,

falls below the then minimum requirements of the Bank of Italy specified in its February 2000 regulations governing *Strumenti Innovativi di Capitale* (as at the date of this Prospectus, 5%) or such other applicable regulations, as from time to time amended or replaced by other applicable regulation; or

- (ii) 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 an event specified in clause (i) will occur in the short term.

The occurrence of a Capital Deficiency Event will not cause redemption of the LLC Preferred Securities.

### ***Ranking***

The Trust Preferred Securities and the Trust Common Securities will rank *pari passu* with each other, except upon and during the continuance of an event of default under the Subordinated Deposits or the Subordinated Guarantees, in which case holders of the Trust Preferred Securities will have a preference over holders of the Trust Common Securities as to payments of Dividends upon redemption and liquidation. The Trust Preferred Securities will rank *pari passu* among themselves.

The LLC Preferred Securities will rank senior to the LLC Common Securities with respect to Mandatory Dividends and distributions upon redemption, and junior to the LLC Common Securities with respect to distributions on liquidation of the LLC. The LLC Preferred Securities will rank *pari passu* among themselves.

### ***Payment of Additional Amounts***

*The Trust Preferred Securities.* All payments in respect of the Trust Preferred Securities will be made without withholding or deduction for or on account of any Relevant Tax (as defined below) unless the withholding or deduction of such Relevant Tax is required by law. In that event, the Trust will pay such additional amounts ("Additional Amounts") as may be necessary in order that the net amounts received by the holders of the Trust Preferred Securities (or a third party on the holder's behalf), after such withholding or deduction, will equal the amount which would have been received in respect of the Trust Preferred Securities in the absence of such withholding or deduction, subject to certain exceptions described herein.

*The LLC Preferred Securities.* The LLC will pay such additional amounts ("LLC Additional Amounts") to each holder of the LLC Preferred Securities as may be necessary so that every payment in respect of the LLC Preferred Securities and/or the Trust Preferred Securities, after withholding for any Relevant Tax payable by or on behalf of the LLC or the Trust, respectively, in relation to every payment in respect of the LLC Preferred Securities or the Trust Preferred Securities, will not be less than the amount otherwise required to be paid, subject to certain exceptions described herein.

*The Subordinated Guarantees.* Under the Subordinated Guarantees, the Bank will pay such additional amounts ("Guarantor Additional Amounts") as may be necessary so that every payment thereunder, after withholding for any Relevant Tax, payable by or on behalf of the Bank, will not be less than the amount otherwise required to be paid, subject to certain exceptions described herein.

*The Subordinated Deposits.* Under the Subordinated Deposits, the related Eligible Borrower(s) (as defined in “Description of the Eligible Investments”) will pay such additional amounts (“Subordinated Deposit Additional Amounts”) as may be necessary so that every payment thereunder, after withholding for any Relevant Tax payable by or on behalf of the related Eligible Borrower (as defined in “Description of the Eligible Investments”), will not be less than the amount otherwise required to be paid, subject to certain exceptions described herein.

“Relevant Tax” means, in respect of any Relevant Jurisdiction, any present or future taxes, duties, assessments or governmental charges of whatever nature, imposed or levied by or on behalf of such Relevant Jurisdiction.

“Relevant Jurisdiction” means in the case of payments by (i) the Bank, the Republic of Italy; (ii) the Trust and the LLC, the United States; and (iii) any Eligible Borrower (other than the Bank), the jurisdiction of residence of such Eligible Borrower.

### ***Redemption and Repurchases***

The LLC Preferred Securities may be redeemed by the LLC, at its option, in whole or in part, at the Regular Redemption Price on any Dividend Payment Date occurring on or after the Dividend Reset Date, with the prior approval, if then required, of the Bank of Italy.

Upon the occurrence of an LLC Special Event (as defined below) (other than a Change in Law Tax Event and an Interpretation Tax Event (as defined below)), the LLC Preferred Securities may be redeemed by the LLC, at its option, in whole but not in part, at the Regular Redemption Price on any Dividend Payment Date if such redemption occurs on or after the Dividend Reset Date, (a “Regular Redemption Date”), or at the Special Redemption Price (as defined below) on any Dividend Payment Date if such redemption occurs prior to the Dividend Reset Date (the “Special Redemption Date” and, together with a Regular Redemption Date, a “Redemption Date”), in each case, with the prior approval, if then required, of the Bank of Italy. Upon the occurrence of a Change in Law Tax Event or an Interpretation Tax Event, the LLC Preferred Securities may be redeemed by the LLC, at its option, in whole but not in part, at the Regular Redemption Price on any Dividend Payment Date, with the prior approval, if then required, of the Bank of Italy.

If the LLC redeems the LLC Preferred Securities, the Trust must, with the moneys received in respect of the aggregate Redemption Price for the LLC Preferred Securities, redeem a number of Trust Preferred Securities having an aggregate liquidation preference equal to the aggregate liquidation preference of the LLC Preferred Securities so redeemed at the Regular Redemption Price or the Special Redemption Price, as the case may be, per Trust Preferred Security. In addition, following any liquidation of the Trust as a result of the occurrence of a Trust Special Event, holders of the Trust Preferred Securities will receive a corresponding number of LLC Preferred Securities with the equivalent aggregate liquidation preference.

Subject to certain exceptions described in “Description of the Trust Securities—Redemption” and in the LLC Agreement, so long as any LLC Preferred Securities are outstanding, neither the Bank nor any



of its Subsidiaries will be entitled to redeem, repurchase or otherwise acquire, or set apart funds for the redemption, repurchase or other acquisition of, any Parity Securities or Junior Securities, through a sinking fund or otherwise, unless and until:

- (a) full Dividends on all LLC Preferred Securities for the prior financial year (or such lesser period during which the LLC Preferred Securities have been outstanding) and any Dividend Periods that have occurred during the current financial year have been paid or a sum sufficient for payment has been paid over to the paying agent for payment of such Dividends; and
- (b) the LLC has declared Dividends on the LLC Preferred Securities in full at the Dividend Rate for the then current Dividend Period and sufficient funds have been paid to the paying agent for the payment of such Dividends.

It is an obligation of the Bank to ensure that its Subsidiaries observe the foregoing limitations.

### ***Liquidation Preference***

Trust Preferred Securities: liquidation preference of €50,000, plus integral multiples of €1,000 above €50,000, per Trust Preferred Security.

LLC Preferred Securities: liquidation preference of €50,000, plus integral multiples of €1,000 above €50,000, per LLC Preferred Security.

So long as any LLC Preferred Securities are outstanding, if the Bank is dissolved, liquidated or wound up, the LLC must be dissolved, liquidated or wound up. So long as any Trust Preferred Securities are outstanding, if the Bank or the LLC is dissolved, liquidated or wound up, the Trust must be dissolved, liquidated or wound up.

Upon liquidation, dissolution or winding-up of the LLC, the Property Trustee shall enforce the LLC Subordinated Guarantee solely for the benefit of the Trust as sole holder of the LLC Preferred Securities.

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

### ***Regular Independent Director***

The LLC Agreement will provide that, for as long as any LLC Preferred Securities are outstanding, there will at all times be a member of the Board of the LLC (the “Regular Independent Director”) who is not an employee, non-independent director or affiliate of the Bank or any of its affiliates, who shall act, to the fullest extent permitted by law, exclusively on behalf of the holders of the LLC Preferred Securities.

To the fullest extent permitted by law, the Regular Independent Director will at all times be obligated to act in the best interests of the holders of the LLC Preferred Securities, a majority in liquidation preference of which will, so long as a default by the Bank under either of the Subordinated Guarantees or by the LLC under the LLC Preferred Securities is continuing, be entitled to replace the Regular Independent Director in such majority’s sole and absolute discretion.

So long as any LLC Preferred Securities are outstanding, certain actions by the LLC must be approved by the Regular Independent



Director as well as by a majority of the entire Board, including the payment of Dividends or the making of distributions on the LLC Common Securities other than in accordance with the LLC Agreement.

### ***Voting Rights***

Except as otherwise expressly provided, all voting rights shall vest in the LLC Common Securities and the Trust Common Securities. Holders of the Trust Preferred Securities will not have any voting rights, except that, so long as a default by the Bank under either of the Subordinated Guarantees or by the LLC under the LLC Preferred Securities is continuing, the holders of a majority of the outstanding Trust Preferred Securities will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Property Trustee or to direct the exercise of any trust or power conferred upon the Property Trustee under the Amended and Restated Trust Agreement in respect of the Trust, including the right to direct the Property Trustee, as holder of the LLC Preferred Securities, to pursue any remedy available to such holders against the Bank under the LLC Subordinated Guarantee.

The LLC Preferred Securities will not have any voting rights, except that holders of the LLC Preferred Securities are entitled to elect one additional member to the Board who is not an employee, non-independent director or affiliate of the Bank or any of its affiliates (a “Special Independent Director” and, together with the Regular Independent Director, the “Independent Directors”) upon the occurrence of a Capital Deficiency Event or if Mandatory Dividends and any LLC Additional Amounts have not been paid in full by the LLC or by the Bank under the Subordinated Guarantees, together with any Guarantor Additional Amounts that may be payable thereon, on any Dividend Payment Date.

### ***Subordinated Deposits***

The LLC will use a substantial portion of the proceeds from the issuance of the LLC Securities to make the Initial Subordinated Deposit with the Bank in order, *inter alia*, to secure its obligations to the Bank under the Initial Derivative Contract (including any renewal or replacement thereof).

Each Subordinated Deposit will constitute an unsecured obligation of the Bank and will rank subordinate and junior to indebtedness of the Bank (including bonds, notes and debentures, whether senior or subordinated, and instruments constituting “Upper Tier II” or “Lower Tier II” capital of the Bank, but excluding any instrument or contractual right effectively ranking *pari passu* with the Subordinated Deposits), and will rank *pari passu* with the most senior Tier I qualifying securities of the Bank, if any, and senior to the share capital of the Bank, including *azioni privilegiate*, ordinary shares and *azioni di risparmio* and any other instruments issued by the Bank and expressed to rank *pari passu* with the share capital of the Bank.

The Subordinated Deposits cannot be redeemed as long as the Initial Derivative Contract, or any subsequent Derivative Contract, is in force.

Upon the occurrence of a Capital Deficiency Event, the Subordinated Deposit may be reduced by an amount equivalent to the Capital Deficiency Payment according to set-off arrangements contained in the Subordinated Deposits and the Derivative Contracts.

***Services Agreement***

Under the Services Agreement, Deutsche International Corporate Services (Delaware) LLC will agree, *inter alia*, to provide legal, accounting, tax and other general support services to the Trust and the LLC, to maintain compliance with all applicable U.S. and Italian local, state and federal laws, and to provide administrative, record keeping and secretarial services for the LLC and the Trust. The Services Agreement may not be terminated so long as any of the LLC Preferred Securities or Trust Preferred Securities remain outstanding. See “Banca Italease Capital Trust”.

***Governing Law***

The LLC Agreement, including the terms of the LLC Preferred Securities, the Trust Agreement, including the terms of the Trust Preferred Securities, and the Services Agreement will be governed by the laws of the State of Delaware. The Subordinated Guarantees and the Derivative Contracts will be governed by the laws of England except that the subordination provisions in the Subordinated Guarantees will be governed by the laws of Italy. The Subordinated Deposits will be governed by the laws of Italy.

***Listing***

Application has been made to the CSSF, as competent authority in Luxembourg, for the Prospectus to be approved as a prospectus under the Prospectus Directive. Application has also been made for the Trust Preferred Securities to be listed and admitted to trading on the regulated market of the Luxembourg Stock Exchange.

***Form and Denomination***

The Trust Preferred Securities will be issued in denominations of €50,000, plus integral multiples of €1,000 above €50,000, per Trust Preferred Security. The Trust Preferred Securities will initially be represented by the Temporary Global Certificate which will be deposited on or about the Issue Date with BNP Paribas Securities Services, Luxembourg Branch, as common depositary for Euroclear and Clearstream, Luxembourg (the “Common Depositary”). The Temporary Global Certificate will be exchanged, not earlier than 40 days after the Issue Date (the “Exchange Date”), for beneficial interests in the Permanent Global Certificate. Under certain limited circumstances described under “Description of the Trust Preferred Securities—Form, Denomination and Transfer”, the Permanent Global Certificate may be exchanged for definitive Trust Preferred Securities, in each case, upon certification of non-U.S. beneficial ownership in the manner required by Regulation S. No payment will be made in respect of any beneficial interest in the Temporary Global Certificate after the Exchange Date. Beneficial interests in any Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their respective participants. See “Description of the Trust Securities—Form, Denomination and Transfer”.

***Use of Proceeds***

All of the proceeds from the sale of the Trust Preferred Securities will be invested by the Trust in the LLC Preferred Securities. The LLC will use the proceeds from the sale of the LLC Securities and the up-front fee payable by the Bank under the Initial Derivative Contract to invest in Eligible Investments, including the Initial Subordinated Deposit. The Bank will use the proceeds from the Initial Subordinated Deposit for general corporate purposes and to strengthen its Tier I capital ratios.

***U.S. Selling Restrictions***

The Trust Preferred Securities have not been and will not be registered under the Securities Act and may not at any time be offered, sold or

otherwise transferred in the United States or to any U.S. person, except as described under “Subscription and Sale”.

***Ratings***

Each of the Trust Preferred Securities and the LLC Preferred Securities are expected to be assigned on issue a rating of Baa2 by Moody’s and BBB+ by Fitch.

A credit 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 relevant rating organisation.

***Clearing Systems and Settlement***

The Trust Preferred Securities have been accepted for clearance through the facilities of Euroclear and Clearstream, Luxembourg.

***Securities Identification Numbers***

ISIN: XS0255673070

Common Code: 025567307

## RISK FACTORS

*Prospective investors should carefully read and assess the specific risks set forth below and the other information contained in this Prospectus before purchasing the Trust Preferred Securities. The description of the risks below does not purport to be exhaustive and these risks are not the only risks to which the Bank and the Group are currently or may in the future be exposed. The order in which the individual risks are presented is not indicative of their likelihood to occur nor of the severity or significance of the individual risks. Furthermore, an investment in the Trust Preferred Securities may be associated with other risk and aspects of significance of which the Bank is currently unaware or which it does not consider to be material but which may nonetheless have a material adverse effect on the business, prospects, financial condition and results of operations of the Group.*

### **Risks regarding the Trust and the LLC**

Neither the Trust nor the LLC carries on any business or holds any significant assets other than for the purposes of and in connection with performing their respective obligations and exercising their respective rights under the Trust Securities and the LLC Securities. In the event of any failure by the Trust to comply with its payment obligations under the Trust Preferred Securities, whether holders of the Trust Preferred Securities are able to recover any sum due to them will ultimately depend on their ability to obtain payment from the Bank under the Trust Subordinated Guarantee. Similarly, whether the Trust is able to recover any sum due to it under the LLC Preferred Securities will ultimately depend on its ability to obtain payment from the Bank under the LLC Subordinated Guarantee.

In addition, the obligation of the Trust to pay Dividends to holders of the Trust Preferred Securities will be limited to: (i) payments received by the Trust from the LLC under the LLC Preferred Securities or from the Bank under the LLC Subordinated Guarantee; and (ii) amounts received from the Bank under the Trust Subordinated Guarantee. In its turn, the LLC is not obliged to make payments of Dividends to the Trust under the LLC Preferred Securities if (i) the Bank does not have sufficient distributable profits, (ii) the Bank is otherwise prevented by law from paying a dividend or making a distribution or (iii) the Bank's risk-based capital ratio falls below the Bank of Italy's minimum requirements (or is, in the opinion of the Bank of Italy, is likely to do so).

For the reasons set out above, the payment of Dividends or any other amounts payable by the Trust to holders of the Trust Preferred Securities is inextricably linked to factors relating to the Bank, its financial condition and results of operations and the regulatory framework in which it operates. For an examination of the risks relating to the Bank, see “- Risks regarding the Bank and the Group” below.

### **Risks regarding the Bank and the Group**

#### ***Arrangements with shareholder banks, partner banks and certain related parties***

A significant percentage of the Bank's leasing arrangements (measured by sales volume) are generated by banks which are shareholders of the Bank (“shareholder banks”) and by banks which have entered into distribution agreements with the Bank (“partner banks”). Together, these banks generated €1,196 million of the €5,739 million of the Group's initiated leases in 2005, representing 21% of the Bank's leasing business. This percentage has, however, been decreasing over the past few years: in 2003 such banks generated 43% of the Bank's leasing business and in 2004 the figure was 71%.

In addition, the Bank's shareholder and partner banks generated turnover of €5,225 million from factoring in 2005, representing 41% of total turnover of Italease Factorit's factoring business, while in 2004 and 2003 Such banks generated 40% and 41%, respectively, of the factoring business previously carried on by Factorit S.p.A..

Pursuant to a “stability agreement” or shareholders' agreement (*patto di stabilità*) entered into by the Bank's key shareholder banks in 2003 (and renewed in 2005), such shareholder banks have, among other things, agreed to sell the Bank's products through at least 50.0% of their branches or provide the Bank with at least 50.0% of the new leasing arrangements generated by them for three years. The volume of leases initiated in 2005 through key shareholder banks equalled €679 million, representing 57% of all leases

generated by shareholder and partner banks and 12% of total leases initiated in that year. In the Group's factoring business, turnover realised through arrangements with key shareholder banks in 2005 equalled €4,029 million, representing 77% of the total amount of turnover generated by shareholder and partner banks and 31% of total turnover that year.

In addition, the Bank's shareholder banks, particularly those party to the stability agreement, have historically provided a significant portion of the Bank's funding needs. The Bank's outstanding indebtedness towards banks as at 31 December 2005 was €4,166 million, of which €1,894 million (or 45%) was towards key shareholder banks. At the same date, Italease Factorit's outstanding indebtedness towards banks was €1,876 million, of which €1,128 million (or 60%) was towards key shareholder banks.

The interruption of any of the Bank's relationships with the shareholder banks or partner banks, and in particular any interruption in or termination of the marketing and distribution agreements under which they or others sell leasing and/or factoring products on the Bank's behalf could have a material effect on the Bank's business, results of operation or financial condition. For further information, see "Business of the Bank—Distribution Channels" and "Business of the Bank—Related Party Transactions".

### ***Creditworthiness of customers***

The Bank's business depends to a substantial degree on the creditworthiness of its customers. Notwithstanding detailed controls carried out, including customer credit checks, the Bank bears normal lending risks and thus may not, for reasons beyond its control (such as, for example, fraudulent behaviour by customers), have access to all relevant information regarding any particular customer, their financial position or their ability to repay the amount owed. The Bank may therefore make decisions to grant credit on the basis of incomplete information, entering into leases or granting loans the Bank would not otherwise have entered into or granted or would have entered into or granted upon different terms had the Bank had correct information available. The failure of customers to report their financial and credit position accurately or to comply with the terms of their leases or other contractual provisions could have an adverse effect on the Bank's business and financial results. See also "Business of the Bank—Risk Management—Credit Risk".

### ***Realisation value of leased assets***

The realisation of unrecovered asset value (residual value) upon termination of a lease is an important element in the leasing business. While the Bank retains title to the assets which are held under a lease, there can be no assurance that the Bank's ability to market the asset will protect the Bank from suffering a partial or complete loss if the lease becomes non-performing, particularly if the asset is of limited marketability or has lost value as a result of changes in market or industry conditions or otherwise. The Bank may also be unable to recover the residual value of the asset if a customer fails to surrender the leased asset in accordance with the terms of the lease. Difficulties in realising the unrecovered asset value of the leased assets could have an adverse effect on the Bank's business and financial results.

### ***Concentration of the Bank's portfolio of products***

The Bank's business is concentrated on leasing and factoring products. Although the Bank has extended its portfolio of products to include a variety of banking products and services, a downturn in demand for leasing and factoring products and services could have a material adverse effect on its business. See also "Business of the Bank—Factoring."

### ***Securitisations by the Bank***

The aim of the Bank's securitisation transactions is to: (i) satisfy its financing needs; and (ii) reduce the credit risk arising from the leases on its financial statements through the sale without recourse of receivables on leases granted by the Bank in connection with its leasing business. In each securitisation, the Bank assigns receivables to vehicles which it uses for its securitisations. Under the terms and conditions of the notes then issued to investors by these vehicles, the payment obligations of the vehicle are met solely out of the proceeds of the assigned receivables, which are segregated from the other assets of the Group, thereby

giving priority to the holders of such notes over other creditors. Accordingly, all of its securitised receivables under leasing agreements are recorded on its consolidated balance sheet but are effectively ring-fenced from creditors other than holders of the above-mentioned notes issued by the securitisation vehicles.

In addition, pursuant to its securitisations, the Bank becomes the creditor in respect of certain notes and debt of the vehicles and, as a result, the Bank retains some of the risk in respect of receivables it assigns to the vehicles. As at 31 December 2005, the total amount of such risk was €64.2 million in senior notes, €58.4 million in junior notes and €126.6 million in mezzanine debt.

### ***Changes to interest rates***

The Bank's business is affected by the fluctuations in interest rates. Should interest rates rise, they may adversely affect a range of variables, including: (i) customers' willingness to borrow under leasing and factoring agreements; (ii) customers' ability to repay the borrowings they have assumed (particularly where their obligations are at floating rates and they have not hedged adequately against such rises); or (iii) the Bank's ability to realise positive interest margins, as there is a reduced differential between the interest rates at which the Bank must lend and the interest rates at which it is able to borrow funds. As at 31 December 2005, a parallel shift upward in the interest rate yield curve by 100 basis points would have exposed the Bank to a risk of loss of €4.16 million over a 12-month period (gross of tax). For further information regarding the effect of a change in interest rates on Bank's financial results, assets and financial position, see also "Business of the Bank—Risk Management."

### ***Expansion of the Group's operations***

As the scale of its operations and territorial coverage have grown and continue to grow, the Bank has dedicated, and will continue to dedicate, management resources to ensure that the Group structure performs to industry and banking regulatory standards. The ability of the Bank to manage the Group's expansion will depend largely on the following:

- developing and maintaining efficient and integrated back office support systems;
- implementing new products and services and marketing and cross-selling both existing and new products through an expanded distribution network;
- controlling costs;
- maintaining effective quality controls while expanding its internal information, accounting and management systems;
- attracting, assimilating and retaining qualified personnel; and
- monitoring operations and managing risks.

If the Bank fails to implement any of these measures at a pace consistent with the growth of its business, the expansion of the Group's client base, the products and services the Group offers and the effectiveness of the Group's control systems could be adversely affected. This, in turn, could have an adverse effect on the Group's business, results of operations or financial condition.

In addition, any acquisitions or mergers by the Bank may have an adverse effect on credit ratings because of the effect (either perceived or real) which such transactions might have on the indebtedness of the Bank and regardless of any long-term benefits arising from such transactions. Any downgrade in the Bank's credit rating would then have an impact on any re-financing costs of the Bank.

### ***Information technology***

The Bank's business relies upon integrated information technology systems, including an offsite back-up system. The Bank relies on the correct functioning and reliability of such system and on its ability to protect the network infrastructure, information technology equipment and customer information from losses caused by technical failure, human error, natural disaster, sabotage, power failures and other losses of function to the system. The loss of information regarding customers or other information central to the business, such as credit risk control, or material interruption in the service could have a material adverse effect on the Bank's



results of operations. In addition, upgrades to the information technology required by law or necessitated by future business growth may require significant investments.

### ***Disputes regarding tax***

The Bank currently has an ongoing dispute with the Italian tax authorities regarding the interpretation of the Bank's tax treatment of certain leasing payments made and certain commissions payable to the banks who referred the leasing customers for each of the four financial years ended 31 December 1998, in a total aggregate amount of €36.8 million plus interest and penalties. The Bank also has an ongoing dispute over the amount of value added taxes paid in the year ended 31 December 1999 in a total aggregate amount of €0.4 million plus interest and penalties. Such disputes are discussed in detail in the notes to the Bank's financial statements as at and for the year ended 31 December 2005, as well as in "Business of the Bank—Legal Proceedings—Tax".

The maximum amount disputed under the tax disputes is material. However the Bank has not made any provision for losses and charges in its financial statements because it does not consider it probable that it will incur such liabilities. No assurances may be given, however, that the disputes brought by the tax authorities will be resolved in the Bank's favour. If such disputes are resolved against the Bank, they may have an adverse effect on the Bank's financial results, assets or financial position.

### ***Certain legal proceedings***

As at the date hereof, the Bank is party to a number of legal proceedings in the ordinary course of business. The Bank has initiated 1,265 legal proceedings to recover assets and/or receivables valued at approximately €103.9 million from customers for non-payment (for which provisions in the sum of €34.0 million have been made in its financial statements) and 950 legal proceedings to recover assets and/or receivables valued at approximately €115.3 million from customers in liquidation or bankruptcy proceedings (for which provisions in the sum of €57.2 million have been made).

On 14 March 2005, Factorit was served with a claim by Parmalat S.p.A., which was then under extraordinary administration, for the revocation, pursuant to Italian insolvency law, of a series of assignments of receivables to Factorit for an aggregate amount of approximately €52.0 million during the year prior to the declaration of insolvency of Parmalat S.p.A. Based on a preliminary analysis of the claims of Parmalat S.p.A. and the legal advice received from external advisors, the Bank's management believes there are well-founded arguments to dismiss this claim and no specific provision has been made for this potential liability. No assurance may be given, however, as to the outcome of the dispute and, as at the date of this Prospectus, the proceedings are still pending. An unfavourable outcome with respect to the Parmalat S.p.A. claim or any number of the Group's legal proceedings could have an adverse effect on the Bank's financial results, assets and financial position.

### ***Competition***

The Bank is subject to competition from a large number of companies who may offer the same products and other forms of alternative and/or novel forms of borrowing. Such competitors include banks and other financial intermediaries. In addition, the formation of increasingly large banking groups, and the entry of foreign financial institutions into the Italian market, may allow such companies to offer products and terms of business that are more financially advantageous than those which the Bank is able to offer as a result of their possible economies of scale, their potentially extensive sales networks and their capacity to innovate. As a result of this competition, the Bank may not be able to attract and retain new clients or sustain the rate of growth that it has experienced to date, which may adversely affect its market share and results of operations.

### ***Changes in regulatory framework and accounting policies***

The Bank is subject to extensive regulation and supervision, in particular by the Bank of Italy and CONSOB. The banking laws to which the Bank is subject govern the activities which banks may engage in and are designed to maintain the safety and soundness of banks, and limit their exposure to risk. In addition,



the Bank must comply with financial services laws that govern its marketing and selling practices and, since its listing of its shares on the *Mercato Telematico Azionario* of the Italian Stock Exchange in June 2005, the Bank is subject to Italian and EU legislation and regulations applicable to listed companies. Two particularly significant changes in regulatory requirements affecting the Bank are the adoption of International Financial Reporting Standards for the first time in relation to the Bank's financial statements as at and for the year ended 31 December 2005 and the pending implementation of the New Basel Capital Accord on capital requirements

Any changes in how such regulations are applied or implemented for financial institutions may have a material effect on the Bank's business and operations. As some of the laws and regulations affecting the Bank have been adopted only recently, the manner in which they are applied to the operations of financial institutions is still evolving and their implementation, enforcement and/or interpretation in a manner that will not have an adverse effect on the business, financial condition, cash flows and results of operations of the Bank.

### **Risk Factors relating to the Trust Preferred Securities**

#### ***No obligation to pay dividends; dividends not cumulative***

The declaration (or deemed declaration) of Dividends on the LLC Preferred Securities (and, accordingly, the payment of Dividends on the Trust Preferred Securities) will not be required under the LLC Agreement (and, accordingly, no payment with respect to Dividends will be due under the Subordinated Guarantees) unless such Dividends are Mandatory Dividends.

Dividends on the LLC Preferred Securities will not be cumulative and Dividends that are not declared (or deemed declared) for payment will not accumulate or compound from Dividend Period to Dividend Period. As a consequence, if Dividends are not declared (or deemed declared) in full or in part in respect of any Dividend Period on the LLC Preferred Securities, holders of the LLC Preferred Securities (and, consequently, holders of the Trust Preferred Securities) will not receive, and will have no right to receive, those Dividends or the unpaid portion of those Dividends at any time, even if Dividends or other payments are declared (or deemed declared) or paid for any future Dividend Period.

#### ***Economic risks similar to non-cumulative preference shares***

An investment in the Trust Preferred Securities will have substantially the same economic risks as an investment in non-cumulative preference shares issued directly by the Bank, having the same liquidation preference and rate of distribution as the Trust Preferred Securities. Accordingly, if the Group's financial condition were to deteriorate, the LLC and the holders of the Trust Preferred Securities and the LLC Preferred Securities could suffer direct and materially adverse consequences, including suspension of the payment of non-cumulative Dividends on the Trust Preferred Securities and the LLC Preferred Securities and, if a liquidation, dissolution or winding-up of the Bank were to occur, loss by holders of the Trust Preferred Securities and the LLC Preferred Securities of all or part of their investment. See "Description of the Trust Securities," "Description of the LLC Securities" and "Description of the Subordinated Guarantees."

#### ***Rights under the Subordinated Guarantees; ranking of the Subordinated Guarantees***

The Subordinated Guarantees are intended to provide the holders of the LLC Preferred Securities and the Trust Preferred Securities, as nearly as possible, with rights to dividends and payments upon redemption and liquidation equivalent to those to which the holders would have been entitled if the LLC Preferred Securities or the Trust Preferred Securities, as the case may be, had been issued directly by the Bank. Such rights are independent of the assets, income or cash flows of the LLC or the Trust. The Bank's obligations under the Subordinated Guarantees constitute unsecured obligations and will rank subordinate and junior to indebtedness of the Bank (other than any instrument or contractual right expressed to rank *pari passu* with the Subordinated Guarantees) and will rank senior only with respect to all its share capital. See "Description of the Subordinated Guarantees".

### ***Perpetual nature of the Trust Preferred Securities***

The Trust Preferred Securities have no fixed final redemption date and holders have no rights to require the redemption of the Trust Preferred Securities. Although the Trust may elect to redeem the Trust Preferred Securities in certain circumstances, as set out below, such election may be discretionary and subject to certain limitations.

### ***Optional redemption***

*Redemption following an LLC Special Event.* If an LLC Special Event (other than a Change in Law Tax Event and an Interpretation Tax Event) occurs, then the LLC Preferred Securities (and, consequently, the Trust Preferred Securities) will be redeemable at the option of the LLC with the prior approval, if then required, of the Bank of Italy, in whole but not in part, at the Special Redemption Price on any Dividend Payment Date if such redemption occurs prior to 6 June 2016 or at the Regular Redemption Price on any Dividend Payment Date if redemption occurs on or after that date. In addition, upon the occurrence of a Change in Law Tax Event or an Interpretation Tax Event, the LLC Preferred Securities may be redeemed by the LLC, at its option, in whole but not in part, at the Regular Redemption Price on any Dividend Payment Date, with prior approval, if then required, of the Bank of Italy.

*LLC call option.* Furthermore, the LLC may redeem the LLC Preferred Securities, in whole or in part, on any Dividend Payment Date occurring on or after 6 June 2016 with the prior approval, if then required, of the Bank of Italy. If the LLC chooses to redeem the LLC Preferred Securities at a time when prevailing interest rates are low, holders of Trust Preferred Securities might not be able to reinvest the redemption proceeds in a comparable security offering a yield as high as that of the Trust Preferred Securities.

### ***Liquidation of the Trust following a Trust Special Event***

If either a Tax Event or an Investment Company Event (in both cases, as defined in “Description of the Trust Securities”) occurs, in each case, solely with respect to the Trust, then, at the option of the Regular Trustees of the Trust, the Trust may be dissolved and liquidated. Upon a liquidation of the Trust in either case, each holder of the Trust Securities shall receive as its liquidation distribution a corresponding number of the LLC Preferred Securities with an equivalent aggregate liquidation preference. Upon such distribution, the LLC Preferred Securities may not be eligible for listing on the regulated market of the Luxembourg Stock Exchange or any other stock exchange. In addition, the LLC will furnish holders of the LLC Preferred Securities, or their nominees, with a Schedule K-1 each year in accordance with the U.S. Internal Revenue Code, which may result in the ineligibility of the LLC Preferred Securities to clear and settle through Euroclear and Clearstream, Luxembourg. As a result, the liquidity and market price of the LLC Preferred Securities distributed upon the liquidation of the Trust may vary from the liquidity and market price of the Trust Preferred Securities prior to such liquidation.

If the LLC Preferred Securities are distributed to holders of the Trust Securities, the LLC and the Bank will agree to use their reasonable efforts to cause the listing or admission to trading of the LLC Preferred Securities on the Luxembourg Stock Exchange. Upon any such listing or admission to trading, the Bank and the LLC will notify holders of the LLC Preferred Securities in accordance with the provisions set forth in “General Information—Notices.” At present, the LLC Preferred Securities are not listed on the Luxembourg Stock Exchange or any other securities exchange. See “Description of the Trust Securities—Redemption.”

### ***No voting rights***

Holders of the Trust Preferred Securities will not have any voting rights, except as described under “Description of the Trust Securities—Voting Rights.”

The LLC Preferred Securities will also be non-voting, except that, upon the occurrence of a Capital Deficiency Event or the failure of the LLC to pay Mandatory Dividends or LLC Additional Amounts, or of the Bank to pay amounts in respect thereof under the LLC Subordinated Guarantee, for any Dividend Period, the holders of the LLC Preferred Securities will have the right to elect one Special Independent Director of the Board. Any Special Independent Director of the Board so elected will vacate office if

Dividend payments are paid on the LLC Preferred Securities, either by the LLC or by the Bank under the LLC Subordinated Guarantee, on each Dividend Payment Date for 12 consecutive months.

***Absence of prior public market***

The Trust Preferred Securities are a new issue of securities. Prior to this offering, there has been no public market for the Trust Preferred Securities. There can be no assurance that an active public market for the Trust Preferred Securities will develop and, if such a market were to develop, the Joint Lead Managers are under no obligation to maintain such a market. The liquidity and the market prices for the Trust Preferred Securities can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Group and other factors that generally influence the market prices of securities. Such fluctuations may significantly affect liquidity and market prices for the Trust Preferred Securities.

***Credit ratings***

Each of the Trust Preferred Securities and the LLC Preferred Securities are expected to be assigned on issue a rating of Baa2 by Moody's and BBB+ by Fitch. Such ratings may not reflect the potential impact of all risks related to structure, market, the additional factors discussed above or any other factor that may affect the value of the Notes. A credit 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 relevant rating organisation. Any adverse change in a credit rating could adversely affect the trading price for the Trust Preferred Securities.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference in, and are deemed to form part of, this Prospectus:

- (a) the Consolidated Report and Accounts of the Bank as at and for the years ended 31 December 2005, 2004 and 2003; and
- (b) the Consolidated Quarterly Report of the Bank as at 31 March 2006,

in each case, together with the accompanying notes and, where applicable, auditors' reports.

For further information on the above-mentioned financial statements and information, see "Summary Financial Information relating to the Bank" and "Business of the Bank—Recent Developments since 31 December 2005—Quarterly financial information".

The Bank will provide a copy of any or all of the above-mentioned financial statements, without charge, to each person to whom a copy of this Prospectus has been delivered, upon the request of such person. Requests for such financial statements should be directed to the Bank at its offices set out at the end of this Prospectus. In addition, such financial statements will be available, without charge, at the specified office of the paying agent in Luxembourg and on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu))

### Cross-reference list

The following table shows where the information required under Annex IX, paragraph 11.1 of Commission Regulation (EC) No. 809/2004 can be found in the above-mentioned documents incorporated by reference.

#### *Commission Regulation (EC) No. 809/2004, Annex IX, paragraph 11.1*

##### Banca Italease—Consolidated annual financial statements

|                                                | <u>2005</u>  | <u>2004</u>                 | <u>2004</u>           | <u>2003</u>   |
|------------------------------------------------|--------------|-----------------------------|-----------------------|---------------|
|                                                |              | <i>(IFRS)<sup>(*)</sup></i> | <i>(Italian GAAP)</i> |               |
| Balance sheet.....                             | page 69      | page 69                     | pages 130-131         | pages 102-103 |
| Statement of income .....                      | page 70      | page 70                     | page 132              | page 104      |
| Accounting policies and explanatory notes..... | pages 75-197 | N/A                         | pages 135-202         | pages 107-153 |
| Auditors' reports .....                        | pages 59-60  | N/A                         | Page 127              | page 99       |

Note

<sup>(\*)</sup> As published in the Bank's annual financial statements as at and for the year ended 31 December 2005.

##### Banca Italease—Consolidated quarterly financial information

|                          | <u>2006</u> | <u>2005<sup>(*)</sup></u> |
|--------------------------|-------------|---------------------------|
| Balance sheet.....       | page 33     | page 33                   |
| Statement of income..... | page 34     | page 34                   |

Note

<sup>(\*)</sup> As published in the Bank's financial information as at and for the three months ended 31 March 2006.

Any information not listed in the cross-reference list but included in the documents incorporated by reference is for information purposes only.

## **USE OF PROCEEDS**

The net proceeds of the offering (after deducting the management and underwriting commissions) are estimated to be approximately €148,875,000. All of the proceeds from the sale of the Trust Preferred Securities will be invested by the Trust in the LLC Preferred Securities. The LLC will use the proceeds from the issue of the LLC Securities, together with the up-front fee payable by the Bank under the Initial Derivative Contract (as defined in “Description of the Initial Derivative Contract”), to make a subordinated deposit with the Bank (the “Initial Subordinated Deposit”), to invest in other Eligible Investments (as defined in “Description of the Eligible Investments”) and to purchase the Trust Common Securities. The Bank intends to use the proceeds from the Initial Subordinated Deposit for general funding purposes and to strengthen its tier I regulatory capital ratios.

## BUSINESS OF THE BANK

The Bank's business focuses primarily on providing credit in the form of financial leasing, factoring and medium-term and long-term lending. The Bank also offers, through its subsidiaries, products and services which complement the provision of credit, such as insurance, instruments to hedge against interest rate risk, and the management of and, at the termination of leasing agreements, the placement in the market of, the assets and real property leased by the Bank. The Group had a total of 888 employees as at 31 December 2005 and the Bank's current shareholders are predominantly cooperative banks.

The Bank is the leading operator in the Italian leasing market with a market share of 14.3% as at 31 December 2005, moving to its present position from third place in 2003 with a market share of 5.7% and second place in 2004 with a market share of 12.5% (Source: *Assilea*).

In addition, since the merger of Factorit S.p.A. ("Factorit") with the Bank in May 2005, the Group has been one of the leading operators in the factoring market. Italease Factorit S.p.A. ("Italease Factorit"), a wholly owned subsidiary of the Bank, now carries on the business previously carried on by Factorit and was ranked third in the Italian market based on turnover volumes of €12,834 million for the year ended 31 December 2005. Over the last three years, Italease Factorit (and, prior to the merger, Factorit) has steadily increased its market share from 9.1% in 2003 to 10.9% in 2004 and 12.7% in 2005. (Source: *Assifact*)

The Bank's distribution network covers the whole of Italy. The Bank is directly present through its 27 offices which handle leasing arrangements, ten branch offices specialising in factoring services, and also operates through branches of other banks, approximately 4,900 of which sell leasing products and approximately 8,200 of which sell factoring services. Under an agreement entered into in 2004 with Poste Italiane S.p.A. ("Poste Italiane"), the Italian post office, the Bank's leasing products are currently available at approximately 1,050 branches of BancoPosta (Poste Italiane's banking division) dedicated to corporate customers and, following the recent renewal of this agreement, this has been extended to cover the Bank's mortgage and insurance products. The Bank also has a network of more than 1,000 intermediaries which sell its products. See "—Distribution Channels".

In 2005 the Bank recorded a consolidated net income of €93.5 million, representing an increase of 62% compared to the previous year's consolidated pro forma net income of €57.7 million. The Bank's consolidated return on equity was 17.6% in 2005. These results reduced the Bank's operating costs as a proportion of interest margin to 32.8% in 2005 from 38.9% in 2004. The average amount of capital invested in leasing transactions rose by 31% in 2005 to €8,712 million, as compared to €6,648 million in 2004. Including mortgages (which the Bank began providing in 2004) and factoring, the total average amount of capital invested in 2005 was €10,588 million. In connection with the growth in its business, the Bank was able to improve the credit quality of its portfolio, which despite increases in volume remained relatively unchanged as compared to prior years. The ratio of net non-performing receivables to total receivables was 0.80%. The total outstanding amounts due to the Group as at 31 December 2005 were €12.0 billion (up 38% on the previous year end on a pro forma basis including the business of Factorit), of which 78% was derived from leasing, 18% from factoring and 4% from medium- and long-term financing. In relation to the Group's leasing business, outstanding amounts due were broken down by segment as follows: 64% real property; 28% equipment; 5% sea vessels; and 3% vehicles.

### Competitive Strengths

The Group's competitive strengths arise from the following distinctive features:

- access to a multi-channel, widespread distribution network that maximises its ability to cover the whole of Italy, and strengthens its bargaining power *vis-à-vis* its various distribution channels and individual intermediaries (such as individual banks with whom the Group has agreements in place or individual agents);
- a business model that positions the Group among those best placed to exploit the development potential of the Italian leasing market;
- the agreement with Poste Italiane, recently renewed, for the distribution of leasing, mortgage and insurance products, which potentially may be extended also to cover factoring products;

- the offering of a broad range of products (leasing, factoring and complementary products), which allows the Bank to capitalise on:
  - the profitability of existing and potential customers, by optimising the cost of servicing such customers;
  - the ability to attract new distribution channels and to encourage the loyalty of existing distribution channels; and
  - the loyalty of existing customers, and the development of policies to increase the products and services offered to such customers, through the ability to satisfy a variety of their needs (including medium-term and long-term financing and hedging against risks);
- attention to risk, through careful monitoring of the timeliness of the clients' payments and prudent management of lending and financial policies;
- development of market sectors experiencing high growth, such as:
  - remarketing through Italease Gestione Beni S.p.A. ("Italease Gestione Beni"), which allows the Bank to obtain income from the recovery and resale of assets from previous leasing transactions, and resales of assets acquired from companies outside the Group; and
  - renting, so as to offer a broad and complete range of products capable of addressing all customers' requirements;
- ability to provide alternative forms of financing (leasing and factoring) which banks may seek in order to diversify their portfolios, as required following the adoption of Basel II principles; and
- opportunities to develop transactions in collaboration with the Group's small-sized and medium-sized "partner banks", banks with whom the Bank have distribution agreements in place, with regard to medium-term and long-term financing.

## Strategy

The Bank intends to strengthen and consolidate its position in the finance leasing and factoring markets, in terms of both market share and profitability, through the following policies:

- strengthening and consolidating its multi-channel, multi-product distribution model by:
  - maximising volumes per channel and product penetration for each distribution channel;
  - integrating the leasing network of Banca Popolare Italiana S.c.a r.l. ("BPI") and bringing it into line with the Group following the recent acquisition of Bipielle Leasing S.p.A. ("Bipielle Leasing") (see "—Recent Developments—Bipielle Leasing acquisition");
  - pursuing new marketing and other commercial agreements with other banks;
- developing and diversifying its offering of products and services through, *inter alia*, partnerships and commercial agreements, and in particular by:
  - entering into new strategic partnerships to broaden the potential client base, such as the commercial agreement with Michelin and Prestitempo (Deutsche Bank's consumer credit division in Italy);
  - increasing complementary product penetration; and
  - increasing the supply of its products "Leasing Secondacasa" and "Leasing Protection" (see "Complementary Services—Insurance and Interest Rate Swaps");
- improving its operating efficiency and, in particular:
  - re-engineering the production process;
  - workflow management; and
  - the integration of Bipielle Leasing within the Group;



- focusing on risk management and capital allocation and, in particular:
  - implementation of the Basel II criteria in order to exploit efficient capital allocation; and
  - re-engineering the credit recovery process.

## History and Organisation of the Group

The Bank is incorporated as a company limited by shares (*società per azioni*) under the laws of Italy and is registered at the register of companies (*registro delle imprese*) of the Chamber of Commerce of Milan under registration number 00846180156. Its registered office is Via Cino del Duca 12, 20122 Milan and its telephone number is +39 02 77651.

The Bank was incorporated on 13 December 1968 under the name Società Italiana Popolare per il Leasing—Itelease S.p.A. and its initial shareholders were 52 Italian cooperative banks that wanted to enter in the then emerging market for financial leasing products. The Bank's offices were initially located in Milan, within the Central Institute for Cooperative Banks (*Istituto Centrale per le Banche Popolari*).

In the 1970s and 1980s, its leasing business steadily developed with the support of its shareholder cooperative banks and its partner banks, which were other institutional lenders with whom the Bank had commercial agreements for the distribution of its products and services. Over time, in part as a result of training and information provided, these institutions developed knowledge and capability within the finance lease sector, created dedicated offices within their organisation and in some cases included financial leasing within their budgetary objectives.

The Bank was entered on the register of financial intermediaries held at the Italian Exchange Office (*Ufficio Italiano Cambi*) in January 1992 and classified as a non-bank financial entity (registered pursuant to Article 107 of Legislative Decree No. 385 of 1 September 1993 (the “Consolidated Banking Law”) in April 1994. In July 1995, the Bank received authorisation from the Bank of Italy to conduct banking business and in September 1995, under the name Banca Centrale per il Leasing delle Banche Popolari—Itelease S.p.A., the Bank was enrolled on the Italian register of banks. In November 1995, the Bank of Italy registered the Bank as a bank and as the holding company for the group comprising Istituto Triveneto del Leasing S.p.A. and San Geminiano e San Prospero Leasing S.p.A., with which the Bank subsequently merged.

Although the Bank obtained authorisation to conduct business in banking, it continued principally to finance public and private sector entities through finance leases. The Bank gradually added other typical banking products and services as part of a multi-product strategy.

In 1997, the Bank formed a new subsidiary Essegibi S.p.A., which was renamed Italease Gestione Beni S.p.A. (“Essegibi Gestione Beni”) in May 2005. The Bank currently holds 95.0% of Italease Gestione Beni's share capital and 5.0% is held by Centro Leasing S.p.A. Italease Gestione Beni's business is closely related to the Bank's leasing operations and includes the sale, purchase, rental and management of the assets and real property which are the subject of its finance lease arrangements. Its operations are conducted predominantly for group companies but also for shareholder banks and other partner banks. As at the date of this Prospectus, Italease Gestione Beni holds all of the share capital of Essegibi Promozioni Immobiliari S.r.l., which provides real estate services, and all of the share capital of Essegibi Service S.p.A.

In 1999 the Bank formed Focus Leasing.it S.p.A., now known as Italease Network S.p.A. (“Italease Network”), which has the legal status of a non-bank financial entity (registered pursuant to Article 107 of the Consolidated Banking Law). Italease Network specialises in finance and operating leases for assets and operates in partnership with the producers and distributors of machines and equipment for industry and professionals.

In 2000, the Bank entered into a joint venture with Andersen Consulting S.p.A. (now Accenture S.p.A.) to form Itaca Service S.p.A. (“Itaca Service”). The Bank has owned 100% of Itaca Service since 2003. Itaca Service provides information technology services to the Bank and to other financial intermediaries (services include outsourcing of IT services, internal control systems, regulatory compliance and credit monitoring).

In July 2000, the Bank formed Essegibi Promozioni Immobiliari S.r.l. (“Essegibi Promozioni Immobiliari”) to provide real estate agency services, in particular to companies within the Group.

In 2001, the Bank also incorporated Renting Italease S.r.l. (“Renting Italease”), in which GE Capital Service S.r.l. acquired a 50.0% equity interest. The company, based in Rome, provides long-term rentals of motor vehicles. The Bank is primarily responsible for the commercial development of Renting Italease.

During 2001, the Bank won bids and was appointed the agent bank for investment projects for the Italian Ministry for Trade and Industry (*Ministero delle Attività Produttive*). As such, the Bank prepares and handles applications for government sponsored low cost loans for the commerce and tourism sectors, and to promote women in business, as well as applications for loans from the fund for technological innovation, and grants available under legislation on scientific research, operations in which the Bank had been involved since 1999. See “—Leasing Products and Services—Agent bank for the Ministry for Trade and Industry and other public bodies”.

In December 2002, the Bank acquired 70.0% of the share capital of Italease Finance from two Dutch entities. The remaining 30% of share capital is held by Finanziaria Internazionale Securitization Group S.p.A. Italease Finance, which has its registered office in Milan, is used as a vehicle for securitising its accounts receivables.

In October 2003, a three-year “stability agreement” or shareholders’ agreement (*patto di stabilità*) (the “Stability Agreement”) was entered into between Banco Popolare di Verona e Novara, Banca Antonveneta, Banca Popolare di Sondrio and Banca Popolare dell’Emilia Romagna. See “—Distribution Channels—Stability Agreement”.

In April 2004, Società Reale Mutua di Assicurazioni (“Reale Mutua Assicurazioni”) acquired 9.75% of the Bank’s share capital, and entered into the above-mentioned stability agreement and into a three-year commercial agreement with the Bank, under which both parties, including the companies belonging to their respective groups, may market the other’s products through their respective distribution network. See “—Distribution Channels—Commercial agreement with Reale Mutua Assicurazioni.”

In July 2004, the Bank acquired 91.0% of Mercantile Leasing S.p.A. (“Mercantile Leasing”) from Fondiaria SAI S.p.A. and 9.0% from Milano Assicurazioni S.p.A. for an aggregate purchase price of €121.0 million (equal to €2.21 per share), with effect from 1 April 2004. Mercantile Leasing, which has its registered office in Florence, was incorporated in 1981 as the finance leasing company of Banca Mercantile Italiana S.p.A. and is classified as a non-bank financial entity (registered pursuant to Article 107 of the Consolidated Banking Law). It provides finance leasing services, in particular for leasing ships, through its branches in Bologna, Padua, Milan, Turin, Florence, Rome, Catania and Bari. Mercantile Leasing holds minority shareholdings in Banca Alpi Marittime Credito Cooperativo di Carrù S.c.a r.l. and in Mercantile Finance S.r.l.

In November 2004, and with effect from 1 January 2004, the Bank purchased a 75.0% majority shareholding in Unico Leasing S.p.A. (“Unico Leasing”) from Unico La Farmacia dei Farmacisti S.p.A. and CIF—Compagnia Immobiliare Finanziaria S.p.A. for a purchase price of €1.05 million. The remaining 25.0% of the share capital is held by Unico La Farmacia dei Farmacisti S.p.A. Unico Leasing, which in December 2001 joined the general list under Article 106 of the Consolidated Banking Law, principally conducts business in the leasing sector, mainly with pharmacists, partly as a result of commercial arrangements in place with Unico La Farmacia dei Farmacisti S.p.A., one of the major pharmaceutical distributors in Italy.

In August 2004, the Bank signed a commercial agreement with Poste Italiane S.p.A., the Italian post office, for the distribution of the Bank’s leasing products through the BancoPosta network.

In February 2005, consistent with its multi-product strategy, the Bank’s board of directors approved a merger plan with Factorit, a company operating in the factoring market. The agreement also provided for the simultaneous transfer of the merged company’s factoring operations into a wholly-owned, newly formed subsidiary, now known as Italease Factorit. The merger plan was approved by its shareholders, the Bank of Italy and the Italian Antitrust Authority (*Autorità Garante della Concorrenza e del Mercato*) and became legally effective on 6 May 2005. For IFRS accounting purposes, the merger became effective as of 1 April 2005.

In April 2005, the Stability Agreement (previously entered into in October 2003) was renewed for a period of three years to reflect the changes made to the Bank's shareholding structure as a result of the merger with Factorit, including the entering-into of the agreement by Banca Popolare di Milano, which became a shareholder of the Bank as a result of the merger.

In April 2005, the Bank's shareholders voted to start officially using the name "Banca Italease S.p.A.", the shortened name which the Bank already used in business dealings.

In June 2005, the Bank's shares were admitted to listing on the *Mercato Telematico Azionario* (MTA) of the Italian Stock Exchange. The listing process was carried out following an increase of the Bank's share capital (with the exclusion of the pre-emption rights to the then shareholders) and a sale of the shares by certain of the Bank's shareholders and accompanied by an offering of shares to the general public in Italy and to institutional investors elsewhere, excluding the United States, Canada, Australia and Japan.

In September 2005, the Bank's shares were transferred from the segment "standard 1" to the Blue Chip segment of the MTA and included in the share basket of the MIDEX Index.

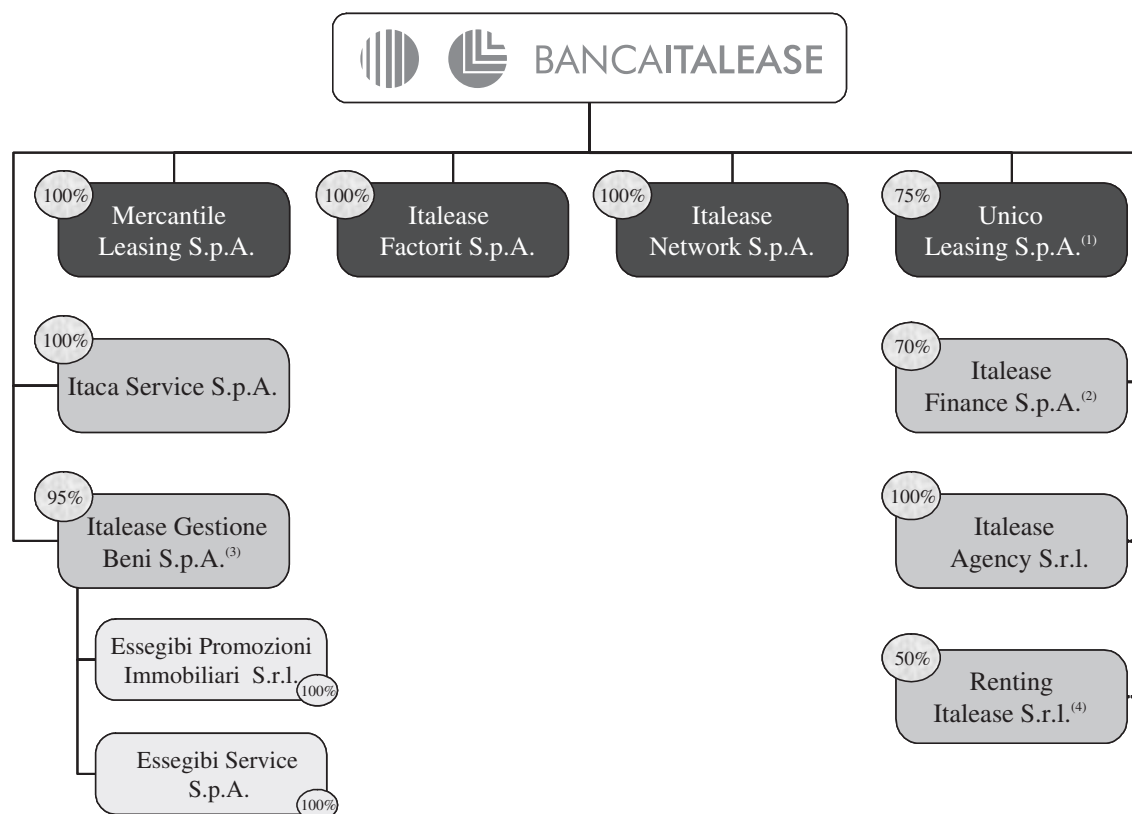
In October 2005, the Bank acquired 100% of Essegibi Service S.p.A. (formerly I.S.E. S.p.A.) from Reale Mutua Assicurazioni. Essegibi Service S.p.A. operates in credit management, mostly servicing the Group.

In December 2005, Italease Agency S.r.l. was incorporated, in order to optimise the value created by commission flows derived from the sale of insurance products.

On 13 March 2006, the Bank and Poste Italiane S.p.A. renewed their commercial agreement for a further three years, extending the range of products offered under the agreement to mortgages and insurance products.

As at the date of this Prospectus, the rating assigned to the Bank by Moody's is A3 for its long-term debt, Prime 2 for short-term debt and C- for its financial solidity, with a stable outlook. The rating assigned to the Bank by Fitch for its long-term debt is A- with a stable outlook, F2 for short-term debt and C for its financial solidity in reference to ratings assigned to banks without external support and 2 for its financial solidity in reference to ratings assigned to banks with external support.

The following corporate structure chart presents the Bank's corporate structure as at the date of this Prospectus.



<sup>(1)</sup> 25% Unico—La Farmacia dei Farmacisti S.p.A.

<sup>(2)</sup> 30% Finanziaria Internazionale Securitization Group S.p.A.

<sup>(3)</sup> 5% Centro Leasing S.p.A.

<sup>(4)</sup> 50% GE Commercial Finance S.r.l.

Although the Bank's subsidiaries are important to the Group as a whole, the Bank does not consider that it is dependent on any of its subsidiaries.

### Overview of the Bank's Business

The Bank's business was created and developed principally to provide financial leasing arrangements to businesses and public entities. The Bank currently also provides leasing arrangements to private individuals and, since its merger with Factorit in May 2005, it has broadened its business to include factoring, further developing its multi-product, integrated product and services offerings in order to remain competitive within the credit market. In addition to the financial lease and factoring activities mentioned above, the Bank offers a range of other typical banking products, such as medium-term and long-term lending.

Today the portfolio of products and services offered by the Group includes:

- leasing products and services for finance and operating leases;
- factoring products and services;
- medium-term and long-term financing;
- complementary insurance services and protection against interest rate risk, associated with leasing and medium-term and long-term financing, as well as its activity as agent bank for various government-subsidised programmes;
- long-term motor vehicle renting; and
- management and remarketing services for real estate and other assets.

The following tables set forth the contributions made by the Group's most important business lines to income before tax for the years ended 31 December 2005 and 2004, prepared in accordance with IAS 14 (*Reporting Financial Information by Segment*).

| Year ended 31 December 2005                    |                 |                 |                 |                                          |                  |
|------------------------------------------------|-----------------|-----------------|-----------------|------------------------------------------|------------------|
|                                                | Leasing         | Factoring       | Other           | Consolidation Differences <sup>(*)</sup> | Consolidated     |
|                                                |                 |                 | (Unaudited)     |                                          |                  |
|                                                |                 |                 | (€ thousands)   |                                          |                  |
| <b>Total income</b> .....                      | <b>226,826</b>  | <b>48,945</b>   | <b>39,195</b>   | <b>(3,075)</b>                           | <b>311,891</b>   |
| <i>including:</i>                              |                 |                 |                 |                                          |                  |
| – External revenues .....                      | 431,663         | 49,626          | (169,582)       | (183)                                    | 311,708          |
| – Internal revenues .....                      | (204,837)       | (681)           | 208,594         | –                                        | –                |
| – Income from equity investments .....         | –               | –               | 183             | –                                        | 183              |
| <b>Valuation adjustments/ recoveries</b> ..... | <b>(50,148)</b> | <b>(6,027)</b>  | <b>(2,043)</b>  | <b>–</b>                                 | <b>(58,218)</b>  |
| <b>Operating expenses</b> .....                | <b>(65,820)</b> | <b>(15,553)</b> | <b>(24,466)</b> | <b>3,121</b>                             | <b>(102,718)</b> |
| <i>including:</i>                              |                 |                 |                 |                                          |                  |
| – Depreciation/amortisation ...                | (3,080)         | (319)           | (3,934)         | (284)                                    | (7,618)          |
| – Other non-monetary items ..                  | –               | (335)           | –               | (192)                                    | (527)            |
| <b>Other income (expenses)</b> .....           | <b>(964)</b>    | <b>57</b>       | <b>9,760</b>    | <b>(46)</b>                              | <b>8,808</b>     |
| <b>Income before taxes</b> .....               | <b>109,894</b>  | <b>27,423</b>   | <b>22,446</b>   | <b>–</b>                                 | <b>159,763</b>   |
| <b>% of Total</b> .....                        | <b>68.8%</b>    | <b>17.2%</b>    | <b>14.0%</b>    | <b>–</b>                                 | <b>100.0%</b>    |

<sup>(\*)</sup> Includes all infrasector revenues, expenses, assets and liabilities not evidenced in the consolidated financial statements and reclassification differences

| Year ended 31 December 2004                    |                 |                 |                  |                                          |                 |
|------------------------------------------------|-----------------|-----------------|------------------|------------------------------------------|-----------------|
|                                                | Leasing         | Factoring       | Other            | Consolidation Differences <sup>(*)</sup> | Consolidated    |
|                                                |                 |                 | (Unaudited)      |                                          |                 |
|                                                |                 |                 | (€ thousands)    |                                          |                 |
| <b>Total income</b> .....                      | <b>149,442</b>  | <b>39,669</b>   | <b>30,869</b>    | <b>(2,667)</b>                           | <b>217,313</b>  |
| <i>including:</i>                              |                 |                 |                  |                                          |                 |
| – External revenues .....                      | 308,081         | 39,631          | (130,441)        | 38                                       | 217,271         |
| – Internal revenues .....                      | (158,639)       | –               | 161,306          | (2,667)                                  | –               |
| – Income from equity investments .....         | –               | 38              | 4,247            | –                                        | 42              |
| <b>Valuation adjustments/ recoveries</b> ..... | <b>(29,688)</b> | <b>(8,657)</b>  | <b>(500,000)</b> | <b>–</b>                                 | <b>(38,845)</b> |
| <b>Operating expenses</b> .....                | <b>(47,667)</b> | <b>(18,300)</b> | <b>(21,224)</b>  | <b>2,667</b>                             | <b>(84,524)</b> |
| <i>including:</i>                              |                 |                 |                  |                                          |                 |
| – Depreciation/amortization ...                | (2,411)         | (728)           | (4,441)          | (830)                                    | (8,410)         |
| – Other non-monetary items ..                  | –               | (5,250)         | –                | –                                        | (5,250)         |
| <b>Other income (expenses)</b> .....           | <b>(1,902)</b>  | <b>129</b>      | <b>7,328</b>     | <b>–</b>                                 | <b>5,555</b>    |
| <b>Income before taxes</b> .....               | <b>70,185</b>   | <b>12,841</b>   | <b>16,474</b>    | <b>–</b>                                 | <b>99,500</b>   |
| <b>% of Total</b> .....                        | <b>70.5%</b>    | <b>12.9%</b>    | <b>16.6%</b>     | <b>–</b>                                 | <b>100.0%</b>   |

<sup>(\*)</sup> Includes all infrasector revenues, expenses, assets and liabilities not evidenced in the consolidated financial statements and reclassification differences

## **Leasing products and services**

The Bank's principal business is leasing, a form of financing arrangement made available under a number of different contractual structures based on the particular characteristics and requirements of the individual customer, whether a business or a private individual.

The Bank is able to offer its customers a full range of leasing options available on the market, both in the form of finance leases (under which the lessee has an option to purchase the asset on expiry of the lease) and operating leases (where there is no such purchase option). The agreements and services the Bank offers may be divided into a few broad categories based on industry classifications of the type of asset leased, whether it be real property or other assets, which are sub-divided into: (i) capital goods; (ii) motor vehicles; or (iii) aircraft, sea vessels and railway vehicles. The Group does not currently operate in the railway leasing sector.

Finance lease agreements are characterised by the customer's ability to choose the asset to be used and its supplier. While the asset remains the Group's property, maintenance of the asset rests with the customer, who at the end of the agreement may exercise an option to acquire the asset upon payment of an additional, pre-arranged amount.

Operating lease arrangements are intended for customers who are not interested in acquiring title to the asset at the end of the agreement. Such agreements most often regard assets which by their very nature are rapidly replaced within the market by other, more technologically advanced goods (for example, electronic medical equipment, personal computers, servers and the like). To avoid assuming the risk of lost asset value upon expiry of the lease, the Bank either agrees in advance to the return of the asset to the original supplier or ensures that the residual value of the asset is included in the lease payments. In operating lease arrangements the customer may also choose a number of additional services regarding the leased goods, such as maintenance, valuation and asset replacement services.

The Bank also provides subsidised leasing transactions to a variety of qualifying businesses. These transactions enjoy preferential terms under EU, national, regional, provincial or municipal law and in public leasing transactions where the lessee is a governmental body.

The following table shows the volume of income bearing leasing agreements entered into by the Group during the three years ended 31 December 2003, 2004 and 2005, broken down according to geographical area and lease type.

|                                      | Real Property |                             |              | Equipment    |                             |              | Vehicles     |                             |             | Aircraft and Sea Vessels |                             |             | Total        |                             |              |
|--------------------------------------|---------------|-----------------------------|--------------|--------------|-----------------------------|--------------|--------------|-----------------------------|-------------|--------------------------|-----------------------------|-------------|--------------|-----------------------------|--------------|
|                                      | 2003          | 2004                        | 2005         | 2003         | 2004                        | 2005         | 2003         | 2004                        | 2005        | 2003                     | 2004                        | 2005        | 2003         | 2004                        | 2005         |
|                                      |               | (Unaudited)<br>(€ millions) |              |              | (Unaudited)<br>(€ millions) |              |              | (Unaudited)<br>(€ millions) |             |                          | (Unaudited)<br>(€ millions) |             |              | (Unaudited)<br>(€ millions) |              |
| Northwest Italy .....                | 330           | 876                         | 1,699        | 346          | 456                         | 502          | 91           | 93                          | 118         | 7                        | 79                          | 86          | 774          | 1,503                       | 2,405        |
| % of Total.....                      | 46.7%         | 52.8%                       | 45.0%        | 45.5%        | 43.4%                       | 40.9%        | 40.3%        | 34.3%                       | 32.0%       | 30.6%                    | 28.1%                       | 23.25%      | 45.1%        | 46.1%                       | 41.9%        |
| Northeast Italy .....                | 131           | 107                         | 145          | 120          | 136                         | 138          | 42           | 39                          | 39          | 6                        | 12                          | 8           | 299          | 294                         | 329          |
| % of Total.....                      | 18.5%         | 6.4%                        | 3.8%         | 15.8%        | 13.0%                       | 11.2%        | 18.5%        | 14.5%                       | 10.6%       | 27.8%                    | 4.1%                        | 2.2%        | 17.4%        | 9.0%                        | 5.7%         |
| Central North.....                   | 109           | 312                         | 109          | 140          | 242                         | 157          | 48           | 90                          | 41          | 4                        | 149                         | 22          | 301          | 794                         | 329          |
| % of Total.....                      | 15.5%         | 18.8%                       | 2.9%         | 18.3%        | 23.1%                       | 12.8%        | 21.4%        | 33.5%                       | 11.2%       | 15.9%                    | 53.0%                       | 6.0%        | 17.5%        | 24.3%                       | 5.7%         |
| Central Italy .....                  | 66            | 227                         | 1,648        | 72           | 103                         | 278          | 19           | 12                          | 107         | 1                        | 27                          | 235         | 158          | 370                         | 2,268        |
| % of Total.....                      | 9.4%          | 13.7%                       | 43.7%        | 9.4%         | 9.9%                        | 22.6%        | 8.4%         | 4.5%                        | 29.1%       | 6.1%                     | 9.7%                        | 63.5%       | 9.2%         | 11.3%                       | 39.5%        |
| South Italy and Italian Islands..... | 70            | 139                         | 172          | 83           | 111                         | 154          | 25           | 35                          | 63          | 5                        | 14                          | 19          | 183          | 300                         | 408          |
| % of Total.....                      | 9.9%          | 8.4%                        | 4.6%         | 10.9%        | 10.6%                       | 12.5%        | 11.3%        | 13.1%                       | 17.2%       | 19.7%                    | 5.1%                        | 5.1%        | 10.7%        | 9.2%                        | 7.1%         |
| Foreign.....                         | –             | –                           | –            | –            | –                           | –            | –            | –                           | –           | –                        | –                           | –           | –            | –                           | –            |
| % of Total.....                      | 0.0%          | 0.0%                        | 0.0%         | 0.0%         | 0.0%                        | 0.0%         | 0.0%         | 0.0%                        | 0.0%        | 0.0%                     | 0.0%                        | 0.0%        | 0.0%         | 0.0%                        | 0.0%         |
| <b>Total.....</b>                    | <b>706</b>    | <b>1,660</b>                | <b>3,773</b> | <b>761</b>   | <b>1,049</b>                | <b>1,228</b> | <b>225</b>   | <b>270</b>                  | <b>369</b>  | <b>23</b>                | <b>282</b>                  | <b>370</b>  | <b>1,715</b> | <b>3,260</b>                | <b>5,739</b> |
| <b>% of Total .....</b>              | <b>41.2%</b>  | <b>50.9%</b>                | <b>65.7%</b> | <b>44.4%</b> | <b>32.2%</b>                | <b>21.4%</b> | <b>13.1%</b> | <b>8.3%</b>                 | <b>6.4%</b> | <b>1.3%</b>              | <b>8.6%</b>                 | <b>6.4%</b> | <b>–</b>     | <b>–</b>                    | <b>–</b>     |

Source: Management accounts.

The volume of new lease agreements has increased significantly in 2005 in Northwest and Central Italy. In terms of lease type, Real Property registered the strongest growth in 2005. Particularly in relation to Aircraft and Sea Vessels, the growth in 2004 was due to the acquisition of Mercantile Leasing, a company highly specialised in the leisure boat sector.



The following table shows the average capital invested in respect of the Group's leasing business in the years ended 31 December 2003, 2004 and 2005, broken down according to geographic area and lease type. The average values have been calculated utilising month-end balances of average capital invested.

|                                      | Real Property  |                |                | Equipment      |                |                | Vehicles     |              |              | Aircraft and Sea Vessels |              |              | Total          |                |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|--------------|--------------|--------------|--------------------------|--------------|--------------|----------------|----------------|
|                                      | 2003           | 2004           | 2005           | 2003           | 2004           | 2005           | 2003         | 2004         | 2005         | 2003                     | 2004         | 2005         | 2004           | 2005           |
|                                      |                | (Unaudited)    |                |                | (Unaudited)    |                |              | (Unaudited)  |              |                          | (Unaudited)  |              | (Unaudited)    |                |
|                                      |                | (£ millions)   |                |                | (£ millions)   |                |              | (£ millions) |              |                          | (£ millions) |              | (£ millions)   |                |
| Northwest Italy .....                | 1,177.3        | 1,595.6        | 2,520.7        | 1,150.3        | 1,158.7        | 1,157.2        | 86.3         | 161.6        | 117.2        | 41.0                     | 81.7         | 114.7        | 2,455.0        | 3,909.7        |
| % of Total.....                      | 45.3%          | 47.9%          | 47.5%          | 44.7%          | 44.0%          | 42.7%          | 43.7%        | 36.8%        | 39.2%        | 37.2%                    | 33.4%        | 29.3%        | 44.8%          | 44.9%          |
| Northeast Italy .....                | 792.6          | 743.8          | 729.8          | 531.2          | 457.1          | 393.3          | 41.4         | 75.8         | 49.5         | 36.7                     | 46.8         | 45.9         | 1,402.0        | 1,218.4        |
| % of Total.....                      | 30.5%          | 22.3%          | 13.7%          | 20.7%          | 17.4%          | 14.5%          | 21.0%        | 17.2%        | 16.5%        | 33.3%                    | 19.1%        | 11.7%        | 25.6%          | 14.0%          |
| Central North.....                   | 387.5          | 586.2          | 1,030.6        | 504.4          | 596.3          | 646.3          | 44.1         | 142.7        | 79.4         | 29.7                     | 100.8        | 185.7        | 965.6          | 1,942.0        |
| % of Total.....                      | 14.9%          | 17.6%          | 19.4%          | 19.6%          | 22.6%          | 23.8%          | 22.4%        | 32.4%        | 26.5%        | 26.9%                    | 41.2%        | 47.4%        | 17.6%          | 22.3%          |
| Central Italy .....                  | 152.2          | 223.9          | 731.2          | 180.0          | 189.0          | 224.1          | 12.1         | 14.2         | 21.8         | 0.8                      | 4.4          | 27.2         | 345.1          | 1,004.4        |
| % of Total.....                      | 5.9%           | 6.7%           | 13.8%          | 7.0%           | 7.2%           | 8.3%           | 6.1%         | 3.2%         | 7.3%         | 0.7%                     | 1.8%         | 7.0%         | 6.3%           | 11.5%          |
| South Italy and Italian Islands..... | 88.7           | 179.9          | 297.6          | 205.0          | 232.5          | 290.2          | 13.4         | 45.5         | 31.3         | 2.0                      | 11.1         | 18.4         | 309.2          | 637.5          |
| % of Total.....                      | 3.4%           | 5.4%           | 5.6%           | 8.0%           | 8.8%           | 10.7%          | 6.8%         | 10.3%        | 10.4%        | 1.8%                     | 4.5%         | 4.7%         | 5.6%           | 7.3%           |
| Foreign.....                         | —              | —              | —              | —              | —              | —              | —            | —            | —            | —                        | —            | —            | —              | —              |
| % of Total.....                      | 0.0%           | 0.0%           | 0.0%           | 0.0%           | 0.0%           | 0.0%           | 0.0%         | 0.0%         | 0.0%         | 0.0%                     | 0.0%         | 0.0%         | 0.0%           | 0.0%           |
| <b>Total.....</b>                    | <b>2,598.3</b> | <b>3,329.5</b> | <b>5,309.9</b> | <b>2,570.9</b> | <b>2,633.6</b> | <b>2,711.1</b> | <b>197.4</b> | <b>439.8</b> | <b>299.2</b> | <b>110.2</b>             | <b>244.8</b> | <b>391.9</b> | <b>5,476.8</b> | <b>8,712.1</b> |
| <b>% of Total .....</b>              | <b>47.4%</b>   | <b>50.1%</b>   | <b>60.95%</b>  | <b>46.9%</b>   | <b>39.6%</b>   | <b>31.12%</b>  | <b>3.6%</b>  | <b>6.6%</b>  | <b>3.43%</b> | <b>2.0%</b>              | <b>3.7%</b>  | <b>4.50%</b> | <b>—</b>       | <b>—</b>       |

Source: Management accounts.

The changes in average capital invested during this three-year period shows a significant increase in the real property sector compared to other products offered by the group, representing 61% of the total amount of existing agreements in 2005.

### *Leasing of real property*

Leasing of real property is a contractual arrangement used to finance the purchase of real estate or industrial and/or commercial premises—which may include premises under construction—offered to businesses or self-employed individuals.

The amount that may be made available under a real property leasing arrangement depends on the valuation given to the proposed investment and the Bank's assessment of the financial position of the customer. The minimum term of such an agreement is 96 months, with lease payments that may be fixed or variable, while the down payment that may be required from the customer at the date of execution of the contract may be up to 15.0% of the investment's value.

An appraisal of the property is conducted beforehand, so that the Bank may assess the suitability of the price and the property's compliance with applicable planning laws and regulations. The customer is also obliged to enter into an all-risks insurance policy covering the property, where the property has already been built, or a construction all-risks policy where the premises are under construction. See “—Complementary services—Insurance and interest rate swaps”.

During the year ended 31 December 2005, real property leasing transactions worth €3,773.1 million were entered into, compared to €1,660.1 million in the previous year (up 127.3%) and €706.5 million in 2003. Real property leasing comprised 65.7% of all leasing transactions by volume for the year ended 31 December 2005.

### *Leasing of capital assets*

Leasing of capital assets (Equipment) is a financing arrangement made available to businesses and self-employed individuals for the development of their business.

Capital assets leased under these agreements include plant and equipment, fork-lift trucks, printing presses, construction equipment, lathes and information technology systems. The Bank offers leasing agreements tailored to the specific characteristics of the relevant business activity. The leasing of capital assets may involve financing the purchase of goods made to the lessee's order, new assets or—following a valuation—used assets. Normally these leases have a term of between 30 and 60 months, and the lease payments may be for a fixed or variable amount. The standard agreement requires the customer to pay a portion of the asset's cost in advance (the percentage varies but may be up to 30.0% of the asset's value) with an option to purchase the asset, generally exercisable at a cost of between 0.5% and 5.0% of the asset's value. The customer is also obliged to take out an all-risks insurance policy. See “—Complementary services—Insurance and interest rate swaps”.

The Bank has another form of leasing product aimed at private customers called “Tiarredo”, which provides finance for the purchase of new household furnishings and appliances (kitchens, sofas, soft furnishings, ovens, refrigerators, freezers, dishwashers, stoves, washing machines, televisions and stereo equipment). The agreements are for terms of between 18 and 72 months, with no down-payment and with an option to purchase the asset at the end of the term, generally at 0.5% of its value due upon execution of the contract of sale. This particular form of finance lease is currently offered only to holders or joint holders of mortgages of not less than €60,000 which have an outstanding term of at least 12 months (regardless of the duration of the leasing agreement) and which were granted by one of the Bank's partner banks. The Bank expects to expand the scope of this product to add new features to respond to specific customer needs. The Group has also recently begun offering the “Ti Arredo Arte” product, which allows private individuals to finance purchases of works of art or antiques.

During the year ended 31 December 2005, capital asset leasing transactions worth €1,227.9 million were entered into, compared to €1,048.6 million in the previous year (up 17.1%), and €761.1 million in 2003. Leasing transactions of this type comprised 21.4% of all leasing transactions by volume for the year ended 31 December 2005.

### ***Motor vehicle and motorcycle leasing***

The Bank offers businesses and self-employed individuals leasing arrangements for the acquisition of assets such as motor vehicles, motorcycles, campers and commercial vehicles. The lease term is typically between 24 and 48 months, with a minimum of 30 months for commercial vehicles, while the lease payment may be at a fixed or variable rate. Transactions over a longer period may be considered at the customer's request, as may those that provide for a higher surrender value, depending on the kind of asset required. The customer must take out a third-party, fire and theft insurance policy.

The Bank also offers a similar product, marketed under the name "Tiguido", to private individuals for the purchase of motor vehicles, commercial vehicles, campers and motorcycles. The terms of the agreement are similar to those described above: a lease term of between 24 and 48 months, with a fixed or variable lease payment. The amount payable under the option to acquire the asset upon expiry of the lease is generally 1.0% of the vehicle's original cost but may vary depending on the make and model of the vehicle being acquired. Personalised financing arrangements may be agreed, depending on the customer's income. In addition to compulsory third-party insurance coverage, insurance against fire and theft is required, which the customers themselves arrange.

During the year ended 31 December 2005, vehicle leasing transactions worth €368.6 million were entered into, compared to €269.8 million in the previous year (up 36.6%) and €224.7 million in 2003. Vehicle leasing transactions comprised 6.4% of all leasing transactions by volume for the year ended 31 December 2005.

### ***Leasing of aircraft, sea vessels and railway vehicles***

Since its acquisition of Mercantile Leasing in 2004, the Bank has strengthened the range of leisure boat leasing products it offers. Leases for pleasure crafts are marketed under the name "Tivaro." The Bank has also extended its business into the commercial shipping sector and, through Mercantile Leasing, are able to offer financing for used sea vessels. Ship leasing agreements do not have a fixed minimum period, although the average lease term is 36 months.

During the year ended 31 December 2005, transactions for the leasing of aircraft, sea vessels and railway vehicles worth €369.7 million were entered into, compared to €281.8 million in the previous year (up 31.2%) and €23.0 million in 2003. This comprised 6.4% of all leasing transactions by volume in the year ended 31 December 2005.

### ***Leasing to the public sector***

As a result of customer demand for independent and diversified financing, in 2004 the Bank extended its financial and operating lease business to the public sector, comprising state and local authorities (municipalities, provinces and regions), health authorities, publicly-controlled companies, and other public bodies such as universities, exhibition centres, port authorities and social services. Leases are in respect of both real property and other assets, such as vehicles (buses, school buses, disabled transportation, airport transportation, railway and tram rolling stock, or vehicles for the collection and treatment of solid urban waste), energy-saving devices, electronic medical equipment and information technology equipment (hardware, staff entry systems or telephone switchboards).

Leasing is particularly useful to government bodies in that it allows them access to new financial resources and enables them at the same time to obtain complementary insurance coverage and accessories, in addition to the item being leased, through a single procedure. In 2005, the second year in which the Bank offered leases to the public sector, the volume of leasing transactions amounted to €21.0 million.

### ***Leasing under preferential terms***

Subsidised leasing allows businesses to enjoy public subsidies offered under EU, national, regional, provincial or municipal laws in support of certain approved categories of investment. The Bank is among one of the few operators in the leasing market which are authorised to offer its customers assistance in obtaining public contributions available for investments. The Bank researches the application of various

laws under which investment subsidies are made available and coordinates the procedures for obtaining the subsidy, including preparing necessary documentation and applying to the appropriate public body.

Once approval is obtained, the Bank provides the subsidy to the customer in the form of periodic bank transfers or through a reduction in the lease payment equal to the amount of the benefit obtained. For its services, the Bank receives increased contractual fees from its clients at the outset of term of the lease.

For the year ended 31 December 2005, subsidised leasing transactions worth €169.3 million commenced, compared to €168.2 million in 2004 (up 0.7%) and €166.4 million in 2003. Subsidised leasing accounted for 2.9% of all leasing transactions commenced in 2005.

### ***Agent bank for the Ministry of Trade and Industry and other public bodies***

In line with the policy of a number of Italian ministries to decentralise administrative and technical matters connected with the review of applications for subsidies, in 2001 the Bank was appointed as an agent bank (*banca concessionaria*) for the management of investment projects submitted by businesses under national legislation. In particular, the Bank, as the lead agent bank for a number of businesses which have formed a joint venture, has entered into agreements with the Italian Ministry for Trade and Industry (*Ministero delle Attività Produttive*) to set out review procedures and terms for the provision of subsidies under Italian Law No. 488/1992 (Subsidies for Industry in Under-developed Areas) and the associated training programme, as well as under Italian Law No. 215/1992 (Subsidies to Promote Women in Business). The Bank also participates in the joint venture led by Centrobanca—SF S.p.A. for the granting of subsidies under Italian Law No. 46/1982 (the Technological Innovation Fund) and the associated innovation programme, which allows businesses to obtain subsidies for initiatives related to a programme for “pre-competitive development”.

The Bank has also entered into an agreement with the Ministry for Universities and Technological Scientific Research regarding the review and management of scientific research projects.

Finally, as lead agent bank for a joint venture group, the Bank has entered into an agreement with the Region of Sicily to handle applications for financial assistance pursuant to Italian Law No. 215/1992, which provides subsidies to promote women in business, and an agreement with the Region of Apulia for the review, management, monitoring and provision of assistance in connection with the Apulia Region Operating Programme for 2000 to 2006 (assistance to industry, support for competitiveness, business innovation and assistance within the tourist industry as well as trade assistance).

As an agent bank the Bank is responsible for effecting all initial assessments, reviews and technical, financial and economic evaluations necessary to process the application for such subsidies, as well as the management of the actual payment of the subsidies. The public bodies that provide the funding pay the Bank a fee for its services, calculated as a percentage of the total cost of the project being financed, or in cases where a project is not approved, based on the work performed by the Bank.

For the year ended 31 December 2005, commissions of approximately €600,000 accrued, of which approximately €512,000 was in relation to work performed directly by the Bank. The Bank handled 35 applications and a further 1,021 were originated by other banks within the joint venture group. For the year ended 31 December 2004, commissions in the sum of approximately €658,000 accrued, of which approximately €534,000 was in relation to work performed directly by the Bank.

### **Factoring Products and Services**

The merger with Factorit in May 2005 extended the Bank’s business into debt factoring, which is now conducted through the Bank’s subsidiary, Italease Factorit.

In general terms, under a factoring agreement, the factor provides its customers with a series of services (typically including accounting, administration, collection, solicitation and debt recovery) connected with the management of the customers’ account receivables. In addition, the factor will normally advance funds to the customer ahead of the date of collection of the account receivables, in an amount agreed from time to time, thereby functionally providing financing to the customer. The customer assigns to the factor all or a significant part of the receivables that have arisen, or will arise in the future, from one or more of its trading

partners. Factoring arrangements allow the customer to obtain services, liquidity and security with regard to the receivables it has assigned. Often these arrangements are of a recurrent nature, with receivables being assigned to the factor on a regularly scheduled basis.

Under a factoring transaction, the receivables may be assigned with recourse against the assignor (“with recourse”), where the risk that the debtor fails to pay remains entirely with the assignor, the factor’s customer. If the amount is not paid when due, the assignor is obliged to repay any sums it has received from the factor as an advance against the collection of the relevant receivable. Receivables may also be assigned without recourse (“without recourse” or “non-recourse”), in which case if the receivable is not paid by the debtor, the factor, upon the fulfilment of certain contractual conditions and subject to agreed warranties, will proceed with payment of the assigned receivable and may not claim the repayment of any amounts it may have advanced to the assignor.

The following table sets forth a description of turnover (in terms of the receivables that were assigned) of Italease Factorit (and, prior to the May 2005 merger, Factorit) for the three years ended 31 December 2005, broken down according to geographical area and category of factoring transaction.

|                       | With Recourse               |              |              | Non-Recourse                |              |              | Total                       |               |               |
|-----------------------|-----------------------------|--------------|--------------|-----------------------------|--------------|--------------|-----------------------------|---------------|---------------|
|                       | 2003                        | 2004         | 2005         | 2003                        | 2004         | 2005         | 2002                        | 2003          | 2005          |
|                       | (Unaudited)<br>(€ millions) |              |              | (Unaudited)<br>(€ millions) |              |              | (Unaudited)<br>(€ millions) |               |               |
| Northwest Italy ..... | 1,860                       | 1,787        | 2,261        | 3,102                       | 3,499        | 4,216        | 4,962                       | 5,286         | 6,477         |
| % of Total .....      | 43.3%                       | 39.3%        | 47.6%        | 47.4%                       | 50.4%        | 52.1%        | 45.8%                       | 46.0%         | 50.5%         |
| Northeast Italy ..... | 1,086                       | 967          | 1,039        | 1,695                       | 1,535        | 1,442        | 2,781                       | 2,502         | 2,482         |
| % of Total .....      | 25.3%                       | 21.3%        | 21.9%        | 25.9%                       | 22.1%        | 17.8%        | 25.7%                       | 21.8%         | 19.3%         |
| Central Italy .....   | 836                         | 1,255        | 856          | 498                         | 598          | 1,143        | 1,334                       | 1,854         | 1,999         |
| % of Total .....      | 19.4%                       | 27.6%        | 18.0%        | 7.6%                        | 8.6%         | 14.1%        | 12.3%                       | 16.1%         | 15.6%         |
| South Italy .....     | 472                         | 496          | 538          | 1,165                       | 1,217        | 1,120        | 1,637                       | 1,713         | 1,658         |
| % of Total .....      | 11.0%                       | 10.9%        | 11.3%        | 17.8%                       | 17.5%        | 13.9%        | 15.1%                       | 14.9%         | 12.9%         |
| Foreign .....         | 46                          | 44           | 53           | 80                          | 99           | 165          | 126                         | 143           | 218           |
| % of Total .....      | 1.1%                        | 1.0%         | 1.1%         | 1.2%                        | 1.4%         | 2.0%         | 1.2%                        | 1.2%          | 1.7%          |
| <b>Total .....</b>    | <b>4,300</b>                | <b>4,549</b> | <b>4,748</b> | <b>6,540</b>                | <b>6,948</b> | <b>8,086</b> | <b>10,840</b>               | <b>11,497</b> | <b>12,834</b> |

Source: Management accounts.

Total turnover volumes during the above three-year period showed a slight increase, mainly in North-west and Central Italy.

Assignments of receivables may also take place on a continual basis through “full factoring”. Under such an agreement, the factor acquires the customer’s trade receivables as they arise, covering their administration and supervision until their collection, dealing with any recovery that might have to be made from the debtors and, if necessary, handling any litigation that may arise. Factoring agreements also allow for the assignment of future receivables when they arise out of supply agreements that have not yet been fulfilled.

For commercial reasons, and in order to minimise risk, some factoring arrangements may be developed and handled jointly between specialised factoring companies. This kind of arrangement is known as a “pool” arrangement and, depending on its nature, may be financial, management or mixed.

In summary, Italease Factorit offers the following types of factoring arrangements:

- maturity factoring and crediting at a date certain;
- assignment with recourse;
- advances made without notice to the debtors;
- assignments without recourse, with notice to the debtors;
- assignments without recourse, without notice to the debtors;
- export factoring;

- import factoring; and
- factoring under agreements with large debtors.

The following table shows turnover, broken down according to transaction type, for the three years ended 31 December 2005.

|                                                             | Year ended 31 December      |               |                             |               |                             |               |
|-------------------------------------------------------------|-----------------------------|---------------|-----------------------------|---------------|-----------------------------|---------------|
|                                                             | 2003                        |               | 2004                        |               | 2005                        |               |
|                                                             | Turnover                    | % of Total    | Turnover                    | % of Total    | Turnover                    | % of Total    |
|                                                             | (Unaudited)<br>(€ millions) |               | (Unaudited)<br>(€ millions) |               | (Unaudited)<br>(€ millions) |               |
| Maturity factoring and crediting at a date certain .....    | 5,147                       | 47.5%         | 5,799                       | 49.4%         | 5,906                       | 45.1%         |
| Assignments with recourse .....                             | 2,369                       | 21.9%         | 2,393                       | 17.5%         | 2,761                       | 18.0%         |
| Advances made without notice to debtors .....               | 924                         | 8.5%          | 1,159                       | 10.1%         | 1,052                       | 8.2%          |
| Assignments without recourse, notified to debtors .....     | 606                         | 5.6%          | 665                         | 5.0%          | 1,331                       | 9.6%          |
| Assignments without recourse, not notified to debtors ..... | 1,397                       | 12.9%         | 1,058                       | 9.1%          | 1,012                       | 7.9%          |
| Export factoring .....                                      | 238                         | 2.2%          | 265                         | 2.3%          | 400                         | 3.1%          |
| Import factoring .....                                      | 121                         | 1.1%          | 143                         | 1.2%          | 191                         | 1.5%          |
| Others .....                                                | 317                         | 0.3%          | 16                          | 0.1%          | 181                         | 1.4%          |
| <b>Total .....</b>                                          | <b>10,840</b>               | <b>100.0%</b> | <b>11,497</b>               | <b>100.0%</b> | <b>12,834</b>               | <b>100.0%</b> |

Source: Management accounts.

### ***Maturity factoring and crediting at a date certain***

Maturity factoring arrangements provide for the assignment of trade receivables to Italease Factorit, which pays the assignor the amount of the receivable after the expiry of a certain period, whether or not the payment has been made by the assigned debtor by the original due date. Italease Factorit handles the assigned receivables and, based on the agreements reached between the parties, it may consider paying the assignor the amount due for the receivable as an advance against the assigned receivable which, should the assigned debtor not make the required payment, will then be returned (i.e. an assignment with recourse). On the other hand, the factor may agree to guarantee payment of the receivable (i.e. an assignment without recourse) and assume the risk that the assigned debtor does not make the required payment, upon the fulfilment of certain contractual conditions and subject to agreed limits. Whether the assignment is with or without recourse, Italease Factorit may also grant payment extensions to the assigned debtor.

In 2005, turnover from maturity factoring products was €5.9 billion (24.06% of which were with recourse and 75.94% without recourse), representing 45.1% of Factorit's aggregate turnover, up €108.0 million on €5.8 billion in 2004, of which 24.18% was with recourse and 75.82% without recourse.

### ***Factoring with recourse***

Factoring with recourse is the most typical factoring transaction, where a receivable is assigned to and managed by the factor, who may advance the amount due under the assigned receivables, in whole or in part, to the customer. The amount of any advance received by the assignor is returned to Italease Factorit if the original debtor does not make payment of the amount due at the time of the receivables' original



maturity. The agreement is characterised by the risk of failure for the payment remaining with the customer, including where Italease Factorit has advanced the amount due under the receivables, in whole or in part.

In 2005, turnover from with recourse products was €2.8 billion, or 18.0% of Factorit's aggregate turnover, an increase of €368.0 million compared to €2.4 billion in the previous financial year.

#### ***Advances without notice to the debtor***

Agreements for advances without notice to the debtor are similar to with recourse agreements, differing only in that the debtor under the assigned receivable is not notified of its assignment to Italease Factorit, the company reserving the right to give such notice at any time, if considered necessary for risk management purposes.

In 2005, turnover from products involving advances without notice was €1.1 billion, or 8.2% of Factorit's aggregate turnover, representing a decrease of €108.0 million compared to €1,159 million in the previous financial year.

#### ***Without recourse, with notice***

An agreement for the factoring of receivables without recourse and with notice is the other typical factoring transaction, by which there is an assignment of the receivable to the factor, notice is given to the debtor and the risk of the assigned debtor's insolvency is assumed by the factor. This form of contractual arrangement may again provide for advances to be made to the customer of the whole or some part of the amount due under the assigned receivables. Consequently, if the assigned debtor does not make payment of the amount due under the receivable, upon the fulfilment of a number of contractual conditions and to the extent permitted under the security provided, the assignor will not be obliged to return the amount advanced against the receivable by the factor. In short, under such an arrangement Italease Factorit assigns a credit limit for the particular assigned debtor based on its assessment of the debtor's ability to pay. Italease Factorit manages the assigned receivables and issues, on behalf of the original creditor, demands for payment provided for under the supply agreement. If an advance against the receivable is agreed and the assigned debtor does not pay the amount due under the relevant receivable, assuming the contractual conditions to the guarantee are fulfilled, Italease Factorit may not demand the return from the original creditor of the amount assigned.

Such a contractual arrangement permits the customer to transfer to the factor part of the risk that its debtors fail to pay—in line with and subject to the assessments made from time to time by Italease Factorit—and streamline the internal administration regarding the management of receivables.

In 2005, turnover from without recourse products was approximately €1,331 million, comprising 9.6% of Factorit's aggregate turnover, an increase of €666.0 million compared to €665.0 million in the previous financial year.

#### ***Without recourse, without notice***

This product differs from without recourse factoring with notice in that the assigned debtor is not given notice of the assignment. In such circumstances, the assignor continues to manage the receivables and their collection, for as long as it makes payments as they fall due. The standard terms of the agreement provide that the assigned debtor receives notice of the assignment to Italease Factorit only where payment is not made as due. Italease Factorit maintains the right, however, to notify the assigned debtor of the assignment at any time. From that moment forward, the management and recovery of the receivable are handled by Italease Factorit, which guarantees payment to the assignor in the amount agreed for the receivable at a contractually-agreed date.

In some circumstances, agreements initially provide that, as receivables arise, they are merely signalled to Italease Factorit, with the formal assignment deferred to a later date.

In 2005, turnover from factoring without recourse and without notice was €1,012 million, comprising 7.9% of Factorit's aggregate turnover and representing a decrease of €46.0 million compared to €1,058 billion in the previous year.

### ***Export factoring***

In export factoring arrangements, the assigned debtor is a non-Italian resident while the assignor is Italian, and the terms and conditions are identical to those of the product categories described above.

Italease Factorit's services may seek support from an agent located in the country where the goods are exported (a foreign factoring company), such as a member of the Factors Chain International network or another foreign financial institution with whom collaboration agreements have been entered into. Factors Chain International ("FCI") is a worldwide network of leading factoring companies. The purpose of the network is to further the development of international commercial transactions through cross border factoring services. The network is headquartered in Amsterdam and currently comprises 188 factors in 58 countries. Factorit has been a full member of FCI since 1979. FCI's approach is based on the flexibility and professionalism of local operators. Members' conduct is regulated by a single worldwide code of conduct through a standardised communication system called Edifactoring, which permits the exchange of information through the internet on the basis of defined rules and in real time. Each operating step in the management of an international factoring agreement is being converted into a message to the information system of the other party which updates dates and location. Each member is required to be on-line and to ensure that certain structural criteria are met, and to maintain the operating standards required by the network. Further, members of the network undertake to comply with the General Rules for International Factoring which include regulations relating to factoring transactions as well as to potential litigation between factors.

In 2005, turnover from export financing products was €400.0 million, representing 3.1% of Factorit's aggregate turnover, an increase of €136 million compared to €265.0 million in the previous year.

### ***Import Factoring***

Import factoring arrangements are aimed mostly at customers not resident in Italy who hold accounts receivable from Italian businesses. Italease Factorit is put in contact with the assignor through a foreign financial institution (typically a factor from the FCI network) or is approached directly. The same factoring services as are described above are again provided under this kind of arrangement.

In 2005, turnover from import factoring products was €191.0 million, comprising 1.5% of Factorit's aggregate turnover, representing an increase of €48.0 million compared to €143.0 million in the previous year.

### ***Other products***

In addition to the principal kinds of arrangements described above, Italease Factorit also offers its customers a number of other products, including:

- *Instalment Products:* products which provide for the assignment and management of amounts that are owed by private customers and are being paid off in instalments, through integrated services such as an advance of the amount owed to the assignor, dealing with the collection of the receivable, any payment demands, repayments under direct debit arrangements and managing any payments made through the post office network;
- *Financing Products:* a product pursuant to which Italease Factorit makes payments to a customer's suppliers on the customer's behalf;
- *Assignments of future receivables:* in certain circumstances, it is possible for a customer to divest receivables that have yet to arise but will arise in the future in accordance with the terms of contracts entered into; and
- *Agreements with large debtors:* based on commercial agreements between Italease Factorit and a "large debtor", generally a major domestic company, by which the debtor promotes factoring services among its suppliers, with a view to enabling them to enjoy, on the one hand, an additional form of financing over and above their normal credit facilities and, on the other, the benefits of credit management services while, at the same time, the large debtor is able to defer payment of the

receivables assigned to Italease Factorit by its suppliers without penalising those suppliers, who are, as assignors, able to free up the amounts they are owed in accordance with financial terms laid down in the agreement between Italease Factorit and the large debtor.

In 2005, turnover from other products was €181 million, or 1.4% of Factorit's aggregate turnover, an increase of €165.0 million compared to €16.0 million in the previous financial year.

### ***Medium-term and long-term financing***

During 2005, the Bank broadened the range of its products to include medium-term and long-term financing and created a special department for this purpose. The department assesses possible opportunities both with regard to lending and technical aspects and establishes appropriate commercial policies in support of the business, with the main aim to assist businesses in their development by financing projects that seek to promote growth. In this way, the Bank provides financing directly to its customers, or participates in financing through a syndicate with other financial institutions.

The agreements principally relate to lending for the acquisition of real property, and therefore the Bank pays particular attention to the purpose of the investment and the property offered as security (which is supported by an appraisal report from a surveyor or other expert appointed by us). The loans are on average for a period of between five and fifteen years, are made at a variable rate and include insurance, as security to cover the asset offered.

In 2005, medium-term and long-term financing provided by the Bank amounted to €536.1 million, of which €398.9 million had been drawn down.

### ***Complementary services—insurance and interest rate swaps***

To complement the range of products described above, and with a view to diversifying the commercial products it offers, and the Bank also makes available insurance policies together with its different leasing agreements. Customers are required to carry insurance on property or assets under lease, however they are not required to purchase policies offered by us. The majority of insurance policies the Bank offers are underwritten by Reale Mutua Assicurazioni, with whom the Bank has specific commercial marketing agreements. Insurance policies typically terminate when the underlying leasing agreement ceases.

In 2005, the Group created a new product known as Leasing Protection, which is an insurance policy providing repayment cover for all leasing agreements up to €100,000 for a maximum duration of 120 months. The policy provides for cover equal to the residual amount due under the leasing agreement in the event of the death or permanent disability of the lessee or of other persons specified in the policy.

The Bank also offers financial products that allow customers to manage interest rate risk (in the form of interest rate swap agreements). These products are offered solely in relation to leasing agreements entered into (and primarily with respect to real estate leasing agreements) and only up to the amount of the leasing agreement itself. The Bank offers these complementary services through its distribution network of financial institutions. The financial institutions prepare the relevant agreements on the basis of the client's specific requests.

### ***Long-term motor vehicle renting***

In addition to its main forms of customer financing, the Bank has extended its business into long-term motor vehicle renting, which allows commercial customers to use a particular vehicle (a car or commercial vehicle up to 3.5 metric tonnes) for a particular period of time for a monthly fee which covers all costs associated with the vehicle, including ordinary and extraordinary maintenance, management and insurance (third-party, fire and theft, and injury to employee drivers). Such agreements are typically for a period of between 24 and 60 months.

In 2005, the Bank entered into 860 such agreements, an increase compared to the 603 agreements entered into in the previous financial year. The Bank did not offer this product prior to 2003.

### ***Management and remarketing services, for real estate and other assets***

The Bank's subsidiary Italease Gestione Beni handles the management and remarketing of assets that have been subject to leasing arrangements. Italease Gestione Beni also provides a full range of management and remarketing services to companies outside the Group.

The experience the Bank has acquired in the various forms of leasing has allowed it to assemble a team of specialists to manage assets, including both real property and other goods, that are the subject of leasing arrangements, and their subsequent remarketing. Italease Gestione Beni's business allows it to intervene at every stage of the grant and recovery of the receivable, through technical assessments and appraisals made prior to the grant of the loan and regarding recovery and remarketing. Italease Gestione Beni is involved in the purchasing, sale, letting, renting and management of real property and other goods, as well as all activities connected with the recovery of the receivable. Italease Gestione Beni also acts as an estate agent, because of its specialised knowledge of the real estate market. Italease Gestione Beni offers its services to the group, shareholder banks and the market through its portal, Marketplace, and through its subsidiaries, Essegibi Promozioni Immobiliari S.r.l.

### **Pricing**

Management believes the pricing of the Bank's products and services and commissions and expenses payable by customers are in line with the market as a whole.

The prices of products and services comprise the following broad categories:

- the leasing interest rate, applied by the Group companies on leasing agreements and medium-term and long-term financing and the factoring interest rate, applied on advances and extensions granted to assigned debtors;
- charges connected with the arrangement of leasing or factoring agreements, such as contractual expenses, expenses for the review of the application, administrative expenses for the collection or reversal of fees, pre-leasing fees, and similar;
- factoring commissions, or the percentage, calculated on the value of the assigned receivable, paid for services for the management and/or guarantee of the receivable; and
- services complementary to the leasing agreement, such as insurance policies and protection against interest rate risk.

The leasing or factoring interest rate that is actually applied depends on the particular transaction and is based on, among other things, the degree of risk and the complexity of the transaction. For leasing agreements with a floating rate, the reference rate most commonly used in the calculation of the fees is the three-month Euribor interbank rate.

### **Distribution Channels**

The Group markets its various products and services through a multi-channel approach, which includes:

- a direct distribution network (the "Direct Network"), comprising 37 offices and branches operating across Italy;
- an indirect distribution network (the "Indirect Network"), comprising:
  - 4,900 bank branches under agreement for the sale of leasing products;
  - 8,223 bank branches under agreement for the sale of factoring products (of which more than 1,000 are in the region of Lombardy);
  - 1,205 intermediaries, agents, suppliers and others, including: 90 agents registered with the Italian Exchange Office as financial advisors; 900 intermediaries registered with the Italian Exchange Office as loan brokers; 195 capital goods suppliers under agreement with Italease Network; and 20 consultants, with Unico Leasing's distribution network, who alert the Bank of opportunities; and

- 1,050 BancoPosta offices, currently involved in the sale of leasing products to BancoPosta corporate clients.

The following table summarises the Group's distribution network as of the date of this Prospectus.

| <b>Distribution Channels</b>                                         | <b>Company</b>                                     |                               |                              |                          | <b>TOTAL</b> |
|----------------------------------------------------------------------|----------------------------------------------------|-------------------------------|------------------------------|--------------------------|--------------|
|                                                                      | <b>Banca Italease<br/>and Italease<br/>Network</b> | <b>Mercantile<br/>Leasing</b> | <b>Italease<br/>Factorit</b> | <b>Unico<br/>Leasing</b> |              |
| Bank's own branches.....                                             | 19                                                 | 8                             | 10                           | —                        | 37           |
| <b>Indirect Network</b>                                              |                                                    |                               |                              |                          |              |
| Branches of banks with<br>agreements in place .....                  | approx. 4,900                                      | 10                            | 8,223                        | —                        | N.A.         |
| Agents.....                                                          | 40                                                 | 50                            | —                            | —                        | 90           |
| Intermediaries.....                                                  | 560                                                | 340                           | —                            | —                        | 900          |
| Suppliers.....                                                       | 148                                                | 47                            | —                            | —                        | 195          |
| Others, belonging to Unico<br>Leasing's distribution<br>network..... | —                                                  | —                             | —                            | 20                       | 20           |
| BancoPosta branches .....                                            | 13,726 <sup>(1)</sup>                              | —                             | —                            | —                        | 13,726       |

<sup>(1)</sup> Of which 1,050 branches dedicated to corporate customers are currently distributing group products.

The following table sets forth the volume of leases entered into and turnover under leasing agreements, respectively, broken down by distribution channel for the three years ended 31 December 2005.

| <b>Leasing Distribution Channels</b>                             | <b>Year ended 31 December</b> |              |                                       |                     |                                       |
|------------------------------------------------------------------|-------------------------------|--------------|---------------------------------------|---------------------|---------------------------------------|
|                                                                  | <b>2003</b>                   | <b>2004</b>  | <b>Variation<br/>Year on<br/>Year</b> | <b>2005</b>         | <b>Variation<br/>Year on<br/>Year</b> |
|                                                                  | <i>(€ millions)</i>           |              | <i>(%)</i>                            | <i>(€ millions)</i> | <i>(%)</i>                            |
| Direct Network.....                                              | 48                            | 408          | 752.4%                                | 933                 | 129.0%                                |
| Indirect Network (Banks and<br>BancoPosta).....                  | 1,215                         | 1,407        | 15.8%                                 | 1,268               | −9.9%                                 |
| Indirect Network (Intermediaries, Agents<br>and Suppliers) ..... | 452                           | 1,445        | 219.8%                                | 3,538               | 144.8%                                |
| <b>Total .....</b>                                               | <b>1,715</b>                  | <b>3,260</b> | <b>90.1%</b>                          | <b>5,739</b>        | <b>76.0%</b>                          |

Source: Management accounts

Direct Network and Indirect Network both consistently increased volumes over the three-year period. BancoPosta represented approximately 1.2% of total new leasing income bearing volumes.

The following table sets forth the volume of leases entered into and turnover under factoring agreements, respectively, broken down by distribution channel for the three years ended 31 December 2005.

| <b>Factoring Distribution Channels</b> | <b>Year ended 31 December</b> |               |                  |               |                |
|----------------------------------------|-------------------------------|---------------|------------------|---------------|----------------|
|                                        |                               |               | <b>Variation</b> |               |                |
|                                        | <b>2003</b>                   | <b>2004</b>   | <b>Year on</b>   | <b>2005</b>   | <b>Year on</b> |
|                                        | (€ millions)                  |               | Year             | (€ millions)  | Year           |
|                                        |                               |               | (%)              |               | (%)            |
| Direct Network.....                    | 6,441                         | 6,931         | 7.6%             | 7,572         | 9.2%           |
| Indirect Network (Banks) .....         | 4,399                         | 4,566         | 3.8%             | 5,262         | 15.3%          |
| <b>Total .....</b>                     | <b>10,840</b>                 | <b>11,497</b> | <b>6.1%</b>      | <b>12,834</b> | <b>11.6%</b>   |

Source: Management accounts

### ***Stability Agreement***

On 27 October 2003, certain of the Bank's shareholders (Banco Popolare di Verona e Novara S.C.a r.l., Banca Popolare dell'Emilia Romagna S.C.a r.l., Banca Antonveneta S.p.A. and Banca Popolare di Sondrio S.C.a r.l.) entered into the Stability Agreement for a period of three years and, on 15 July 2004, Reale Mutua Assicurazioni joined the Stability Agreement. The agreement was renewed on 28 April 2005, to reflect the amendments introduced in the Bank's shareholding structure as a result of the merger with Factorit, as well as the entering into of the agreement by Banca Popolare di Milano S.c.a r.l., which became one of the Bank's shareholders as a result of the merger. Each shareholder participating in the Stability Agreement may withdraw from the agreement by written notice not less than 180 days prior to the expiry of the three-year term.

The Stability Agreement is governed by a steering committee. Each of the parties to the Stability Agreement designates one member to such steering committee for the term of the agreement. Resolutions by the steering committee require the absolute majority of affirmative votes of members present at the meeting and, in any case, no less than two members. The approval of and the determination of the terms relating to the acceptance of new shareholders to participate in the agreement require the unanimous vote of all members. Pursuant to the regulations of the steering committee, a shareholder may not hold in excess of 40.0% of the voting rights of the Stability Agreement. The Stability Agreement provides the following, among others:

- a general undertaking by the parties not to sell or transfer the shares subject to the Stability Agreement (other than to a member of their own group)—parties may, however, transfer the shares to other shareholders and to third parties (provided such third parties adhere to the stability agreement) with the unanimous authorisation of the members of the steering committee of the Stability Agreement;
- an undertaking to treat the shareholders participating in the Stability Agreement preferentially with respect to transfers of shares not subject to the Stability Agreement; and
- a voting trust whereby parties are required to confer with one another to reach a decision on how to vote shares held by them at the Bank's shareholders' meetings.

Due to the voting trust, none of the parties to the Stability Agreement is individually able to exercise control over the Bank. However, voting together the parties are able to control the Bank.

The Stability Agreement effectively prohibits the Bank from being taken over by any other shareholder by restricting the transferability of shares by the parties during the term of the agreement. The parties to the Stability Agreement hold 51.6% of the Bank's outstanding shares and therefore exercise significant influence over the Bank, including the approval of the annual financial statements and the declaration of dividends.

The shareholder banks participating in the stability agreement have also undertaken to provide the Bank with financial support at market conditions in the event of non-availability to the Bank of direct financing on



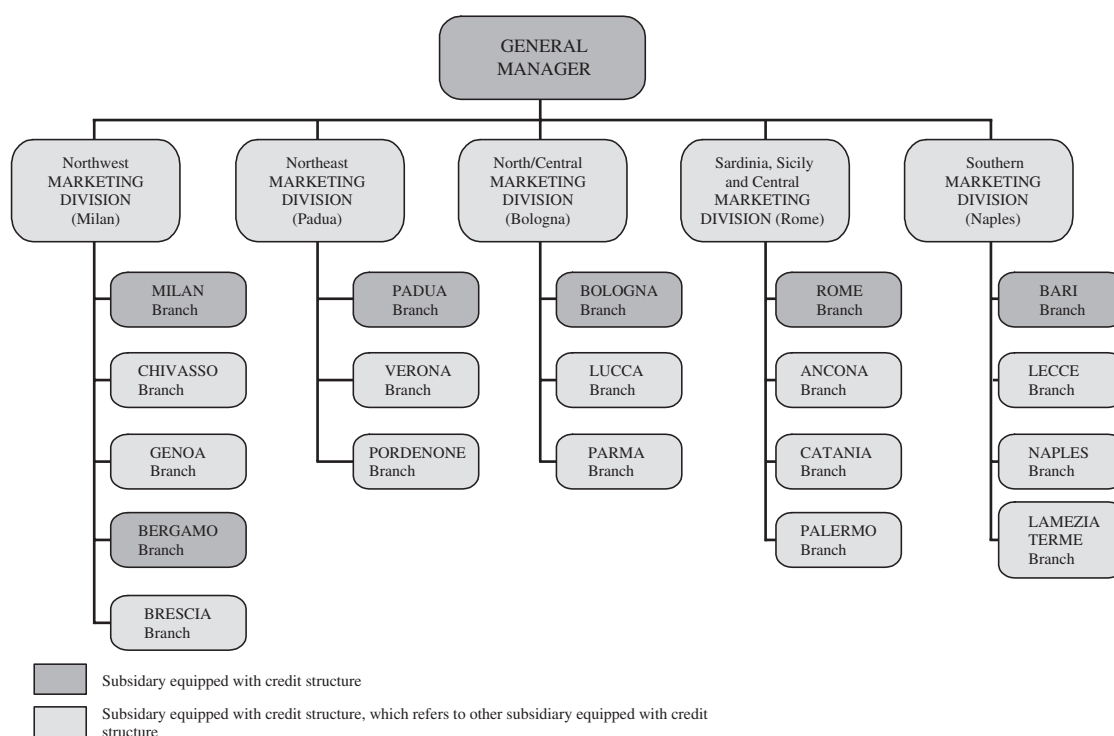
the market. They have also agreed to sell the Bank's leasing products through at least 50.0% of their branches or to provide the Bank with at least 50.0% of the new leases generated by them during the term of the agreement. The applicable percentage thresholds are calculated on the basis of average transaction volumes and/or the annual number of agreements of the respective banking group. See also “— Related Party Transactions”.

### *The Direct Network*

The Direct Network has the role of developing the Group's commercial offerings within Italy and providing commercial and operating assistance to the Indirect Network. The Direct Network consist of branches and offices across Italy belonging to Banca Italease, Mercantile Leasing and Italease Factorit. The separation amongst the companies has been maintained for greater commercial effectiveness and to encourage each company to stay focused on its respective market sectors.

The Direct Network is organised into five marketing divisions, each having responsibility for a different geographical area, and 19 branches, which depend upon the different geographical marketing divisions. Banca Italease branches also include Italease Network marketing staff.

The following diagram sets forth a summary of the organisation of Banca Italease's Direct Network.



The head of marketing is responsible for managing each of the Group's geographical divisions and for achieving management's commercial marketing objectives, coordinating both direct sales and supporting indirect channels and intermediaries (and particularly relations with the Bank's shareholder and partner banks) within the particular geographical area, identifying and assessing commercial opportunities, deciding upon terms and interest rates and assisting with employee training and development in accordance with the guidelines set-forth by the human resources department.

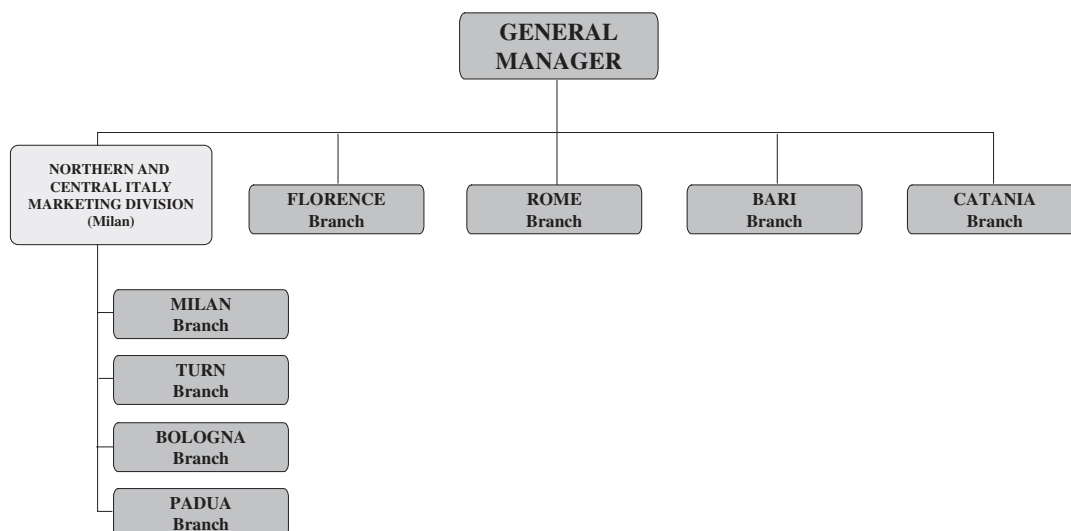
Each branch is managed by a branch manager, who has the responsibility of managing the team of area managers in order to reach the appointed budget objectives, ensuring that the internal organisation of the branch is functioning correctly in terms of promptness in responding to applications and the quality of the product, and ensuring that the regular administration of all the branches' activities are taken care of.

Each branch consists of:

- area managers, who have responsibility for reaching the commercial objectives for a particular area and dealing with customers; and
- office staff, who perform commercial and back-office activities.

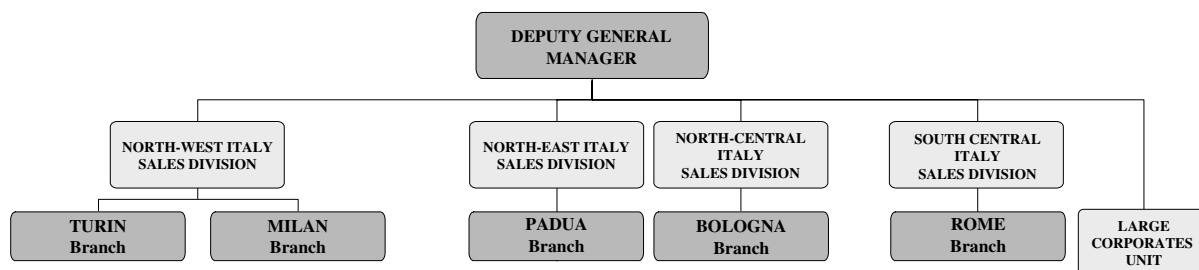
Mercantile Leasing's Direct Network is organised through a geographical marketing division and eight branches, which report to the geographical marketing division and the headquarters. Marketing work, duties and responsibilities are divided among the geographical marketing offices and branches among much the same lines as that of Banca Italease.

The following diagram sets forth a summary of the organisation of Mercantile Leasing's Direct Network.



Italease Factorit's Direct Network is composed of ten branches, which depend upon and serve four areas (north-east, north-west, north-central and south-central). Each of the four areas and five branches has a manager who is responsible for developing new customers within the local area and also manages existing clients relationships.

The following diagram sets forth a summary of the organisation of Italease Factorit's Direct Network.



### *The Indirect Network*

In addition to the Direct Network, the Bank also has the following indirect distribution channels:

- partner banks;
- network of intermediaries, agents, suppliers and others;
- BancoPosta branches; and
- its commercial agreement with Michelin Italia.

With regard to distribution channels for leasing products, the Bank has gradually reduced the proportion of volume of new income-bearing leasing agreements it makes through its shareholder banks and partner banks from approximately 43% in 2004 to 21% in 2005.

Following the introduction of its new services, and as a result of the fact that none of the Bank's shareholder or partner banks have their own factoring company capable of providing a full range of services, Italease Factorit has by contrast slightly increased the proportion of its turnover from these two sources, from 40.0% for the year ended 31 December 2003, to 39.7% for the year ended 31 December 2004 and 41.0% for the year ended 31 December 2005.

#### *Partner banks*

The Bank has agreements in place for the distribution of both leasing and factoring products with a variety of partner banks. As at 31 December 2005, such agreements were in place with a total of 57 partner banks, including 7 banking groups in relation to the Group's leasing business and with a total of 87 partner banks, including 10 banking groups in respect of the factoring business.

The Bank's partner banks sell leasing products pursuant to an umbrella operating agreement, as well as the Presto Leasing Agreement and the Leasingauto Agreement. Under the umbrella operating agreement, each of the partner banks has agreed to collaborate in marketing the Bank's products and services by recommending the Bank to interested customers, collecting applications for leasing arrangements, and reviewing and completing such agreements in accordance with specified procedures.

The Presto Leasing Agreement and Leasingauto Agreements allow partner banks themselves to enter into leasing agreements for and on the Bank's behalf, up to a maximum risk amount of €250,000 per agreement or per customer. Each partner bank assumes a part of the business risk connected with the agreements and gives the Bank an indemnity of 50.0% of any losses the Bank incurs as a result of the lessee's failure to make payments when due. Such losses are calculated as the sum of: (i) the residual amount outstanding under the agreement at the date of the last payment made by the lessor and (ii) interest on the residual amount outstanding, calculated from the date of the last payment made by the lessor to the date of payment by the partner bank of the guaranteed percentage of the loss, after deduction of the amount realised by Banca Italease upon sale of the asset (net of any expenses connected with its recovery and sale).

Pursuant to a stability agreement entered into by certain of the Bank's shareholder banks which was renewed in April 2005, such shareholder banks have, among other things, each committed to selling the Group's products through at least 50.0% of their branches or providing the Bank with at least 50.0% of the new leases generated by them for three years. See "*Related Party Transactions*".

The collaboration with partner banks for sales of factoring products is governed by a Factoring Operating Agreement, under which each partner bank has agreed to identify potential customers within its portfolio following specific pre-arranged criteria (such as on the basis of yearly turnover, business sector or geographic market), as well as promote and place factoring products. The partner banks have also agreed to share information on their existing customers with Italease Factorit in order to help Italease Factorit in evaluating customer creditworthiness. In return, the Group's partner banks receive one-off commission payments for new customers introduced, paid as a reimbursement of expenses, which vary depending on the nature of the agreement, and

- one-off commission payments for new customers introduced, paid as a reimbursement of expenses, which vary depending on the nature of the agreement; and
- a commission calculated based on the commission collected from the customer, which varies depending on the nature of the agreement. In addition, commission credit for all other transactions between Italease Factorit and the customer is awarded to the partner bank.

#### *Network of intermediaries, agents and suppliers*

Besides marketing and distributing products and services through the channels described above, the Banks also markets and distributes leasing products through a sales network of more than 1,000 intermediaries, representing one of the strongest features of the Group's commercial strategy.

Included within the Group network of intermediaries are insurance agents and financial advisors, from the following companies who have non-exclusive contracts to place the Group's leasing and medium-term to long-term financing products:

- Reale Mutua Assicurazioni;
- Banca Aletti e C. S.p.A.;
- AZ Investimenti SIM S.p.A.;
- Banca Bipielle.net S.p.A. ("Banca Bipielle"); and
- Veneto Banca S.c.a r.l.

Intermediaries operate in a particular geographical area and refer directly to the manager responsible for that area within the local branch office. These managers provide estimates and offers, review proposed transactions, and prepare and execute agreements. The leasing agreement is administered thereafter from central office headquarters. Intermediaries may also apply for a computer link to the Group's offices, allowing them to supply their customers with direct estimates, and enabling them to commence approval procedures and print out leasing agreements.

The Bank pays great attention to the development and recruitment of its intermediaries, who generally have significant experience in the leasing market. Training courses are organised for intermediaries where new products or promotions are introduced, and these are normally conducted by its own staff.

- Commercial agreement with Reale Mutua Assicurazioni

On 2 April 2004, the Bank entered into a commercial agreement with certain companies of the Reale Mutua group (specifically, Reale Mutua Assicurazioni, REM Assicurazioni S.p.A., La Piemontese Vita S.p.A. and Banca Reale S.p.A.). The agreement term is for a period of three years and may be automatically renewed for a further three years. Under the terms of the agreement, the parties may market and distribute their own products using the distribution network of the other. The Reale Mutua group companies may offer the Group's leasing and medium- and long-term financing products, and the Bank may offer the Reale Mutua group companies' insurance policies connected with and complementary to financing and leasing agreements previously entered into, in addition to its own products ("compulsory insurance coverage") and other insurance policies ("additional insurance coverage"), with a view to protecting the asset surrender value. The Bank may also offer stand-alone insurance policies ("standardised products").

A separate agreement, which is in the process of being implemented, provides for the distribution by Banca Reale S.p.A., on a non-exclusive basis through the Reale Mutua group's network of insurance agents, of certain standardised Banca Italease products. These products include medium-term and long-term financing arrangements, car leasing, leasing of capital goods, leasing of real property, ship leasing, and other products that the Bank has previously agreed will be covered under the agreement. The evaluation of each individual transaction and the terms of the financing lie exclusively with the Bank, because the Bank establishes the terms directly with the individual customer.

REM Assicurazioni S.p.A. and La Piemontese Vita S.p.A. have also agreed to make available for distribution through banking outlets insurance products which have standardised terms and security options, which the Bank can distribute to its customers through its own marketing and distribution network.

- Commercial agreement with Banca Aletti & C. S.p.A.

The Bank has two commercial agreements with Banca Aletti & C. S.p.A. ("Banca Aletti"), a company in the Banco Popolare di Verona and Novara group. Pursuant to the agreement, Banca Aletti refers potential leasing transactions and medium and long-term lending transactions to the Bank. The commercial agreements are open-ended, and may be terminated by either party at any time with three months written notice.

- Commercial agreement with AZ Investimenti SIM S.p.A.

The Bank has two commercial agreements with AZ Investimenti SIM S.p.A. (“AZ Investimenti”), a company in the Azimut group, under which AZ Investimenti refers potential leasing transactions and medium-term and long-term lending transactions to the Bank and also takes a role in arranging such transactions. The commercial agreements are open-ended, and may be terminated by either party at any time with six months written notice.

- Commercial agreement with Banca Bipielle

The Bank has a commercial agreement with Banca Bipielle, a company of the Banca Popolare Italiana group, under which Banca Bipielle refers potential leasing and medium-term and long-term lending transactions to the Bank. The commercial agreements are open-ended, and may be terminated by either party at any time with six months written notice.

- Commercial agreement with Veneto Banca S.c.a r.l.

Pursuant to the commercial agreement with Veneto Banca S.c.a r.l. (“Veneto Banca”), the holding company of the Veneto Banca group, Veneto Banca refers potential leasing transactions to the Group. The commercial agreements are open-ended, and may be terminated by either party at any time with six months written notice.

#### *BancoPosta branches*

On 3 August 2004, Banca Italease entered into a two-year agreement with the BancoPosta division of Poste Italiane and on 13 March 2006 renewed this agreement for a further three years. Poste Italiane markets and distributes certain of the Group’s products to BancoPosta accountholders, including: (i) leases for capital goods, motor vehicles, real property and aircraft and sea vessels to businesses or self-employed individuals; (ii) mortgages; and (iii) insurance products. Approval of these leases is made exclusively by the Bank, which evaluates the prospective lessor under a proprietary “credit scoring” system. The commercial agreement is for a period of three years, which may be automatically renewed for a further three years. The agreement may be terminated by either party upon six months’ notice. Poste Italiane S.p.A. receives a fixed commission upon execution of each new lease, calculated on the basis of the value of the asset.

#### *Commercial agreement with Michelin Italia*

Banca Italease has also recently signed a commercial agreement with Michelin Italia focused on the launch of LeasinGomme, an innovative product designed for truck owners who want to lease truck tyres (within a contract range of €800-€70,000). Both companies already have a structure within their sales channels for the sale of leases for truck tyres and LeasinGomme is already distributed across a network of 106 Michelin sellers under the *Certificato Qualità Michelin* mark.

## **Competition**

### *Leasing*

The Bank competes, as regards leasing, against companies that are banking institutions and financial intermediaries authorised to conduct banking business by the Bank of Italy and the Ufficio Italiano Cambi (the Italian Exchange Office).

The leasing market in Italy includes approximately one hundred companies and is highly concentrated. For the year ended 31 December 2005, the ten leading companies generated more than 62.0% of the value of total leasing transactions entered into in the Italian market, as is set forth in the following table. The value of leasing transactions entered into by the Bank below includes all leasing agreements entered into and differs

from the values shown elsewhere in this Prospectus for new income-bearing leasing agreements of the Bank, which only include leasing agreements that have started to generate income for the Bank.

| Company, by rank   |                                   | Year ended 31 December |               |              |               |              |               | % Variation<br>2005/2004 |
|--------------------|-----------------------------------|------------------------|---------------|--------------|---------------|--------------|---------------|--------------------------|
|                    |                                   | 2003                   |               | 2004         |               | 2005         |               |                          |
|                    |                                   | Value                  | % of<br>Total | Value        | % of<br>Total | Value        | % of<br>Total |                          |
|                    |                                   | (€ millions)           |               | (€ millions) |               | (€ millions) |               |                          |
| 1.                 | Banca Italease Group.....         | 2,239                  | 6.95%         | 4,785        | 12.5%         | 6,298        | 14.3%         | 31.61%                   |
| 2.                 | Locat S.p.A. ....                 | 4,154                  | 12.89%        | 4,971        | 13.0%         | 5,659        | 12.8%         | 13.86%                   |
| 3.                 | Intesa Leasing S.p.A. ....        | 2,505                  | 7.77%         | 2,809        | 7.4%          | 3,080        | 7.0%          | 9.65%                    |
| 4.                 | SanPaolo Leasint S.p.A. ....      | 1,807                  | 5.61%         | 2,060        | 5.4%          | 2,357        | 5.3%          | 14.42%                   |
| 5.                 | Banca Agrileasing S.p.A. ....     | 1,588                  | 4.93%         | 1,868        | 4.9%          | 2,305        | 5.2%          | 23.41%                   |
| 6.                 | Locafit Group .....               | 1,436                  | 4.46%         | 1,754        | 4.6%          | 1,927        | 4.4%          | 9.83%                    |
| 7.                 | Selmabipiemme.Leasing S.p.A. .... | 1,259                  | 3.91%         | 1,389        | 3.6%          | 1,922        | 4.4%          | 38.37%                   |
| 8.                 | BPU Leasing—Esaleasing Group      | 864                    | 2.68%         | 931          | 2.4%          | 1,430        | 3.2%          | 53.68%                   |
| 9.                 | FINECO Leasing S.p.A. ....        | 1,621                  | 5.03%         | 1,472        | 3.9%          | 1,402        | 3.2%          | −4.73%                   |
| 10.                | Centro Leasing S.p.A. ....        | 1,188                  | 3.69%         | 1,227        | 3.2%          | 1,260        | 2.9%          | 2.70%                    |
| Top 10 .....       |                                   | 18,661                 | 57.91%        | 23,266       | 60.9%         | 27,641       | 62.6%         | 18.81%                   |
| Total Market ..... |                                   | 32,222                 | 100.00%       | 38,185       | 100.00%       | 44,160       | 100.00%       | 15.65%                   |

Source: Assilea.

In 2005, the Bank held 14.3% of the Italian leasing market in terms of the value of agreements and was the largest operator. The other main players in the Italian market are Locat S.p.A. (a member of the Unicredit Italiano group of companies), Intesa Leasing S.p.A. (a member of the Banca Intesa group), SanPaolo Leasint S.p.A., Locafit S.p.A., Fineco Leasing S.p.A. (a member of the Capitalia group) and Banca Agrileasing S.p.A. (a member of the ICCREA group).

The position of the Group in individual market sectors in 2005 and 2004, in terms of the value of the transactions, is set forth in the following tables.

|                                         | Year ended 31 December 2005 |                 |                 |          |
|-----------------------------------------|-----------------------------|-----------------|-----------------|----------|
|                                         | Banca<br>Italease<br>Group  | Total<br>Market | Market<br>Share | Ranking  |
|                                         | (€ millions)                |                 | (%)             |          |
|                                         |                             |                 |                 |          |
| <b>Other assets leases .....</b>        | <b>2,260</b>                | <b>22,210</b>   | <b>10.18%</b>   | <b>2</b> |
| of which:                               |                             |                 |                 |          |
| motor vehicles .....                    | 486                         | 8,870           | 5.48%           | 5        |
| capital goods .....                     | 1,345                       | 11,356          | 11.84%          | 1        |
| aircraft, sea vessels and railway ..... | 429                         | 1,984           | 21.63%          | 2        |
| <b>Real property leases .....</b>       | <b>4,037</b>                | <b>21,950</b>   | <b>18.39%</b>   | <b>1</b> |
| <b>Total leasing .....</b>              | <b>6,298</b>                | <b>44,160</b>   | <b>14.26%</b>   | <b>1</b> |

Source: Assilea.



| Year ended 31 December 2004            |                            |                 |                 |         |
|----------------------------------------|----------------------------|-----------------|-----------------|---------|
|                                        | Banca<br>Italease<br>Group | Total<br>Market | Market<br>Share | Ranking |
|                                        | (€ millions)               |                 | (%)             |         |
| Other assets leases .....              | 2,510                      | 21,246          | 11.8%           | 2       |
| of which:                              |                            |                 |                 |         |
| motor vehicles.....                    | 427                        | 8,575           | 5.0%            | 6       |
| capital goods .....                    | 1,739                      | 11,027          | 15.8%           | 1       |
| aircraft, sea vessels and railway..... | 344                        | 1,644           | 20.9%           | 2       |
| Real property leases .....             | 2,275                      | 16,795          | 13.5%           | 2       |
| Total leasing .....                    | 4,785                      | 38,041          | 12.6%           | 2       |

Source: Assilea.

### Factoring

Like the leasing sector, the factoring market is also highly concentrated with the three largest factoring companies representing over 50.0% of the factoring market and the largest ten representing over 80.0% of the factoring market during the last three years, as evidenced in the following table.

| Year ended 31 December        |              |               |          |               |          |               |                          |
|-------------------------------|--------------|---------------|----------|---------------|----------|---------------|--------------------------|
| Company, by rank              | 2003         |               | 2004     |               | 2005     |               | % Variation<br>2005/2004 |
|                               | Turnover     | % of<br>Total | Turnover | % of<br>Total | Turnover | % of<br>Total |                          |
|                               | (€ millions) |               |          |               |          |               |                          |
| 1. Intesa Mediofactoring .... | 27,747       | 23.37%        | 26,119   | 24.85%        | 25,312   | 25.04%        | -3.09%                   |
| 2. Ifitalia S.p.A. ....       | 21,467       | 18.08%        | 17,687   | 16.82%        | 15,931   | 15.76%        | -9.93%                   |
| 3. Italease Factorit.....     | 10,840       | 9.13%         | 11,497   | 10.94%        | 12,834   | 12.70%        | 11.63%                   |
| 4. Unicredit Factoring.....   | 4,627        | 3.90%         | 5,904    | 5.62%         | 5,539    | 5.48%         | -6.18%                   |
| 5. Capitalia L&F.....         | 6,135        | 5.17%         | 4,430    | 4.21%         | 5,247    | 5.19%         | 18.46%                   |
| 6. Fidis.....                 | 16,478       | 13.88%        | 10,413   | 9.90%         | 5,008    | 4.96%         | -51.90%                  |
| 7. MPS L&F.....               | 3,876        | 3.27%         | 3,947    | 3.75%         | 4,105    | 4.06%         | 4.01%                    |
| 8. CBI Factor.....            | 2,452        | 2.07%         | 4,519    | 4.30%         | 3,791    | 3.75%         | -16.11%                  |
| 9. Fercredit .....            | 2,873        | 2.42%         | n.a.     | n.a.          | 3,317    | 3.28%         | n.a.                     |
| 10. Centrofactoring.....      | 2,294        | 1.93%         | 2,884    | 2.74%         | 2,943    | 2.91%         | 2.03%                    |
| Top 10 .....                  | 98,789       | 83.22%        | 87,400   | 83.14%        | 84,027   | 83.14%        | 100.00%                  |
| Total Market.....             | 118,705      | 100.00%       | 105,126  | 100.00%       | 101,068  | 100.00%       | -3.86%                   |

Source: Assifact

Many of the participants from the banking sectors have adopted business policies, including commercial policies, credit policies and operating policies in line with those of their holding company. The lower turnover in 2005 as compared to 2004 was mainly due to the negative results of large participants from the banking sectors while their small and medium-sized competitors generally achieved more or less significant growth rates, in particular towards the end of the year. For the year ended 31 December 2005, factoring without recourse accounted for 64% of total turnover in the factoring sector (65% in 2004), decreasing in volumes by 4.9%, while factoring with recourse represented 36% of the market (35% in 2004) and was down in terms of volumes by 2.3%.

In the Italian factoring market, Italease Factorit was ranked third, with a market share of 12.7% in 2005, compared to the overall negative results of the market which decreased by 3.9%.

## Intellectual Property

The Bank does not depend on patents, trademarks, or licences, except for the trademarks and logos concerning the name Banca Italease and the name of each of the other Group companies, and the Group licenses to conduct Group businesses. The Group also holds registered trademarks to protect the names of its products and services. These trademarks expire between 2006 and 2015.

## Real Property

The Bank owns or leases real property to serve as headquarters, offices and commercial space for its business operations. The Bank also owns or leases, directly or through its subsidiary Italease Gestione Beni, property which serves as warehouse or other storage space for the management of assets which are to be or were formerly leased. The Bank also leases parking space.

## Employees

As at 31 December 2005, the Group had 888 employees. The following table sets forth the average number of group employees during the years ended 31 December 2004 and 2005.

|                                   | Year ended 31 December |                                  |            |
|-----------------------------------|------------------------|----------------------------------|------------|
|                                   | 2004                   | 2004<br>Pro forma <sup>(1)</sup> | 2005       |
| <b>Full-time personnel</b>        |                        |                                  |            |
| a) Senior Managers.....           | 28                     | 34                               | 37         |
| b) Middle Managers .....          | 181                    | 264                              | 291        |
| c) Other full-time personnel..... | 344                    | 460                              | 486        |
| <b>Other personnel</b> .....      | –                      | –                                | <b>25</b>  |
| <b>Total</b> .....                | <b>553</b>             | <b>758</b>                       | <b>839</b> |

<sup>(1)</sup> Recalculated as if the merger with Factorit had occurred on 1 January 2004.

Mercantile Leasing, Italease Factorit and Itaca Service are the only companies in the group which have trade unions. Management believes that the Group's relations with the trade unions are good. These companies have never experienced work stoppages or other labour unrest resulting in a material adverse effect to their businesses.

## Research and Product Development

The Bank is active in the generation and distribution of lending instruments (predominantly leasing and factoring products) aimed at businesses, and more recently, private individuals. The Bank has carefully managed its research and development policy over the years, and this has contributed to the improvement of its competitive position, with the Bank currently placed second in Italy in leasing and third in factoring. Research is conducted internally, by the Bank's department of strategic marketing.

Research is predominantly conducted in three areas:

- analysis of the market and its main trends (in particular in investments), and the monitoring and study of sector data necessary to understand the behaviour of the market as a whole and the Group's relative position therein;
- the study of the competitive environment and the other main players in the market in order to monitor new developments in products, procedures and distribution channels and measure the efficiency of different distribution models; and
- the analysis of the Bank's internal efficiency and effectiveness in order to ensure that the Bank maintains its overall competitiveness.

The information drawn from research forms the basis of the Bank's planning and commercial development and has allowed the Bank to:

- reach new customer markets (in 2004 the Bank entered the market for leasing to private individuals through the products known commercially as "Tiguido", "Tiarredo" and "Tivaro" which have been specifically designed to encourage leasing by private customers);
- develop the agreement with BancoPosta, which allows for the distribution of traditional leasing products as well as mortgages and insurance products through the distribution network of Poste Italiane S.p.A.; and
- develop initiatives and incentives for the Group's sales force; for example, the "Tipremio" competition, which took place during 2004, was developed in order to increase the productivity of certain of the marketing and distribution channels, and reward the best ideas put forward by the sales network.

Currently, a series of projects is being developed with a view to identifying new marketing and distribution opportunities:

- the development of new and simpler methods for entering into leasing arrangements, which finance smaller investments;
- the possible introduction of "staff leasing" to the market (where a lessor leases employees from a supplier); and
- the development of leasing to governmental bodies.

## **Legal Proceedings**

### ***General***

As at the date hereof, the Bank is party to a number of legal proceedings that have arisen in the ordinary course of business. The Bank initiated 1,265 legal proceedings to recover assets and/or receivables valued at approximately €103.9 million from customers for non-payment (for which provisions in the sum of €34.0 million have been made in its financial statements) and 950 legal proceedings to recover assets and/or receivables valued at approximately €115.3 million from customers in liquidation or bankruptcy proceedings (for which provisions in the sum of €57.2 million have been made).

On 14 March 2005, Factorit was served with a claim by Parmalat S.p.A., which is currently under extraordinary administration, for the revocation, pursuant to Italian insolvency law, of a series of assignments of receivables to Factorit, for an aggregate amount of €52,049,100 during the year prior to the declaration of insolvency of Parmalat. Based on a preliminary analysis of the claims of Parmalat and the legal advice of external advisors, management believes that there are well-founded arguments to dismiss these proceedings and no specific provision has been made in respect of this potential liability. However, no assurance may be given as to the outcome of the dispute and, as at the date of this Prospectus, the proceedings are still pending.

### ***Tax***

The Bank has received notices regarding investigations on direct taxes for the years 1995, 1996, 1997 and 1998, all of which are with respect to the operations solely of Banca Italease. Tax investigations for the years 1995, 1996 and 1997 which sought additional corporation tax (IRPEG, or *Imposta sul Reddito delle Persone Giuridiche*) in a total amount of €32.4 million plus penalties and interest were concluded in the Bank's favour by the Regional Tax Commission (*Commissione Tributaria Regionale*). The tax division of the region of Lombardy could appeal against this decision before the Court of Cassation (the Italian Supreme Court).

The tax investigation for the year 1998 for a total amount of additional IRPEG of €4.4 million plus penalties and interest, were concluded in the Bank's favour by the Provincial Tax Commission (*Commissione*

*Tributaria Provinciale*). However, the tax division of the region of Lombardy has appealed against this decision.

With respect to the tax year 1999, the Bank has received notice of investigations for additional VAT due in the amount of €0.4 million plus penalties and interest. As at the date of this Prospectus, the Bank is still awaiting the decision of the Provincial Tax Commission. Based on the legal advice of its tax advisers, the Bank believes that the claims against it are groundless and has not set aside any special reserves for these potential liabilities. No assurance may be given, however, as to the outcome of this dispute. A negative outcome in any such investigation may have an adverse effect on the Group's results of operations and financial condition. Potential liabilities with respect to these investigations are discussed in the notes to the Bank's consolidated financial statements as at and for the year ended 31 December 2005.

## **Risk Management — General**

### ***General***

The purpose of risk management is to monitor and control the size and concentration of risk arising from interest rate and exchange rate fluctuations, liquidity risks, credit risks and operational risks. As at the date of this Prospectus, the Bank does not carry out any proprietary trading in securities or other financial instruments and therefore is not exposed to market risk.

The Bank manages and supervises risks through its risk management committee, its risk management office, the different departments involved in front-line controls and the internal audit service. The risk management committee is drawn from key executives within the Group and is chaired by the chief executive officer. The committee has the responsibility for developing strategies and codes of conduct with regard to all types of risks. The risk management committee meets on a monthly basis and is responsible for developing methods and processes to measure risks and integrated controls within and among the group, with the aim of effectively managing the capital at its disposal.

The various business departments involved in approving customers for leases and other credit arrangements are considered to be the “front-line” controls and are responsible for ensuring that the Bank complies with credit rules and credit limits and are part of its system of checks and balances.

### ***System of Internal Controls***

The Group system of internal controls comprises all the procedures and organisational structures that seek to ensure that business strategies are followed and carried out in the most effective and efficient manner possible; that the value of the Bank's assets are safeguarded and protected against losses; that the accounting data and management records are accurate and reliable; and that the transactions are conducted in accordance with the law, regulatory requirements, relevant company by-laws and internal regulations.

The system of internal controls assesses and controls all the various forms of risk, seeking where possible to quantify the impact of such risk.

It comprises a number of different kinds of controls, on three different levels:

- front-line controls (first level);
- risk management controls (second level); and
- internal auditing (third level).

The Bank has prepared its own set of internal control regulations and has approved sets of organisational process regulations, governance process regulations and general business regulations which set forth the methods by which the criteria is applied and the role of the administrative bodies, audit bodies and individual business units. The current rules governing internal controls call for periodic checks to be made with regard to the suitability, organisational risk and functioning of the system of controls itself. In accordance with regulatory requirements, the Bank's system of internal controls has gradually been extended to all the companies in the Group.

The criteria the Bank applies for risk management has also been carried over to its other business activities, including decision-making, lending, financing, internal audits, information technology, information management, accounting, strategic planning, purchasing and the handling of personal data.

The internal control regulations require the Bank, on the basis of the information received from its subsidiaries regarding individual business processes (production processes, revenues processes, risk-based processes, processes regarding assets), to verify that the Group is complying with the requirements imposed by the Bank of Italy. The Bank has also adopted an operating procedure.

The Bank conducts periodic internal audits to ensure that its subsidiaries are implementing its group risk management rules effectively and that the risk management criteria is being correctly applied. The Bank conducts these checks both remotely and through on-site visits.

First-level controls seek to ensure that the transactions are conducted properly. These are conducted through the same production structures (for example, systematic controls of a hierarchical nature and random audits) or are incorporated as part of the operating procedures, including the automated operating procedures, or form part of back office activities.

There are two kinds of second-level controls, which involve:

- the use of dedicated structures, to measure risk, particularly the Risk Management Committee; and
- checks carried out by departments that are not involved in the provision of credit and therefore not engaged in front-line controls; such checks ensure that the credit limits assigned to the various group levels have been complied with and that the individual production areas are in line with the risk-return objectives.

The third-level controls consist of the periodic assessment of the Bank's internal control system to ensure that it is functioning correctly. This takes place at predetermined intervals and whenever there is a major change in the business (such as the Group's entry into new markets or the launch of new products). These controls examine the nature and intensity of the risks assumed and the business requirements as a whole.

The third-level controls are conducted by the internal audit department, which is a separate and independent department. The board of directors, the executive committee, senior management and the board of statutory auditors are regularly updated on internal audit activities. The internal audit department continually exchanges information with the other departments and sections performing controls, and in particular with the risk management committee as well as the chief executive officer, the board of directors and the board of statutory auditors.

### ***Credit risk—general***

Credit risk is the risk that a borrower will not promptly meet its payment obligations arising under one of its agreements with the Bank, resulting in a financial loss. The risk is normally in relation to the approval of a leasing arrangement, a medium-term or long-term loan, factoring or interest rate swaps.

At the Bank, the Group receivables management department, which the credit policies unit, the large exposure monitoring unit and the internal rating office all report to, establishes on a periodic basis the optimal profile of the overall receivables portfolio, in terms of risk, sector of industry, country/area risk and large exposures, for which it also fixed a ceiling on the amount of risk allowable in relation to Group receivables.

In 2004 the Bank reviewed its processes for assessing and monitoring credit risk. The Bank recently completed an internal review of its credit risk management techniques and adopted a strategic credit management portfolio model, which allows the Bank to optimise the composition of its portfolio on the basis of a number of different criteria (including geographical location and sector, among others). This technique, commonly known as Credit VaR (Credit Value-at-Risk) has, in trials, allowed the Bank to obtain important measures in terms of the concentration and correlation of the Bank's portfolio. The ability to quantify such items enables the Bank to focus its commitments appropriately.

In order to meet deadlines, for the introduction of the New Basel Capital Accord (also known as Basel II), the Bank has employed some leading edge software tools and models. The first of these changes has already been used to assess and monitor its existing customers.

The assessment of the customers' credit risk is done through a rating which seeks to quantify what is commonly known as a "first-hurdle" risk. The process is completed by an assessment of the security offered in support of the transaction and the assets that are to be leased, which permits measurement of "second-hurdle" risks. The rating model used for an assessment of the customer's solvency is based on the results of statistical scoring models combined with the subjective assessment made by the manager. The choice of which rating model to use has been made partly as a result of the requirements provided under Basel II. The automatic, statistically-based component of the model uses a variety of internal and external sources of information present on the Bank's computer system. The final rating, used for approval and credit review procedures is completed by a qualitative, subjective evaluation, made using a questionnaire completed by the person making the assessment. The process of quantifying the ratings and of calculating the probability of default takes place on a monthly basis, and customers are classified and placed into a number of different "pass" or "fail" categories.

With regard to the assessment of the collateral in a given transaction and the assets that are to be leased, the Bank is currently implementing a system for quantifying the rates of recovery (or the losses in the case of default). This system is expected to be put into use by the end of 2006. The assessment of losses in the case of default, together with probability and exposure to default, will allow the Bank to calculate the components of expected loss and unexpected loss necessary for auditing and modernising the Bank's policies for assessing credit risk.

The Bank has recently begun adapting its credit risk management practices to the requirements of Basel II.

Following the merger with Factorit, the Bank is gradually extending its policies regarding the composition of the receivables portfolio and its credit management strategies to amounts receivable under factoring arrangements and plans to have such policies in place prior to the end of 2006.

### ***Operational management of credit risk***

At an operating level, credit risk is managed through a process that comprises the following stages:

- application review;
- grant/approval;
- management; and
- monitoring and renewal.

Credit risk assessments are made in order to establish the level of risk connected with the lending in question, including economic risk (the probability that the prospective borrower will become insolvent); and financial risk (failure to repay the amounts outstanding as they fall due). To that end, the economic, financial and asset positions of a prospective borrower are assessed using several specific analyses. In particular, the following are reviewed:

- the validity and accuracy of the information supplied and the statements made by the prospective customer on its loan application, together with supplementally acquired internal information such as the applicant's dealings with the Group's other customers and information available regarding the applicant from the Bank of Italy's risks centre.
- the qualitative features of the relevant business, including the economic sector in which it operates, the products and technology in use, its revenues, market shares held, management capabilities and the outlook for the sector to which it belongs. In this regard, an assessment of the feasibility of the business's activities and programmes is made;
- the quantitative features of the businesses, taking into account its financial structure, the manner in which it meets its financial requirements, its economic structure and the structure of its assets. These



aspects are also assessed in terms of their future activities, in order to verify the variables that contribute to its stability;

- the qualitative and quantitative features of those applicants that are not businesses, taking account of their financial and assets capabilities, their conduct in previous dealings, and their professional standing;
- qualitative and quantitative aspects of groups, using consolidated financial information and the information available on the market through institutions; and
- the suitability and validity of the fixed security which the applicant is offering, or which may be offered by third-party guarantors in the form of personal guarantees.

For leasing transactions, certain additional risk assessments are considered:

- an assessment of the size of the business, and its size relative to that of the proposed transaction and the ability to repay the annual amount taking into consideration any commitments that have yet to make an impact in the business's financial statements;
- an analysis of the aims and features of the investment and its impact upon the business. The investment may be replacing an existing obsolete asset or it may be made in order to develop the business by adding new plants (in order to address increasing demand, enable entry into new markets, cope with an expanding customer base, introduce new products, or with a view to performing work internally that was previously provided externally);
- an assessment of the asset's marketability and its pricing;
- checks with the suppliers (including detailed investigations of the applicant's dealings with its supplier, if any); and
- real property leasing particularly, a detailed assessment of the seller of the property (and of any persons who might succeed to the seller's position in the two years following the sale) so as to minimise the risk of the transaction being revoked under insolvency legislation.

### ***Factoring***

With regard to factoring transactions, all the information compiled is assessed in relation to the product that is to be factored and the additional services requested by the prospective customer. As a result of policies governing the group's assumption of credit risk, the transaction may be structured so as to make any drawdowns conditional upon the customer obtaining suitable documentation in support of the nature of the receivable. In addition, a risk limit is placed upon each of the assigned debtors, for products with a financial component. This limit is determined by an office dedicated specifically for this purpose and separate from the commercial division.

Information is also compiled regarding the debtors such as their turnover and the average number of days that they are late making payments. The limits placed upon customers who are not debtors, and the operating features of the factoring agreement and any consequent advances, are settled by the loans office. The grant is made jointly by committees, in accordance with the separation of responsibilities provided under internal procedures. The results of the above inquiries are summarised in a loan report, which includes an evaluation of the applicant's credit risk and this is then submitted for approval by the relevant internal bodies.

### ***Powers***

The Bank's credit facilities may be approved up to a maximum amount of risk per customer or per financial group at a group level. In connection with the assumption of new credit, separate departments are required to propose and approve a given transaction, so as to create a system of checks and balances. In addition, there are limits to the amount of credit which may be approved by various departments and managers.

The following table sets forth the maximum amount of credit which may be approved by each of the various group levels.

| <b><u>Responsible Body</u></b>                                     | <b><u>Maximum Approval Amount</u></b> |
|--------------------------------------------------------------------|---------------------------------------|
|                                                                    | <i>(€ thousands)</i>                  |
| Board of Directors .....                                           | Within capital adequacy limits        |
| Executive Committee .....                                          | Up to 30,000                          |
| Credit Committee .....                                             | Up to 15,000                          |
| Chief Executive Officer.....                                       | Up to 7,000                           |
| General Manager.....                                               | Up to 5,000                           |
| Deputy General Manager Business .....                              | Up to 3,000                           |
| Credit Area Manager .....                                          | Up to 1,500                           |
| Credit Office Manager/Large Corporate Manager .....                | Up to 750                             |
| Branch Office Credit Area Manager BancoPosta Channel Manager ..... | Up to 500                             |
| Branch Office Credit Manager Branch Office Manager .....           | Up to 150                             |

These credit approval powers are exercised in accordance with the granted limits, and in the manner set forth by the Bank's circulars and guidelines.

In 2004, the Bank adopted a system of credit scoring for use in approving transactions where the amounts involved were relatively small. The Group has made a strategic decision that the approval procedures by the system should be selective.

Powers to approve transactions for Italease Factorit are divided into two broad areas:

- approvals regarding the assignors; and
- approvals regarding the assigned debtors.

Within each of these two broad areas, the authority to assume risk is divided into categories based on the amount involved, while at least two authorised individuals are required to approve each application. With regard to the assignors, approval authority varies depending on the nature of the proposed transaction. There are also specific requirements governing who may approve resolutions regarding concentration of risk, business groups and export factoring.

### ***Monitoring***

With reference to monitoring, the Bank's customers are subject to constant and careful scrutiny, in order to identify and eliminate any negative financial indicators that may potentially threaten the credit facilities put in place. This is conducted by a dedicated committee which, in addition to having experts in financing, also has the benefit of sophisticated software applications.

The credit monitoring system identifies possible financial difficulties among the customers and acts as an efficient early-warning system, in that it allows the Bank to periodically monitor those customers with whom the group directly or indirectly has amounts outstanding.

The principal functions of the monitoring procedure are the following:

- identify deteriorating positions in order to allow for a more detailed assessment of problems encountered and prompt intervention to resolve any such problems;
- analyse anomalous positions as they develop;
- judge the degree of risk as a whole, in relation to individual customers;
- measure the degree of confidence in customers, in support of review and renewal procedures, and to further identify lending opportunities;

- obtain an overview of the lending made by the bank, through analyses by the organisational unit, geographical area, customer category, and other clusters; and
- permit the formation of judgements of operating units' performance overall, highlighting anomalies and organisational dysfunctions.

Deteriorating positions, and positions of customers with the largest amounts outstanding (the 50 largest customers) are analysed and managed individually, by dedicated offices who work under the Deputy General Manager of Business.

Customer monitoring is conducted on the basis of analytic models that make use of all available internal and external information. The information available internally is mainly comprised of the information present within the bank's archives; in addition, external information that is reflected in the customer's profile within industry sectors and as a borrower is also considered. Currently, external sources of information include the Bank of Italy's Risks Centre, the Risks Centre's records for smaller loans, the Assilea risks centre, and publicly available company financial information.

The monitoring process also takes into consideration information relating to external events that might have an impact upon the transaction in the future (adverse events and direct banking information). The process allows situations of potential risk to be flagged so that suitable measures can be taken. Positions that the monitoring process highlights as critical are handled in accordance with specific internal procedures. Reviews of the credit limits for customers making assignments of receivables are conducted in accordance with internal regulations.

Once the sources of information for monitoring have been identified, the analytic model identifies anomalies which warn the Bank that there are apparent difficulties or imbalances.

With regard to Factorit, risk is constantly monitored through the information which the Bank acquire with regard to the receivables, and the position of the principal obligors and guarantors, if any.

### ***Interest rate risk***

Exposure to interest rate risk arises out of differences between the dates on which fixed-rate assets and liabilities fall due and differences in the repricing periods for floating-rate assets and liabilities.

The Bank controls its interest rate risk by seeking to match the dates on which assets and liabilities with ordinary customers fall due. The risk management process provides for exposure to risk to be assumed in light of probable fluctuations in interest rates, so that the impact of any changes thereto upon both interest margin and economic value may be assessed.

The different stages of the risk management process are intended to measure the Bank's exposure to this kind of risk through gap management techniques, particularly maturity gap techniques, which measure the sensitivity of interest rate margins to changes in interest rates; and secondly, duration gap and sensitivity analysis indicators, which measure the sensitivity of the economic value of the assets and liabilities in the financial statements, and also off-balance sheet positions.

As at 31 December 2005, the Bank's assets and liabilities were exposed to changes in interest rates. A parallel shift upward in the interest rate yield curve by 100 basis points would have exposed the Bank to a risk of loss of €4.16 million over a 12-month period; a parallel shift upwards in the interest rate yield curve of 100 basis points would have decreased the value of the Bank's portfolio by €7.37 million.

The analytical model calculates the impact of changes in interest rates on the margin through the weighting of individual gaps for the period between the average due date of the instalment and the end of the evaluation period (the "gapping period"); consequently the moments in which the interest rates for assets, liabilities and off-balance sheet items are identified, so that they may be placed in the appropriate time-frame. Because of the distribution of the gaps for such items over the time frame, the size of the impact upon the margin, with all other conditions remaining constant, varies depending on the time and date that the analysis falls. The gapping period is twelve months following the date of analysis.

Some transactions are particularly sensitive to market developments and where the coverage of these risks by other means is not practicable, particular forms of derivative instruments are used, such as interest rate swaps and forward rate agreements with recognised financial institutions.

On the basis of these principles, interest rate risk is calculated and monitored by the risk management unit, through an asset-liability management system, which allows the analysis of the impact of changes to interest rates on the anticipated interest rate (gap analysis) and the economic value of the principal (value analysis). For the purposes of calculating the risk to which assets are exposed, the risk indicator is also calculated as the ratio of the impact on the value of the Bank's portfolio to regulatory capital, as required by the Basel Committee.

Interest rate risk is also managed through daily monitoring of a number of reports on the behaviour of the financial markets and forecasts regarding future developments on the principal variables.

In the light of the Group's policy of systematically matching foreign currency items, the Bank believes that the Group's exposure to exchange rate risk is very limited.

### ***Liquidity risk***

Liquidity management is aimed at ensuring that the Bank is able to pay liabilities as they fall due, and to permit it to enter into new leasing and other commitments.

Liquidity risk is subject to a double control: (i) a strategic control, conducted by the Risk Management Office, which verifies the level and behaviour of principal liquidity indicators, based on internal models; and (ii) a control upon any misalignment between the funds being obtained and the commitments on the markets with financial counterparties, managed separately for the euro and non-euro liquidity positions. The Group makes use of a number of sources of financing, which include securitisations, bond issues, and financing on the interbank market. It also seeks to minimise liquidity risk by maintaining lines of credit for short-term borrowings with a broad base of shareholder banks and other banks and financial institutions.

In 2005, no particularly difficult situations were identified in the Group's overall liquidity or that of other companies of the Group. The Group, in order to address potential situations of financial strain, maintains suitable lines of credit available upon request.

### ***Operating risk***

Operating risk is determined by a large number of factors which depend on external events or shortcomings, or errors relating to processes, individuals and systems.

To address this kind of risk, Banca Italease has approved a project for the identification of critical processes and intervention necessary for the mitigation of the connected risk. The project provides that the measurement method for measuring capital adequacy in light of operating risks shall be selected prior to the end of 2006 and implemented prior to the end of 2007, in accordance with the timetable set forth by applicable regulations, in particular Basel II.

### **Capital Adequacy**

The Bank has adopted risk-based capital ratios ("Capital Ratios") pursuant to EU capital adequacy directives. Italy's current capital requirements are in many respects similar to the requirements imposed by the international framework for capital measurement and capital standards of banking institutions of the Basel Committee on Banking Regulations and Supervisory Practices. The Capital Ratios compare core (Tier I) and supplemental (Tier II) capital requirements to banks' assets and certain off-balance sheet items, weighted according to risks ("Risk-Weighted Assets").

The Bank calculates and reports its capital adequacy ratios on a consolidated basis. In accordance with Bank of Italy regulations, the Bank is required to maintain a total capital adequacy ratio of at least 8%. The

following table shows the Group's Tier I and Tier II capital levels and the relative ratios as at 31 December 2004 and 2005:

|                                                                                | <b>As at 31 December</b> |                |
|--------------------------------------------------------------------------------|--------------------------|----------------|
|                                                                                | <b>2004</b>              | <b>2005</b>    |
|                                                                                | <i>(€ thousands)</i>     |                |
| <b>Regulatory Capital</b>                                                      |                          |                |
| Tier I Capital .....                                                           | 343,593                  | 598,754        |
| Tier II Capital .....                                                          | 175,538                  | 209,665        |
| Deductible items .....                                                         | —                        | —              |
| <b>Total Regulatory Capital .....</b>                                          | <b>519,131</b>           | <b>808,419</b> |
| <b>Capital Ratios</b>                                                          | <i>(%)</i>               |                |
| Tier I Capital to total Risk-Weighted Assets (“Tier I Capital Ratio”) .....    | 6.56                     | 6.13           |
| Regulatory Capital to total Risk-Weighted Assets (“Total Capital Ratio”) ..... | 9.91                     | 8.28           |

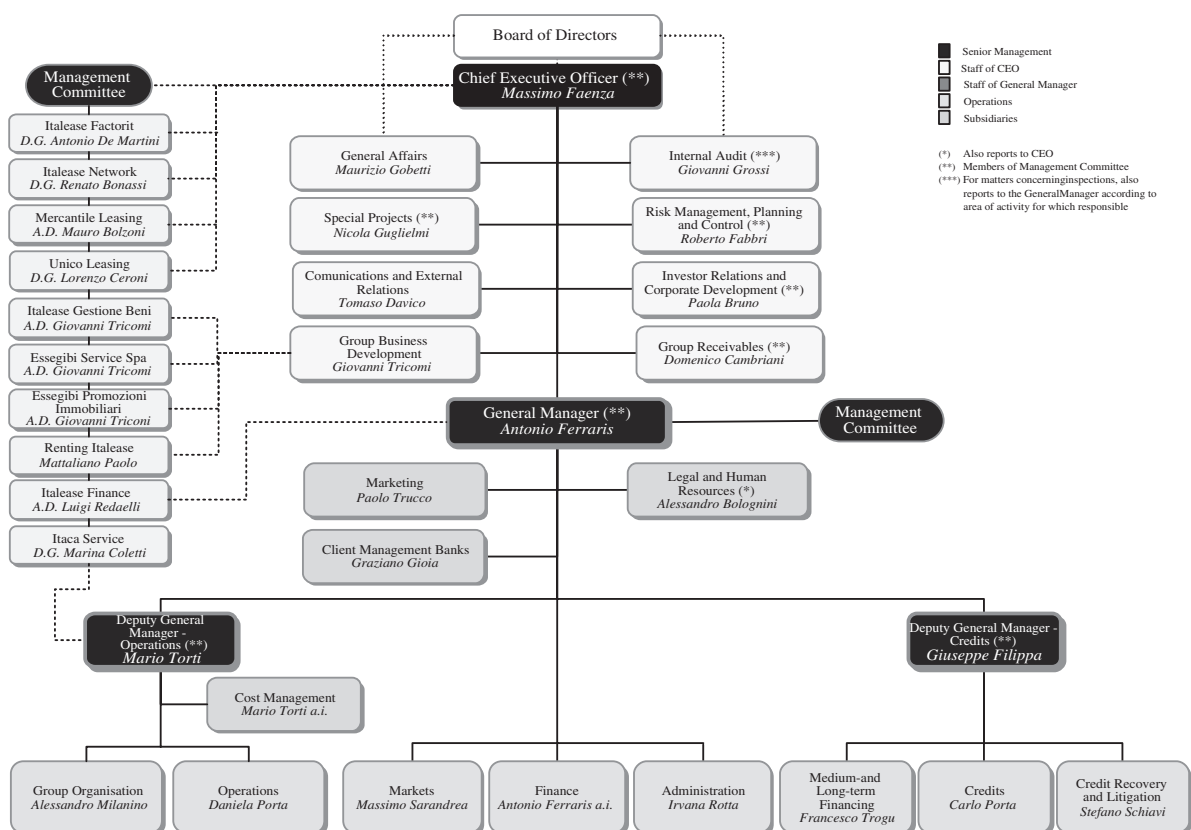
For a discussion of the regulatory framework relating to the Bank's regulatory capital, see “Regulation and Supervision—Capital Adequacy Requirements”.

## **Management**

The following is a summary of certain information concerning the Bank's management, certain provisions of its by-laws (statuto) and Italian law regarding corporate governance. This summary is qualified in its entirety by reference to the Bank's by-laws and/or Italian law, as the case may be, and it does not purport to be complete.

### **General**

The management of the Bank is the responsibility of the board of directors (the “Board of Directors”), which can, within the limits prescribed by Italian law, delegate its general authority to an executive committee and/or one or more general managers. The board of directors determines the powers of the chief executive officer. In addition, the Italian Civil Code requires us to have a supervisory body, the board of statutory auditors.



## Board of Directors

Pursuant to Article 14 of the By-laws, the Bank is managed by a board of directors which must have no less than nine and no more than 18 members. At the date of this Prospectus, the Board of Directors is comprised of 16 members appointed by the shareholders' meeting on 11 April 2005, for a term of office ending on the date of approval of the financial statements for the year ending 2007.

Seven out of 16 members of the Board of Directors are executives or directors of the Bank's shareholders and five of these seven directors hold executive or directorship positions at the Bank's key shareholders.

The following table lists the current members of the Board of Directors.

| Name                     | Title                                  | Year of Birth | Year Appointed | Roles Outside the Group                                           |
|--------------------------|----------------------------------------|---------------|----------------|-------------------------------------------------------------------|
| Lucio Rondelli .....     | President <sup>(1)(3)(4)</sup>         | 1924          | 2005           | –                                                                 |
| Ettore Caselli.....      | Vice-President <sup>(1)(3)</sup>       | 1942          | 2005           | General Manager of Banca Popolare dell'Emilia Romagna             |
| Fabio Innocenzi.....     | Vice-President <sup>(1)(4)</sup>       | 1961          | 2005           | Chief Executive Officer of Banco Popolare di Verona e Novara      |
| Piero Luigi Montani..... | Vice-President <sup>(1)</sup>          | 1954          | 2005           | Chief Operating Officer of Banca Antonveneta                      |
| Massimo Faenza.....      | Chief Executive Officer <sup>(1)</sup> | 1965          | 2005           | –                                                                 |
| Maurizio Biliotti.....   | Director <sup>(1)</sup>                | 1953          | 2005           | Head of strategic business planning of Banca Popolare di Milano   |
| Carlo Buzio .....        | Director                               | 1950          | 2005           | Head of equity investments at Banca Popolare di Vicenza           |
| Giovanni Cartia .....    | Director <sup>(2)</sup>                | 1928          | 2005           | President and Chief Executive Officer of Banca Popolare di Ragusa |
| Spartaco Gafforini.....  | Director <sup>(2)(3)(4)</sup>          | 1946          | 2005           | General Manager of Banca Cooperativa Valsabbina                   |
| Pasquale Lorusso.....    | Director <sup>(2)</sup>                | 1945          | 2005           | General Manager of Banca Popolare di Bari                         |



| <u>Name</u>                  | <u>Title</u>                     | <u>Year of Birth</u> | <u>Year Appointed</u> | <u>Roles Outside the Group</u>                            |
|------------------------------|----------------------------------|----------------------|-----------------------|-----------------------------------------------------------|
| Renato Mastrostefano .....   | Director <sup>(2)(3)(4)</sup>    | 1934                 | 2005                  | Chief Executive Officer of Banca Popolare del Lazio       |
| Nicolò Melzi di Cusano ..... | Director                         | 1938                 | 2005                  | –                                                         |
| Mario Alberto Pedranzini ... | Director <sup>(1)</sup>          | 1950                 | 2005                  | General Manager of Banca Popolare di Sondrio              |
| Angelo Piloni .....          | Director <sup>(1)</sup>          | 1946                 | 2005                  | General Manager of Reale Mutua Assicurazioni              |
| Errico Ronzo .....           | Director <sup>(1)(2)(3)(4)</sup> | 1948                 | 2005                  | General Manager of Banco Popolare di Puglia e Basilicata  |
| Pier Giorgio Signorelli..... | Director                         | 1950                 | 2005                  | Head of credit division of Gruppo Banca Popolare Italiana |

<sup>(1)</sup> Member of Executive Committee.

<sup>(2)</sup> Independent director.

<sup>(3)</sup> Member of Internal Audit Committee.

<sup>(4)</sup> Member of Compensation Committee.

As far as the Bank is aware and save as set out in the table above, there are no potential conflicts of interest between the directors and the Bank.

The directors are elected by a majority vote of the shareholders and hold office for a period of up to 3 years, as determined by the resolution appointing them. Directors may be re-elected for consecutive terms.

Pursuant to Article 19 of the By-laws, the management of the Bank is the exclusive responsibility of the directors, who may perform all acts they consider necessary for the achievement of the Bank's corporate purpose, except for those actions reserved by law or the by-laws for the shareholders' meeting.

### **Senior Management**

The following table lists the Bank's principal managers.

| <u>Name</u>               | <u>Position</u>                                               | <u>Year of Birth</u> | <u>With Group Since</u> |
|---------------------------|---------------------------------------------------------------|----------------------|-------------------------|
| Massimo Faenza.....       | Chief Executive Officer of Banca Italease                     | 1965                 | 2003                    |
| Antonio Ferraris .....    | General Manager and Chief Financial Officer of Banca Italease | 1952                 | 2000                    |
| Giuseppe Filippa .....    | Deputy General Manager of Banca Italease—Credits              | 1949                 | 2000                    |
| Mario Torti .....         | Deputy General Manager of Banca Italease—Operations           | 1950                 | 2003                    |
| Alessandro Bolognini..... | Director of Legal and Human Resources of Banca Italease       | 1962                 | 1988                    |
| Giuseppe Bertelli .....   | Chairman of Mercantile Leasing                                | 1940                 | 2004                    |
| Mauro Bolzoni .....       | Chief Executive Officer of Mercantile Leasing                 | 1955                 | 1982                    |
| Giovanni Tricomi .....    | Chief Executive Officer of Italease Gestione Beni             | 1947                 | 1977                    |
| Antonio De Martini .....  | General Manager of Italease Factorit                          | 1953                 | 2005                    |
| Elio Stracuzzi .....      | Chief Executive Officer of Italease Network                   | 1955                 | 2004                    |

Set forth below is certain biographical information relating to certain members of the Bank's senior management.

**Massimo Faenza.** Massimo Faenza has been chief executive officer of Banca Italease since 2003. Prior to joining the group, Mr. Faenza served as deputy general manager of Banca Mercantile Italiana, managing director of Banca Popolare di Novara and, more recently, managing director, head of the corporate division of Banco Popolare di Verona e Novara. He is chairman of the board of directors of Italease Gestione Beni, Italease Network and Italease Factorit.

**Antonio Ferraris.** Antonio Ferraris graduated with a degree in economics and business from the University of Pavia in 1977. He joined Banca Italease in 2000 and held various management positions prior to his appointment as chief financial officer in 2001 and general manager in November 2005. He is a member of the board of Italease Network and Mercantile Leasing.

**Giuseppe Filippa.** Giuseppe Filippa graduated with a degree in economics and business from the University of Turin in 1973. He joined Banca Italease in 2000. Prior to his appointment as deputy general manager in 2004, he served as head of the credit department of the bank. He is a member of the board of Italease Factorit, Mercantile Leasing and Italease Network.

**Mario Torti.** Mario Torti joined Banca Italease in 2003 as director of organisation and IT systems and now holds the position of deputy general manager of Banca Italease—Operations. He also serves as chief executive officer and chairman of the board of Itaca Service. Prior to joining the group, Mr. Torti served from June 2002 as managing director of Banco Popolare di Verona e Novara. From 2001 he was a manager at Banca Popolare di Novara and prior to that he worked for Credito Italiano.

**Alessandro Bolognini.** Alessandro Bolognini graduated with a degree in law from Cattolica University in Milan in 1986. He joined Banca Italease in 1988 and held various management positions prior to his appointment as director of legal and human resources. He is a member of the Legal Commission of Assilea.

**Giuseppe Bertelli.** Giuseppe Bertelli joined Banca Italease in 2004 as chief executive officer of Mercantile Leasing, where he had been general manager since 1985. Since April 2006, he has been chairman of Mercantile Leasing.

**Mauro Bolzoni.** Mario Bolzoni joined Banca Italease in 1982 and has held various management positions prior to his appointment in 2004 as head of sales, most recently acting as head of operations of the Bank. He was appointed chief executive officer of Mercantile Leasing in April 2006.

**Giovanni Tricomi.** Giovanni Tricomi joined Banca Italease in 1977 and held various management positions prior to his appointment in 1997 as chief executive officer of Italease Gestione Beni. Among his many roles within the group, he is head of new business development for the group and member of the board of Mercantile Leasing and Unico Leasing. He is a member of the boards of Essegibi Promozioni Immobiliari and Renting Italease.

**Antonio De Martini.** Antonio De Martini graduated with a degree in business administration from Bocconi University in 1977. Prior to becoming general manager of Italease Factorit, he served as general manager of Factorit. He is on the board of directors of Itaca Service and of Assifact.

**Elio Stracuzzi.** Elio Stracuzzi graduated with a degree in law from the University of Florence in 1977. He is currently chief executive officer of Italease Network. Prior to his appointment as chief executive officer of Italease Network, he was general manager of Mercantile Leasing.

### ***Executive Committee***

Pursuant to Article 22 of the Bank's By-laws, the Board of Directors is authorised to establish an Executive Committee and may delegate the authority for certain matters to such Executive Committee, in accordance with the provisions of the By-laws and applicable law. The Executive Committee is currently comprised of nine members and is as shown in the table under “—Board of Directors” above.

### ***Internal Audit Committee and Compensation Committee***

In accordance with applicable CONSOB rules, the Board of Directors passed a resolution on 15 April 2005, to establish an Internal Audit Committee as well as a Compensation Committee, composed of five members each and is as shown in the table under “—Board of Directors” above.

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

Pursuant to Article 28 of its By-laws, the Bank's board of statutory auditors consists of five auditors and two alternate auditors. The current members of the board of statutory auditors were appointed by the

shareholders on 11 April 2005 for a term of office ending on the date of approval of the financial statements for the year ending 2007, and are as follows:

| <u>Name</u>           | <u>Title</u>      | <u>Year of Birth</u> |
|-----------------------|-------------------|----------------------|
| Alfio Poli.....       | Chairman          | 1935                 |
| Luigi Anselmi.....    | Auditor           | 1941                 |
| Pio Bersani.....      | Auditor           | 1935                 |
| Bruno Filippi.....    | Auditor           | 1938                 |
| Lelio Scopa.....      | Auditor           | 1926                 |
| Attilio Guardone..... | Alternate Auditor | 1940                 |
| Nicola Tarantino..... | Alternate Auditor | 1956                 |

Members of the board of statutory auditors are elected by the shareholders and may be re-elected. Members of the board of statutory auditors may be removed only for just cause and with the approval of an Italian court. The term of office of the current members of the Bank's board of statutory auditors is scheduled to expire at the 2008 shareholders' meeting, which will be called for the purpose of approving the Bank's financial statements for the year ending 31 December 2007. Article 28 of the By-laws establishes a list-based voting system for the election of the statutory auditors, with a view to ensuring that minority shareholders may elect two auditors and one alternate auditor. All members of the board of statutory auditors are domiciled at the Bank's offices for the duration of their term.

For further information on the role of the board of statutory auditors, see "Regulation and Supervision—Corporate Governance—Supervisory bodies".

### ***Corporate Governance***

The Bank has modified its governance structure to comply with the self-governance code (*codice di autodisciplina*) of *Borsa Italiana* (the private company that manages the Italian Stock Exchange) established by the corporate governance committee for listed companies. In accordance therewith, on 11 February 2005, the Board of Directors adopted the following:

- (i) a code to manage internally and externally the use and disclosure of documents and information, in particular information regarding "price sensitive" and confidential information by employees and others who work on financial transactions, in line with Article 6 of the governance code; and
- (ii) a management conduct code to govern the information obligations and the limitations regarding certain transactions initiated by the Bank's directors, administrators and general managers, or by any other employee which has access to confidential information regarding the Bank or other companies in the Group and the disclosure of which could effect the Bank's or such companies' economic, financial or capital situation, including affecting the price of the listed financial instruments.

On 17 December 2004, in accordance with the self-governance code, the Board of Directors appointed Paola Bruno as head of investor relations. On 11 April 2005, shareholders amended certain by-laws regarding the role and the power of the chairman of the board, the managing director, the executive committee and the statutory auditors. On 15 April 2005, the Board of Directors, in accordance with the self-governance code, agreed to establish an Internal Audit Committee and a Compensation Committee.

In 2006, following the coming into force of Law No. 262 of 28 November 2005, the Bank integrated its internal procedure for transactions with related parties, including the internal procedure for resolving conflicts of interest in line with the provisions of Article 136 of the Consolidated Banking Law. Before making a decision regarding a transaction with a related party, the qualified body will be required to provide information regarding the nature of the relationship, the transaction, its financial terms, procedures followed, and the interest of and risks for the company and other important terms. To ensure that related party transactions are treated fairly and uniformly, the qualified body should request the assistance of one or more independent experts to provide an opinion on the financial conditions, technical aspects and legitimacy of the transaction. Finally, in 2006 both the codes referred to in (i) and (ii) above have been modified in accordance with new market abuse regulations.

### ***Independent Auditors***

Italian law requires companies whose shares are listed on an Italian regulated market to appoint a firm of independent auditors who must be registered with the special register provided for by Article 161 of the Consolidated Finance Law (*Testo Unico Finanziario*) that is mandated to verify: (i) during the fiscal year, that the company's accounting records have been correctly kept and accurately reflect the Bank's activities; and (ii) that the stand-alone and consolidated financial statements of the Bank present fairly the Bank's financial position and results of operations in accordance with Italian regulations governing financial statements. The independent auditors express their opinion on the financial statements in a report that may be consulted by the shareholders prior to the relevant shareholders' meeting.

The independent auditors are appointed by the ordinary shareholders' meeting for a term of three fiscal years (which may not be renewed more than twice). Their appointment must be notified to Consob. On 11 April 2005, the Bank re-appointed Deloitte & Touche S.p.A. as its independent auditors for the financial years ending 31 December 2005, 2006 and 2007. Deloitte & Touche S.p.A. is a member of Assirevi (the Italian Association of Auditors).

### ***Remuneration of Directors, Senior Management and Statutory Auditors***

The aggregate amount of remuneration paid by the Bank during the year ended 31 December 2004 to its directors was approximately €611,500 plus a total of €68,800 in attendance fees. The aggregate amount of remuneration paid by the Bank during the fiscal year ended 31 December 2005 to its directors was approximately €756,800 plus a total of €74,800 in attendance fees. The Bank has approved remuneration for 2006, which has been fixed at €756,500, excluding attendance fees.

Members of management are remunerated on the basis of a fixed salary plus a bonus tied to performance. For the year ended 31 December 2005, the Bank paid total remuneration to senior management of approximately €960,000 and approximately €227,500 to the members of the board of statutory auditors.

As at the date of this Prospectus, the Bank has no outstanding loans to its directors or executive officers, or to members of the board of statutory auditors.

### ***Directors' and Statutory Board Members' Ownership of Shares***

The Bank's directors or statutory auditors and their respective spouses and children did not, as at 31 December 2005, and do not currently, as at the date of this Prospectus, directly or indirectly own any equity interests in the Bank or Group companies, including any stock options other than as described below. On 6 May 2005, the Board of Directors resolved to allocate 1,981,500 of the 2,278,315 stock options approved by the shareholders at the 11 April 2005 shareholders' meeting to the managing director (751,500 stock options) and 15 top managers (1,230,000 stock options in the aggregate). Since that date, the remaining 296,815 stock options have also been allocated. Each stock option is exercisable for one of the Bank's ordinary shares.

## Shareholders

The following table lists, as at 10 May 2006, the only persons or entities known to be the beneficial owner of more than 2% of the Bank's shares:

| <b>Shareholders</b>                                           | <b>% of Total</b> |
|---------------------------------------------------------------|-------------------|
| Gruppo Banco Popolare di Verona e Novara <sup>(1)(2)(3)</sup> | 28.69%            |
| Gruppo Banca Popolare dell'Emilia Romagna <sup>(1)(3)</sup>   | 7.43%             |
| ABN AMRO Group/Banca Antonveneta <sup>(1)</sup>               | 7.23%             |
| Reale Mutua Assicurazioni <sup>(1)</sup>                      | 6.99%             |
| Banca Popolare di Sondrio <sup>(1)</sup>                      | 4.25%             |
| Fidelity International Limited                                | 2.34%             |
| Deutsche Asset Management                                     | 2.15%             |
| Banca Popolare di Milano <sup>(1)</sup>                       | 2.08%             |
| DWS Investment GmbH                                           | 2.07%             |
| FMR Corp.                                                     | 2.05%             |
| <b>Sub-total</b>                                              | <b>65.28%</b>     |
| Public <sup>(4)</sup>                                         | 34.72%            |
| <b>Total</b>                                                  | <b>100.0%</b>     |

<sup>(1)</sup> Parties to the Stability Agreement (See “—Distribution Channels—The Stability Agreement”).

<sup>(2)</sup> 21,873,318 shares, of which 18,345,402 are held pursuant to the Stability Agreement.

<sup>(3)</sup> Held through subsidiaries.

<sup>(4)</sup> Shareholders who hold less than 2.0% of the Bank's share capital.

So far as the Bank is aware, it is not directly or indirectly owned or controlled by any single person or group of persons, and there are no arrangements which may at a subsequent date result in a change of control of the Bank.

## Related Party Transactions

The following table shows a breakdown of the amount of the Group's debt funding as at 31 December 2005 from its key shareholder banks (that is, shareholders which are party to the Stability Agreement).

|                                           | <b>Amount due</b>    | <b>% of total fundings</b> |
|-------------------------------------------|----------------------|----------------------------|
|                                           | <i>(€ thousands)</i> |                            |
| Banca Popolare di Verona e Novara         | 798,506              | 19.2%                      |
| Gruppo Banca Popolare dell'Emilia Romagna | 476,514              | 11.4%                      |
| Reale Mutua Assicurazioni                 |                      |                            |
| Banca Antonveneta                         | 88,604               | 2.1%                       |
| Banca Popolare di Sondrio                 | 282,532              | 6.8%                       |
| Banca Popolare di Milano                  | 247,620              | 5.9%                       |
| <b>Total due to related parties</b>       | <b>1,893,776</b>     | <b>45.4%</b>               |
| Total due to banks                        | 4,166,464            | 100.0%                     |

The following table shows a breakdown of commissions paid by the Group to the Bank's principal shareholders for leasing contracts entered into through the Group's banking distribution channel for the year ended 31 December 2005.

#### Leasing commissions

|                                                        | <b>Amount<br/>paid</b> | <b>% of total<br/>commissions</b> |
|--------------------------------------------------------|------------------------|-----------------------------------|
|                                                        | <i>(€ thousands)</i>   |                                   |
| Banca Popolare di Verona e Novara.....                 | 1,162                  | 18.1                              |
| Gruppo Banca Popolare dell'Emilia Romagna.....         | 1,509                  | 23.5                              |
| Reale Mutua Assicurazioni.....                         | –                      | –                                 |
| Banca Antonveneta .....                                | 1,120                  | 17.4                              |
| Banca Popolare di Sondrio.....                         | 1,010                  | 15.7                              |
| Banca Popolare di Milano .....                         | –                      | –                                 |
| <b>Total commissions paid to related parties .....</b> | <b>4,801</b>           | <b>74.7</b>                       |
| Total commissions paid to banks .....                  | 6,428                  | 100.0%                            |

The following table shows a breakdown of the commissions paid by the Group to the Bank's principal shareholders for factoring contracts entered into through the Group's banking distribution channel for the year ended 31 December 2005.

#### Factoring commissions

|                                                        | <b>Amount<br/>paid</b> | <b>% of total<br/>commissions</b> |
|--------------------------------------------------------|------------------------|-----------------------------------|
|                                                        | <i>(€ thousands)</i>   |                                   |
| Banca Popolare di Verona e Novara.....                 | 763                    | 24.9                              |
| Gruppo Banca Popolare dell'Emilia Romagna.....         | 265                    | 8.7                               |
| Reale Mutua Assicurazioni.....                         | –                      | –                                 |
| Banca Antonveneta .....                                | 533                    | 17.4                              |
| Banca Popolare di Sondrio.....                         | 44                     | 1.4                               |
| Banca Popolare di Milano .....                         | 463                    | 15.1                              |
| <b>Total commissions paid to related parties .....</b> | <b>2,068</b>           | <b>67.6</b>                       |
| Total commissions paid to banks .....                  | 3,061                  | 100.0%                            |

#### Recent Developments since 31 December 2005

##### *Shareholder exit*

In January 2006, Banche Popolari Unite S.p.A. ("BPU") disposed of its entire stake of 4,270,429 ordinary shares of the Bank, representing 5.61% of the Bank's issued share capital. Although BPU group companies are an important part of the Group's banking distribution channel for factoring contracts, the Bank is not aware of any circumstances to indicate that BPU's exit from the Bank's share capital will affect the future volume of business between the two groups.

##### *Bipielle Leasing Acquisition*

In February 2006, Bipielle Investimenti S.p.A. (86.2% owned by the BPI) and the Bank entered into an agreement for the sale of 99.74% of the share capital of Bipielle Leasing to the Bank for a cash consideration of €51 million. The transaction is expected to close before the end of the first half of 2006. As at 31 December 2005, Bipielle Leasing was the thirty-eighth largest financial leasing company in Italy, with a market share of 0.40% and, during the year ended 31 December 2005, it entered into 1,653 new contracts (+40.2 percent) for a value of approximately €175 million. Bipielle Leasing reported six-monthly net



earnings of €1.3 million for the first half of 2005 and total assets of €561.9 million as at 30 June 2005. Alongside the sale transaction, the Bank entered into a three-year operating agreement with BPI and Reti Bancarie S.p.A. which, with effect from the date of completion of the Biepielle Leasing acquisition, provides for Banca Popolare Italiana and Reti Bancarie S.p.A. to refer all financial lease business sourced from their respective distribution networks to the Group.

#### ***Quarterly financial information***

On 5 May 2006, the Board of Directors of the Bank approved the quarterly unaudited consolidated balance sheet and income statement data as at and for the three months ended 31 March 2006, prepared in accordance with IFRS.

The following tables set out summary financial information that is extracted from, should be read in conjunction with and is qualified in its entirety by reference to the quarterly unaudited consolidated balance sheet and income statement data incorporated by reference herein. Such balance sheet and income statement data have not been audited or reviewed by independent auditors and investors are cautioned not to place undue reliance upon them.

There have been no significant developments concerning the Bank or the Group since 31 March 2006.

**CONSOLIDATED BALANCE SHEETS**  
**AS AT 31 MARCH 2006**

|                                                        | As at                           |                     |
|--------------------------------------------------------|---------------------------------|---------------------|
|                                                        | 31 March<br>2006<br>(Unaudited) | 31 December<br>2005 |
|                                                        | (€ thousands)                   |                     |
| ASSETS                                                 |                                 |                     |
| Cash and cash equivalents.....                         | 279                             | 260                 |
| Financial assets held for trading.....                 | 288,820                         | 247,492             |
| Financial assets available for sale.....               | 2,059                           | 2,059               |
| Financial assets held through maturity.....            | 1,418                           | 1,416               |
| Due from banks.....                                    | 276,725                         | 255,130             |
| Due from customers.....                                | 13,399,432                      | 12,737,225          |
| Hedging derivatives.....                               | 97,999                          | 96,789              |
| Equity investments.....                                | 512                             | 512                 |
| Tangible fixed assets.....                             | 1,152,711                       | 1,296,673           |
| Intangible fixed assets.....                           | 41,970                          | 41,737              |
| Tax assets.....                                        | 19,585                          | 18,178              |
| Other assets.....                                      | 975,074                         | 967,452             |
| Total Assets.....                                      | 16,256,584                      | 15,664,923          |
|                                                        |                                 |                     |
|                                                        | As at                           |                     |
|                                                        | 31 March<br>2006                | 31 December<br>2005 |
|                                                        | (€ thousands)                   |                     |
| LIABILITIES AND SHAREHOLDERS' EQUITY                   |                                 |                     |
| Due to banks.....                                      | 3,881,172                       | 4,166,464           |
| Due to customers.....                                  | 4,982,777                       | 5,201,486           |
| Securities outstanding.....                            | 6,018,839                       | 5,107,590           |
| Financial liabilities for trading.....                 | 293,852                         | 258,008             |
| Hedging derivatives.....                               | 177,685                         | 96,442              |
| Tax liabilities.....                                   | 54,032                          | 28,492              |
| Other liabilities.....                                 | 90,212                          | 84,633              |
| Provisions for employment termination indemnities..... | 11,847                          | 11,667              |
| Reserves for liabilities and charges.....              | 29,708                          | 28,551              |
| Valuation reserves.....                                | 3,741                           | 3,741               |
| Reserves.....                                          | 182,518                         | 88,888              |
| Share premium.....                                     | 99,422                          | 99,422              |
| Share capital.....                                     | 393,412                         | 393,412             |
| Own shares (–).....                                    | (26)                            | (26)                |
| Minority interests (+/–).....                          | 2,825                           | 2,685               |
| Profit (loss) for the period.....                      | 34,568                          | 93,468              |
| Total Liabilities and Shareholders' Equity.....        | 16,256,584                      | 15,664,923          |

**CONSOLIDATED INCOME STATEMENTS**  
**FOR THE THREE MONTHS ENDED 31 MARCH 2006 AND 2005**

|                                                                 | Three months ended 31 March |                          |                     |
|-----------------------------------------------------------------|-----------------------------|--------------------------|---------------------|
|                                                                 | 2006 <sup>(1)</sup>         | 2005 <sup>(2)</sup>      | 2005 <sup>(3)</sup> |
|                                                                 | (Unaudited)                 | Pro Forma<br>(Unaudited) | (Unaudited)         |
|                                                                 | (€ thousands)               |                          |                     |
| <b>Accounts</b>                                                 |                             |                          |                     |
| Interest and similar income .....                               | 158,618                     | 101,742                  | 86,509              |
| Interest and similar expense .....                              | (101,874)                   | (63,420)                 | (55,184)            |
| <b>Interest margin</b> .....                                    | <b>56,744</b>               | <b>38,322</b>            | <b>31,325</b>       |
| Commissions received .....                                      | 69,545                      | 40,964                   | 31,200              |
| Commissions paid .....                                          | (24,222)                    | (20,134)                 | (17,773)            |
| <b>Net commissions</b> .....                                    | <b>45,323</b>               | <b>20,830</b>            | <b>13,427</b>       |
| Net income (loss) from trading activity .....                   | 858                         | 506                      | 506                 |
| Net income (loss) from hedging activity .....                   | 11                          | —                        | —                   |
| <b>Total income</b> .....                                       | <b>102,936</b>              | <b>59,658</b>            | <b>45,258</b>       |
| Net valuation adjustments for impairment of receivables ...     | (12,900)                    | (11,505)                 | (7,242)             |
| <b>Net profit from financial and insurance activities</b> ..... | <b>90,036</b>               | <b>48,153</b>            | <b>38,016</b>       |
| Administrative expenses:                                        |                             |                          |                     |
| <i>a) personnel expenses</i> .....                              | (16,421)                    | (13,778)                 | (10,346)            |
| <i>b) other expenses</i> .....                                  | (10,968)                    | (7,817)                  | (5,732)             |
| Net provisions to reserves for liabilities and charges .....    | (1,243)                     | (260)                    |                     |
| Net valuation adjustments to tangible fixed assets .....        | (1,117)                     | (1,228)                  | (1,088)             |
| Net valuation adjustments to intangible fixed assets .....      | (966)                       | (565)                    | (550)               |
| Other operating income (expense) .....                          | 131                         | (162)                    | (162)               |
| <b>Operating expenses</b> .....                                 | <b>(30,584)</b>             | <b>(23,810)</b>          | <b>(17,878)</b>     |
| Valuation adjustments to goodwill .....                         | —                           | (97)                     | (16)                |
| Income (loss) from sales of investments .....                   | (345)                       | 11,082                   | 11,082              |
| <b>Pre-tax income (loss) from continuing operations</b> .....   | <b>59,107</b>               | <b>35,328</b>            | <b>31,204</b>       |
| Taxes on the income from continuing operations .....            | (24,400)                    | (14,975)                 | (12,955)            |
| <b>Net income (loss) from continuing operations</b> .....       | <b>34,707</b>               | <b>20,353</b>            | <b>18,249</b>       |
| Minority interests .....                                        | (139)                       | (164)                    | (164)               |
| <b>Net income (loss) for the period</b> .....                   | <b>34,568</b>               | <b>20,189</b>            | <b>18,085</b>       |

<sup>(1)</sup> Prepared in accordance with IFRS

<sup>(2)</sup> Reclassified in accordance with IFRS and prepared as if the merger with Factorit in May 2005 had occurred on 1 January 2005.

<sup>(3)</sup> Reclassified in accordance with IFRS.

## SUMMARY FINANCIAL INFORMATION RELATING TO THE BANK

The Bank's audited consolidated financial statements as at and for the years ended 31 December 2005, 2004 and 2003, in each case together with the notes thereto, are incorporated by reference in this Prospectus. See "Documents Incorporated by Reference".

The Bank's financial statements as at and for the year ended 31 December 2005 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and include comparative tables showing, *inter alia*:

- (i) historic income statement and balance sheet items as at and for the year ended 31 December 2004, reclassified in accordance with IFRS; and
- (ii) pro forma income statement items for the year ended 31 December 2004. The 2004 pro forma income statements items have been prepared as if the Bank's merger with Factorit in May 2005 had actually occurred with effect from 1 April 2004 and have also been reclassified in accordance with IFRS, applying with retrospective effect IAS 32 (*Financial Instruments: Disclosure and Presentation*) and IAS 39 (*Financial Instruments: Recognition and Measurement*), which have been applied to the 2005 audit annual financial statements data but not to the IFRS reclassified 2004 historic income statement data referred to in (i) above.

The 2004 IFRS reclassified pro forma income statement data has not been audited or reviewed by independent auditors and investors are cautioned not to place undue reliance upon them.

The historic financial statements of the Bank as at and for the years ended 31 December 2004 and 2003 have been prepared in accordance with generally accepted accounting standards in Italy issued by the *Consigli Nazionali dei Dottori Commercialisti e Ragionieri*.

All of the above annual consolidated financial statements of the Bank (other than the 2004 pro forma income statement items referred to above) have been audited by Deloitte & Touche S.p.A., whose reports thereon are attached to such annual financial statements.

The following tables present historic consolidated balance sheet and income statement data of the Bank as at and for the years ended 31 December 2005, 2004 and 2003, together with the IFRS reclassified balance sheet and income statement as at and for the year ended 31 December 2004 referred to above. This information derives from, should be read in conjunction with, and is qualified in its entirety by reference to, the full audited consolidated annual financial statements of the Bank as at and for the year ended 31 December 2005, 2004 and 2003, in each case together with the notes thereto.

**CONSOLIDATED BALANCE SHEETS**  
**AS AT 31 DECEMBER 2005 AND 2004**

|                                          | As at 31 December   |                     |
|------------------------------------------|---------------------|---------------------|
|                                          | 2005 <sup>(1)</sup> | 2004 <sup>(2)</sup> |
|                                          | (€ thousands)       |                     |
| <b>ASSETS</b>                            |                     |                     |
| Cash and cash equivalents .....          | 260                 | 135                 |
| Financial assets held for trading.....   | 247,492             | 3,475               |
| Financial assets available for sale..... | 2,059               | 104                 |
| Financial assets held to maturity .....  | 1,416               | 1,414               |
| Due from banks .....                     | 255,130             | 50,172              |
| Due from customers .....                 | 12,737,225          | 7,588,279           |
| Hedging derivatives .....                | 96,789              | 77,888              |
| Equity investments.....                  | 512                 | 559                 |
| Tangible fixed assets.....               | 1,296,673           | 716,872             |
| Intangible fixed assets .....            | 41,737              | 39,437              |
| <i>including:</i>                        |                     |                     |
| – goodwill .....                         | 34,693              | 33,859              |
| Tax assets .....                         | 18,178              | 476                 |
| <i>b) deferred</i> .....                 | 18,178              | 476                 |
| Other assets.....                        | 967,452             | 351,439             |
| <b>Total Assets</b> .....                | <b>15,664,923</b>   | <b>8,830,250</b>    |

<sup>(1)</sup> Prepared in accordance with IFRS.

<sup>(2)</sup> Reclassified in accordance with IFRS without application of IAS 32 and IAS 39.

|                                                         | As at 31 December |                  |
|---------------------------------------------------------|-------------------|------------------|
|                                                         | 2005              | 2004             |
|                                                         | (€ thousands)     |                  |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>              |                   |                  |
| Due to Banks.....                                       | 4,166,464         | 1,768,332        |
| Due to customers.....                                   | 5,201,486         | 3,854,527        |
| Securities outstanding.....                             | 5,107,590         | 2,715,133        |
| Financial liabilities for trading.....                  | 258,008           | 3,486            |
| Hedging derivatives .....                               | 96,442            | 16,561           |
| Tax liabilities .....                                   | 28,492            | 8,868            |
| <i>a) current</i> .....                                 | 28,492            | 8,868            |
| Other liabilities .....                                 | 84,633            | 33,541           |
| Provisions for employee termination indemnities.....    | 11,667            | 7,118            |
| Reserves for liabilities and charges .....              | 28,551            | 23,191           |
| <i>a) pension and similar</i> .....                     | 24,908            | 23,166           |
| <i>b) other provisions</i> .....                        | 3,643             | 25               |
| Valuation reserves.....                                 | 3,741             | 3,741            |
| Reserves .....                                          | 88,888            | 70,651           |
| Share premium.....                                      | 99,422            | 8,012            |
| Share capital .....                                     | 393,412           | 270,090          |
| Own shares (-) .....                                    | (26)              | -                |
| Minority interests (+/-) .....                          | 2,685             | 1,350            |
| Net income (loss) for the period (+/-).....             | 93,468            | 45,649           |
| <b>Total Liabilities and Shareholder's Equity .....</b> | <b>15,664,923</b> | <b>8,830,250</b> |

<sup>(1)</sup> Prepared in accordance with IFRS.

<sup>(2)</sup> Reclassified in accordance with IFRS without application of IAS 32 and IAS 39.

**CONSOLIDATED INCOME STATEMENTS**  
**FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004**

|                                                                     | Year ended 31 December |                                               |                     |
|---------------------------------------------------------------------|------------------------|-----------------------------------------------|---------------------|
|                                                                     | 2005 <sup>(1)</sup>    | 2004<br>Pro forma <sup>(2)</sup><br>Unaudited | 2004 <sup>(3)</sup> |
|                                                                     | (€ thousands)          |                                               |                     |
| Interest and similar income.....                                    | 440,371                | 348,717                                       | 307,066             |
| Interest and similar expense .....                                  | (264,676)              | (215,171)                                     | (193,302)           |
| <b>Interest margin .....</b>                                        | <b>175,695</b>         | <b>133,546</b>                                | <b>113,764</b>      |
| Commissions received.....                                           | 226,026                | 140,767                                       | 113,072             |
| Commissions paid .....                                              | (88,729)               | (58,254)                                      | (50,407)            |
| <b>Net commissions .....</b>                                        | <b>137,297</b>         | <b>82,513</b>                                 | <b>62,665</b>       |
| Dividends and similar income .....                                  | 182                    | 54                                            | 4                   |
| Net income (loss) from trading activity.....                        | 1,328                  | 1,242                                         | 1,061               |
| Net income (loss) from hedging activity .....                       | (4,115)                |                                               |                     |
| Income (loss) from sale or repurchase of: .....                     | 1,504                  | (31)                                          | (31)                |
| <i>b) financial assets available for sale .....</i>                 | <i>1,504</i>           | <i>(31)</i>                                   | <i>(31)</i>         |
| <b>Total Income.....</b>                                            | <b>311,891</b>         | <b>217,324</b>                                | <b>177,463</b>      |
| Net impairment—related valuation adjustments/writebacks: .....      | (58,218)               | (38,844)                                      | (39,182)            |
| <i>a) receivables .....</i>                                         | <i>(58,218)</i>        | <i>(38,844)</i>                               | <i>(39,182)</i>     |
| <b>Net financial income (loss) .....</b>                            | <b>253,673</b>         | <b>178,480</b>                                | <b>138,281</b>      |
| <b>Net income from financial and insurance operations.....</b>      | <b>253,673</b>         | <b>178,480</b>                                | <b>138,281</b>      |
| Administrative expenses.....                                        | (96,381)               | (72,733)                                      | (59,522)            |
| <i>a) personnel expenses.....</i>                                   | <i>(58,375)</i>        | <i>(48,070)</i>                               | <i>(38,225)</i>     |
| <i>b) other expenses .....</i>                                      | <i>(38,006)</i>        | <i>(24,663)</i>                               | <i>(21,297)</i>     |
| Net provisions to reserves for liabilities and charges.....         | (527)                  | (5,250)                                       |                     |
| Net valuation adjustments/writebacks on tangible fixed assets       | (3,716)                | (5,039)                                       | (4,351)             |
| Net valuation adjustments/writebacks on intangible fixed            |                        |                                               |                     |
| assets .....                                                        | (3,669)                | (3,315)                                       | (3,275)             |
| Other operating income (expense).....                               | 1,853                  | 1,870                                         | 980                 |
| <b>Operating Expenses.....</b>                                      | <b>(102,440)</b>       | <b>(84,467)</b>                               | <b>(66,168)</b>     |
| Income (loss) from equity investments .....                         |                        | (12)                                          |                     |
| Valuation adjustments to goodwill .....                             | (278)                  | (56)                                          | (56)                |
| Income (loss) from sale of investments .....                        | 8,808                  | 5,555                                         | 5,425               |
| <b>Pre-tax income (loss) from continuing operations .....</b>       | <b>159,763</b>         | <b>99,500</b>                                 | <b>77,482</b>       |
| Taxes on income from continuing operations.....                     | (65,676)               | (39,645)                                      | (29,651)            |
| <b>Net income (loss) from continuing operations.....</b>            | <b>94,087</b>          | <b>59,855</b>                                 | <b>47,831</b>       |
| <b>Net income (loss) for the period prior to minority interests</b> | <b>94,087</b>          | <b>59,855</b>                                 | <b>47,831</b>       |
| (Income) loss accruing to minority interests .....                  | (619)                  | (2,182)                                       | (2,182)             |
| <b>Net Income (Loss) for the Period.....</b>                        | <b>93,468</b>          | <b>57,673</b>                                 | <b>45,649</b>       |

<sup>(1)</sup> Prepared in accordance with IFRS

<sup>(2)</sup> Reclassified in accordance with IFRS, applying IAS 32 and IAS 39 with retrospective effect, and prepared as if the merger with Factorit in May 2005 had actually occurred with effect from 1 April 2004.

<sup>(3)</sup> Reclassified in accordance with IFRS without application of IAS 32 and IAS 39.



**CONSOLIDATED FINANCIAL AND ECONOMIC RATIOS**  
**AS AT AND FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004**

|                                                     | As at and for the year ended<br>31 December |                                                 |                     |
|-----------------------------------------------------|---------------------------------------------|-------------------------------------------------|---------------------|
|                                                     | 2005 <sup>(1)</sup>                         | 2004<br>Pro forma <sup>(2)</sup><br>(Unaudited) | 2004 <sup>(3)</sup> |
|                                                     | (€ thousands and %)                         |                                                 |                     |
| <b>Profitability Ratios</b>                         |                                             |                                                 |                     |
| Interest margin/Average capital invested.....       | 1.72%                                       | 1.74%                                           | 1.69%               |
| Total Income/Average capital invested.....          | 3.06%                                       | 2.83%                                           | 2.64%               |
| RoAE.....                                           | 17.63%                                      | 15.44%                                          | 12.71%              |
| <b>Operating efficiency Ratios</b>                  |                                             |                                                 |                     |
| Cost/Income.....                                    | 32.84%                                      | 38.87%                                          | 37.29%              |
| Total income/Average number of employees.....       | 372                                         | 287                                             | 321                 |
| Personnel expenses/Average number of employees..... | 70                                          | 63                                              | 69                  |
| <b>Asset quality ratios</b>                         |                                             |                                                 |                     |
| Net watch-list loans/Net receivables.....           | 0.67%                                       | n.a.                                            | 1.23%               |
| Net non performing loans/Net receivables .....      | 0.81%                                       | n.a.                                            | 1.23%               |
| Gross watch-list/Gross receivables .....            | 0.82%                                       | n.a.                                            | 1.63%               |
| Gross non performing loans/Gross receivables .....  | 1.52%                                       | n.a.                                            | 2.22%               |
| <br>Average capital invested .....                  | <br>10,193,233                              | <br>7,688,762                                   | <br>6,717,392       |
| Average Employees.....                              | 839                                         | 758                                             | 553                 |

<sup>(1)</sup> Prepared in accordance with IFRS

<sup>(2)</sup> Reclassified in accordance with IFRS, applying IAS 32 and IAS 39 with retrospective effect, and prepared as if the merger with Factorit in May 2005 had actually occurred with effect from 1 April 2004.

<sup>(3)</sup> Reclassified in accordance with IFRS without application of IAS 32 and IAS 39.

**CONSOLIDATED BALANCE SHEETS**  
**AS AT 31 DECEMBER 2004 AND 2003<sup>(1)</sup>**

|                                                           | <b>As at 31 December</b> |                  |
|-----------------------------------------------------------|--------------------------|------------------|
|                                                           | <b>2004</b>              | <b>2003</b>      |
|                                                           | <i>(€ thousands)</i>     |                  |
| <b>ASSETS</b>                                             |                          |                  |
| Cash and funds on hand, at central banks and P.O. ....    | 474                      | 83               |
| Due from banks .....                                      | 18,027                   | 16,725           |
| (a) <i>sight</i> .....                                    | 17,383                   | 16,319           |
| (b) <i>other</i> .....                                    | 644                      | 406              |
| Due from customers .....                                  | 443,284                  | 200,557          |
| Bonds and other debt instruments .....                    | 144,796                  | 106,216          |
| (a) <i>of public issuers</i> .....                        | 1,414                    | 1,414            |
| (c) <i>of financial institutions</i> .....                | 143,382                  | 104,802          |
| Investments .....                                         | 4,724                    | 4,721            |
| (b) <i>other</i> .....                                    | 4,724                    | 4,721            |
| Positive consolidation differences .....                  | 31,424                   | 195              |
| Intangible fixed assets .....                             | 7,247                    | 5,020            |
| including: <i>start up costs</i> .....                    | 568                      | 1,199            |
| Tangible fixed assets .....                               | 7,407,503                | 5,630,531        |
| including:                                                |                          |                  |
| – <i>assets under financial leases</i> .....              | 6,669,288                | 5,111,381        |
| – <i>assets to be leased under financial leases</i> ..... | 370,195                  | 323,036          |
| – <i>assets previously under financial leases</i> .....   | 98,591                   | 67,527           |
| – <i>assets under operating leases</i> .....              | 70,842                   | 40,616           |
| – <i>intended for assets under operating leases</i> ..... | –                        | 4,236            |
| – <i>assets previously under operating leases</i> .....   | 21                       | 21               |
| Other assets .....                                        | 525,977                  | 300,263          |
| Accrued income and prepayments .....                      | 182,854                  | 205,175          |
| a) <i>accrued income</i> .....                            | 103,337                  | 138,860          |
| b) <i>prepayments</i> .....                               | 79,517                   | 66,315           |
| including: <i>issue discount</i> .....                    | 10,177                   | 13,181           |
| <b>Total Assets</b> .....                                 | <b>8,766,310</b>         | <b>6,469,486</b> |

<sup>(1)</sup> Prepared in accordance with Italian GAAP for both financial years.

**CONSOLIDATED BALANCE SHEETS**  
**AS AT 31 DECEMBER 2004 AND 2003<sup>(1)</sup> (Cont'd)**

|                                                         | As at 31 December |                  |
|---------------------------------------------------------|-------------------|------------------|
|                                                         | 2004              | 2003             |
|                                                         | (€ thousands)     |                  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>             |                   |                  |
| Due to banks:.....                                      | 1,747,931         | 1,267,270        |
| (a) on sights .....                                     | 271,474           | 53,221           |
| (a) term or with advance notice of withdrawal .....     | 1,476,457         | 1,214,049        |
| Due to customers:.....                                  | 3,297,065         | 2,694,117        |
| (b) term or with advance notice of withdrawal .....     | 3,289,399         | 2,694,117        |
| Securities issued .....                                 | 2,516,768         | 1,666,064        |
| (a) Bonds .....                                         | 2,516,768         | 1,666,064        |
| Other liabilities .....                                 | 310,534           | 211,382          |
| Accrued liabilities and deferred income: .....          | 239,391           | 197,152          |
| (a) accrued liabilities .....                           | 45,106            | 35,051           |
| (b) deferred income.....                                | 194,285           | 162,101          |
| Provision for employment termination indemnities.....   | 7,546             | 5,656            |
| Other risk provisions .....                             | 60,985            | 43,157           |
| (a) pension funds and similar obligations.....          | 23,132            | 21,377           |
| (b) taxes payable.....                                  | 37,828            | 20,349           |
| (c) other provisions .....                              | 25                | 1,431            |
| Subordinated liabilities.....                           | 189,616           | 63,368           |
| Minority interests.....                                 | 1,350             | 538              |
| Share capital .....                                     | 270,090           | 243,756          |
| Share premium reserve.....                              | 8,012             | —                |
| Reserves .....                                          | 69,062            | 57,745           |
| (a) legal reserve .....                                 | 13,806            | 12,737           |
| (b) other reserves .....                                | 55,256            | 45,008           |
| Revaluation reserves .....                              | 3,741             | 3,741            |
| Income (losses) for the period .....                    | 44,219            | 15,540           |
| <b>Total Liabilities and Shareholders' Equity .....</b> | <b>8,766,310</b>  | <b>6,469,486</b> |
| <b>GUARANTEE COMMITMENTS</b>                            |                   |                  |
| Guarantees issued .....                                 | 160               | 160              |
| including: other guarantees.....                        | 160               | 160              |
| Commitments .....                                       | 637,260           | 155,079          |

<sup>(1)</sup> Prepared in accordance with Italian GAAP for both financial years.

**CONSOLIDATED INCOME STATEMENTS**  
**FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003<sup>(1)</sup>**

|                                                                                              | <b>As at 31 December</b> |               |
|----------------------------------------------------------------------------------------------|--------------------------|---------------|
|                                                                                              | <b>2004</b>              | <b>2003</b>   |
|                                                                                              | <i>(€ thousands)</i>     |               |
| Interest and other income.....                                                               | 133,070                  | 103,019       |
| <i>including:</i>                                                                            |                          |               |
| – <i>due from customers</i> .....                                                            | 7,899                    | 3,691         |
| – <i>on debt securities</i> .....                                                            | 110,889                  | 82,978        |
| Interest and similar expenses .....                                                          | (306,955)                | (253,906)     |
| <i>Of which:</i>                                                                             |                          |               |
| – <i>due to customers</i> .....                                                              | (210,574)                | (164,501)     |
| – <i>on securities issued</i> .....                                                          | (56,986)                 | (56,140)      |
| Dividends and other income: .....                                                            | 4                        | 6             |
| <i>(b) investments</i> .....                                                                 | 4                        | 6             |
| Commissions income.....                                                                      | 35,091                   | 6,024         |
| Commissions expense.....                                                                     | (27,631)                 | (12,913)      |
| Profit (losses) on financial transactions .....                                              | 40                       | –             |
| Other operating income.....                                                                  | 2,565,156                | 1,934,530     |
| <i>including:</i>                                                                            |                          |               |
| – <i>instalments for assets under financial transactions</i> .....                           | 2,410,363                | 1,830,077     |
| – <i>Income for redemption of leased assets</i> .....                                        | 16,536                   | 6,015         |
| – <i>Instalments for assets under operating leases</i> .....                                 | 28,863                   | 12,708        |
| Administrative expense.....                                                                  | (59,860)                 | (49,766)      |
| <i>(a) personnel expense</i> .....                                                           | (36,064)                 | (30,017)      |
| <i>including:</i>                                                                            |                          |               |
| – <i>salaries and wages</i> .....                                                            | (26,046)                 | (21,087)      |
| – <i>social welfare charges</i> .....                                                        | (7,717)                  | (6,232)       |
| – <i>employment termination indemnities</i> .....                                            | (1,017)                  | (777)         |
| – <i>pension funds and similar obligations</i> .....                                         | (1,284)                  | (1,921)       |
| <i>(b) other administrative expenses</i> .....                                               | (23,796)                 | (19,749)      |
| Adjustments to the value of tangible and intangible<br>fixed assets .....                    | (2,152,030)              | (1,597,515)   |
| <i>including:</i>                                                                            |                          |               |
| – <i>assets under financial leases</i> .....                                                 | (2,119,017)              | (1,581,350)   |
| – <i>assets under operating leases</i> .....                                                 | (23,379)                 | (10,504)      |
| Provisions for liabilities and charges.....                                                  | –                        | (147)         |
| Other operating expense.....                                                                 | (72,059)                 | (63,154)      |
| <i>including:</i>                                                                            |                          |               |
| – <i>charges for redemption of leased assets</i> .....                                       | (20,081)                 | (23,555)      |
| Adjustment of the value of receivables and provisions for guarantees and<br>commitments..... | (41,134)                 | (34,559)      |
| Recovery of value on receivables and provisions for guarantees and<br>commitments.....       | 1,952                    | 645           |
| Income (Loss) from operations.....                                                           | 75,644                   | 32,264        |
| Extraordinary income .....                                                                   | 1,289                    | 624           |
| Extraordinary charges.....                                                                   | (150)                    | (114)         |
| Extraordinary Income (charges).....                                                          | 1,139                    | 510           |
| Income taxes.....                                                                            | (30,357)                 | (16,677)      |
| Minority interests.....                                                                      | (2,207)                  | (557)         |
| <b>Income (Loss) for the period .....</b>                                                    | <b>44,219</b>            | <b>15,540</b> |

<sup>(1)</sup> Prepared in accordance with Italian GAAP for both financial years.

**CONSOLIDATED FINANCIAL AND ECONOMIC RATIOS**  
**AS AT AND FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003<sup>(1)</sup>**

|                                                          | <b>As at and<br/>for the year ended<br/>31 December</b> |             |
|----------------------------------------------------------|---------------------------------------------------------|-------------|
|                                                          | <b>2004</b>                                             | <b>2003</b> |
|                                                          | <i>(€ thousands and %)</i>                              |             |
| <b>Profitability Ratios</b>                              |                                                         |             |
| Interest margin/Average capital invested.....            | 1.83%                                                   | 1.83%       |
| Gross Operating Income/Average capital invested .....    | 2.74%                                                   | 2.22%       |
| RoAE .....                                               | 13.80%                                                  | 5.50%       |
| <b>Operating efficiency ratios</b>                       |                                                         |             |
| Cost/Income .....                                        | 37.70%                                                  | 45.52%      |
| Gross Operating Income/Average number of employees ..... | 333                                                     | 272         |
| Personnel expenses/Average number of employees .....     | 65                                                      | 67          |
| <b>Asset quality ratios</b>                              |                                                         |             |
| Net watch-list loans/Net receivables .....               | 1.24%                                                   | 1.49%       |
| Net non performing loans/Net receivables .....           | 1.34%                                                   | 1.75%       |
| Gross watch-list/Gross receivables .....                 | 1.69%                                                   | 1.96%       |
| Gross non performing loans/Gross receivables .....       | 2.30%                                                   | 3.04%       |
| <br>Average Employees .....                              | <br>553                                                 | <br>447     |
| Average capital invested.....                            | 6,717,392                                               | 5,476,834   |

<sup>(1)</sup> Prepared in accordance with Italian GAAP.

## REGULATION AND SUPERVISION

### Structure of the Italian Banking System

Italy's banking industry was regulated for over 50 years by the Banking Act of 1936, a law that set out the structure of the banking industry and regulated specialist banking institutions. The application of the Banking Act of 1936 led to fragmentation and shielded the Italian banking system from competition. During the 1990s, the Italian banking system underwent a reorganisation and consolidation process which led to growth in the average size of banks, and in the number of their branches, while reducing the total number of banks.

The reorganisation is the consequence of changes in banking regulations as well as the competitive stimulus resulting from the liberalisation of European financial markets and the introduction of the euro. The main steps of the regulatory changes were the enactment of Law No. 218 of 30 July 1990 (the "Amato Law"), the privatisation process, the implementation of EU banking directives (as consolidated in the Consolidated Banking Directive 2000/12/EC) and the Consolidated Banking Law.

The current Italian banking regulations now largely mirror the EU Second Banking Directive. The effect of the regulatory changes and Europe-wide liberalisation has been a significant increase in competition and consolidation in the Italian banking industry.

### The Privatisation Process

The Amato Law encouraged consolidation and also encouraged banks controlled by governmental and public law entities to adopt a share capital structure with limited liability and to strengthen their capital base. Private participation in the newly formed limited liability companies was permitted and encouraged.

The process was accelerated by the implementation of Law No. 474 of 30 July 1994 (the "Privatisation Law") and the decree of the Treasury Ministry (now the Ministry of Economy and Finance) dated 18 November 1994. These statutes permitted and promoted the sale of majority holdings of banks owned by the Ministry for the Economy and Finance and by Italian banking foundations (considered public law entities) to the private sector. To encourage the reform, incentives were given under Law No. 461 of 23 January 1998 (the "Ciampi Law"), which reorganised the regulatory framework of Italian banking foundations. Pursuant to the Ciampi Law, the banking foundations that modified their by-laws, progressively divested their stakes in banks and only maintain controlling interests in entities dealing with charitable purposes or non-profit organisations operating for the benefit of the community. The Ministry for the Economy and Finance is in charge of authorising the sales of holdings in banks owned by foundations and the sales must be made in compliance with transparency and non-discrimination criteria.

The deadline for the banking foundations to dispose of their controlling interests in banking institutions is May 2006. In addition, banking foundations must entrust their stakes in banking institutions to asset management companies (*società di gestione del risparmio*), which must be selected pursuant to certain criteria and must manage the stakes in a professional manner, independently of the foundations. Further legislation has followed under Law No. 262 of 28 December 2005, which now provides for the voting rights of banking foundations at shareholders' meetings to be limited to 30% of the share capital to which voting rights are attached.

### Implementation of the EU Second Banking Directive

With effect from 1 January 1993, the distinction between "ordinary credit institutions" and "special credit institutions" was formally eliminated by Legislative Decree No. 481 of 14 January 1992 ("Decree 481"), which implemented the Second EU Banking Directive. Banking activities are now performed by a single category of credit institutions, which can collect and demand savings deposits from the public, issue bonds and grant medium- and long-term credit, whether subsidised or not, subject to regulations issued by the Bank of Italy.

Italian banks are either (a) banks incorporated as companies limited by shares (*società per azioni*), such as the Bank, owned directly or indirectly by the private sector and/or by banking foundations or (b) co-



operative banks (*banche popolari* and *banche di credito cooperativo*). In addition to the banking business, and subject to their by-laws and to financial services regulation, banks may engage in all the business activities that are subject to mutual recognition under the EU Second Banking Directive and in certain other financial activities.

EU credit institutions may conduct banking business in Italy as well as those business activities that are subject to mutual recognition and are authorised to be carried out in their home country, provided that the Bank of Italy is informed by the local regulator responsible for supervising the relevant EU credit institution in its home member state. The home member state regulator retains supervisory powers for stability purposes over the relevant EU credit institution.

### **Consolidated Banking Law**

With effect from 1 January 1994, the Consolidated Banking Law repealed and replaced, among others, the Banking Act of 1936 and Decree 481. Among the provisions of the Consolidated Banking Law are those concerning: the role of the supervisory authorities; the definition of banking and related activities; the authorisation of banking activities; the acquisition of equity participation in banks; banking supervision (on a non-consolidated and consolidated basis); special bankruptcy procedures for banks; and the supervision of financial companies. The resulting regulatory framework of the Italian banking system is described below.

### **Regulatory Bodies**

Under the Consolidated Banking Law, the supervision and regulation of Italian banks are exercised by:

- the Interministerial Committee for Credit and Savings (the *Comitato Interministeriale per il Credito e per il Risparmio* or “CICR”). The CICR includes the Ministry for the Economy and Finance and other economic ministries, and acts upon proposals made by the Bank of Italy. It has wide-ranging policy-making and guidance powers.
- *Ministry for the Economy and Finance*. The Ministry for the Economy and Finance has broad powers in relation to banking and other financial activities. Such powers include:
  - authorising the establishment in Italy of the first branch of non-EU banks;
  - setting eligibility standards for holders of shareholdings in a bank; and
  - setting the level of professional experience required from directors and executives of banks and other financial intermediaries.

The Ministry for the Economy and Finance may, in cases of urgency, adopt measures which are normally the remit of the CICR and may also levy financial penalties against banks and their managers and have banks placed in compulsory liquidation (*liquidazione coatta amministrativa*) or extraordinary administration (*amministrazione straordinaria*).

### **Bank of Italy**

The Bank of Italy implements the policies set forth by the CICR by adopting regulations and instructions concerning the following four main areas:

- capital requirements;
- risk exposure;
- acquisition of shareholdings; and
- administrative and accounting organisation and internal audit.

The Bank of Italy supervises the banking institutions through its own auditing body, granting authorisations and examining the reports that banks are required to file on a regular basis. Its main supervisory powers include: the review of financial statements and statistical data; the preliminary review of amendments to by-laws; inspections; and verification of capital ratios, reserve requirements and exposure limits.

The Bank of Italy also conducts inspections of all credit institutions through its supervisory staff of auditors. Matters covered by these inspections include the accuracy of reported data, compliance with banking regulations and by-laws. Specific audits may focus on compliance with exposure and other prudential limits.

In addition, the Bank of Italy requires all banks to file interim balance sheets on a monthly basis.

The principal objectives of the regulation are the protection of account holders and the stability and efficiency of the financial system.

### **Deposit Insurance**

The Interbank Deposit Guarantee Fund (*Fondo Interbancario di Tutela dei Depositi*) (the “Guarantee Fund”), established in 1987 by the principal Italian banks, protects account holders and other depositors from the risk of insolvency of banks and the loss of money on their bank accounts or other deposits. The Bank is a member of the Guarantee Fund.

According to the 1996 amendment to the Consolidated Banking Law (pursuant to EU Directive 94/19/EC), a bank’s membership of a deposit guarantee system (currently, the only one established in Italy is the Guarantee Fund) is compulsory and must have a minimum coverage of approximately €103,000 per depositor.

Deposits covered by the Guarantee Fund are mainly those of ordinary customers, namely repayable funds in the form of deposits, bank drafts and other similar instruments; bearer deposits, bonds and deposits placed by other credit institutions for their own account have been excluded. Furthermore, the guarantee scheme does not cover deposits of government and local authorities, financial and insurance companies, and mutual funds.

### **Capital Adequacy Requirements**

The implementation of the Basel Committee’s risk-based capital guidelines is based on the EU’s “Own Funds Directive” and the “Solvency Ratio Directive.” Under these risk-based capital guidelines, implemented since 1992 by the Bank of Italy, a bank’s capital adequacy assessment is based on the ratio of its total capital to the risk-adjusted value of its assets and off-balance sheet exposures. It should be noted that the Basel Committee is currently finishing the process of reviewing certain guidelines. A bank’s capital is composed of primary capital and supplementary capital. The consolidated total of primary and supplementary capital of a bank may not be less than 8% (or 7% on a non-consolidated basis) of the bank’s risk-weighted assets.

Core capital (*patrimonio di base* or Tier I capital) is made up of: (i) the aggregate of all paid-in equity capital, retained earnings, funds for general banking risks and innovative capital instruments such as preferred securities; less (ii) treasury stock, goodwill, intangible assets and losses for the preceding and current financial years. Innovative capital instruments can be included in Tier I capital only for up to 15% of the capital including such instruments. Any amount in excess of that level can be included in supplementary capital as hybrid capital instruments.

Supplementary capital (*patrimonio supplementare* or Tier II capital) is made up of: (i) the aggregate of all asset revaluation reserves, general loan loss reserves (subject to certain deductions), hybrid capital instruments and subordinated loans; less (ii) 50% of net unrealised losses from interests in listed non-banking and non-financial companies. Since March 1998, supplemental assets may include 35% of the net unrealised gains on interests in non-banking and non-financial companies listed on a regulated market. A total of 50% of net unrealised losses on investments in securities must be deducted from supplemental assets. Tier II capital cannot exceed the amount of Tier I capital. There are also limitations on the maximum amount of certain items of Tier II capital, such as subordinated debt, which may not exceed 50% of Tier I capital. Interests held by a bank in other banks and financial companies, as well as hybrid capital instruments and subordinated debt held by a bank and issued by other banks or financial companies are deducted (subject to certain conditions) from the consolidated primary and supplementary capital.

To assess the capital adequacy of banks under the risk-based capital guidelines, a bank's capital is related to the total of the risk-adjusted values of its assets and off-balance sheet exposures. The various categories of assets are assigned one of five risk weightings: 0%, 20%, 50%, 100% and 200%.

The capital adequacy ratios are applied to the sum of core and supplementary capital, less equity investments and certain quasi-equity capital instruments in, and subordinated loans to, affiliated credit and financial institutions.

There is an ongoing negotiation to define, in the guidelines of the Basel Committee, *inter alia*, the system balancing the risk of credit and to introduce a specific requirement for operational risks. The new agreement may enter into force in 2007.

### **Market Risk Capital Requirements**

In March 1997, on the basis of Council Directive 92/16/EEC and in response to the increased activity of Italian banks in securities brokerage, the Bank of Italy requested specific consolidated capital requirements for carrying out securities brokerage activities. The requirements concern the various classes of risk involved and apply to all securities not held to maturity (i.e. trading account securities and available-for-sale investment securities).

The risks covered by the capital requirements are:

- *position risk*: the risk deriving from fluctuations in the price of the securities due to market trends and the status of the issuer;
- *settlement risk*: the risk that arises in securities settlement transactions when, after the contract has matured, the counterparty has not fulfilled its obligation to deliver the securities or amounts due;
- *counterparty risk*: the risk that the counterparty will not perform its contractual obligations upon maturity;
- *concentration risk*: refers to exceeding, as a result of risk positions in the portfolio of marketable securities, the individual credit limit established with regard to the concentration of risks; and
- *foreign exchange risk*: the risk of incurring losses due to adverse changes in foreign exchange rates.

In February 2000, the Bank of Italy, pursuant to Directive 98/31/EC on capital adequacy of investment firms and credit institutions, introduced the possibility (subject to prior authorisation) for banks to use their own internal models to calculate capital requirements to cover market risks. The models may use commodity position risk and total portfolio exchange rate risk. In 2000, certain other modifications to the regulatory framework on market risk concerning the calculation of commodity position risk and new methods of valuing options became effective.

### **Lending Limits**

The Bank of Italy issued instructions in October 1993 (as set out in Chapter 5, Title IV of the Bank of Italy Supervisory Regulations for Banks) in respect of Council Directive 92/121/EEC (the "EU Large Exposure Directive"). From November 1993 until the end of 1998, all loans made by a bank to a single borrower or group of affiliated borrowers (together with all other exposures as defined by the EU Large Exposure Directive) could not exceed 40% of the bank's own funds (as defined in the EU Own Funds Council Directive 89/299/EEC, as amended). Since January 1999, this ceiling has been lowered to 25% of the bank's own funds. However, in accordance with the provisions of the EU Large Exposure Directive permitting the grandfathering of excess exposures, the Bank of Italy's regulations provide that weighted exposures in excess of the applicable thresholds would not be required to be reduced immediately upon the coming into force of the Directive's limitations in 1994, but would need to be gradually brought within specific limits. Such limits took effect at the beginning of 1997 and were gradually brought down (60% of own funds from 1997 to 1998, 40% from 1998 to 2001 and 25% thereafter).

A specific limit applies to loans to companies which are affiliated with banks (i.e. companies in which a bank holds a stake of 20% or more) and to loans to shareholders holding a stake of 15% or more in a bank. In particular, the 25% ceiling was to be met by 31 January 2001.

In addition, the amount of a bank's large exposures—defined as exposures individually exceeding 10% of the bank's own funds—may not, in the aggregate, exceed eight times the bank's own funds. Under the Bank of Italy's regulations, loans and other exposures are assigned one of four risk weightings (0%, 20%, 50% or 100%), largely depending on the identity of the debtor or guarantor.

These concentration limitations will apply to banking groups on a consolidated basis, although the activities of securities dealing firms (*società di intermediazione mobiliare* or "SIMs"), belonging to a banking group are not to be taken into account in assessing the group's exposures. In this respect it should be noted that, under Article 67 of the Consolidated Banking Law, the Bank of Italy, for the purpose of carrying out consolidated supervision, may issue general or specific instructions to the parent company concerning the banking group and its area of consolidation. In addition, banks belonging to a banking group are individually subject to a 40% limitation on weighted exposures to a single borrower or group of affiliated borrowers.

### **Shareholdings of Banks**

Banks are permitted to make equity investments in all types of companies, subject to rules enacted by the Bank of Italy. Generally, shareholdings held by a bank in all types of companies may not in the aggregate exceed, together with real estate investments, the bank's regulatory capital. The relevant provisions set out different rules depending on the nature of the target company (i.e. whether the target company is a bank or financial company or other type of company). As regards the acquisition of shareholdings in banks, insurance companies or financial companies, the relevant rules require prior authorisation for equity investments exceeding 10% of the regulatory capital of the acquiring bank or 10% or 20% of the capital stock (or otherwise entailing the taking of control) of the bank, financial or insurance company being acquired and for taking control of ancillary banking service companies. Investments in insurance companies exceeding in the aggregate 40% of the bank's consolidated regulatory capital (and 60% of its non-consolidated regulatory capital) are not authorised.

Acquisitions of participations in SICAVs (*società di investimento a capitale variabile*) (open-ended investment company) are not subject to prior authorisation by the Bank of Italy, regardless of the amount of the participation to be purchased.

Moreover, shareholdings in companies other than banks or financial or insurance companies may not exceed: (i) 15% of the bank's regulatory capital (or 7.5% for investments in unlisted companies); (ii) 3% of the bank's regulatory capital for investments in a single company or group of companies; or (iii) 15% of the capital stock of the company whose shares are being acquired by the bank. The limit described in (iii) above does not apply if the value of the participation and the sum of all the other investments exceeding the 15% owned by the bank does not exceed 1% of its consolidated capital.

Higher limits are applied by the Bank of Italy upon request by *banche abilitate* (authorised banks), which are banks with at least €11 billion in capital and which meet the solvency ratios, or by *banche specializzate* (specialised banks), which are banks that collect mainly medium- and long-term funds, take no demand deposits, have capital in excess of €11 billion and meet the solvency ratios. In such cases, banks may purchase over 15% of the capital of a non-financial company, as long as both the value of the participation and the sum of all other investments exceeding the 15% limit do not exceed 2% of the bank's consolidated regulatory capital. The aggregate of the participations in non-financial companies exceeding 10% of a company's share capital (or otherwise enabling the bank to affect management of that company) cannot, in any event, exceed 60% of the bank's consolidated regulatory capital; investments in a single non-financial company or group of companies may not exceed 15% of the bank's consolidated regulatory capital.

### **Medium- and Long-Term Credit and Funding Activity**

Bank of Italy regulations permit all banks to provide, without restriction, medium- and long-term credit to borrowers other than companies. The granting of medium- and long-term credit is permitted without limit to

banks having regulatory capital in excess of €11 billion, banks having regulatory capital in excess of €125 million and which are members of a banking group having a consolidated regulatory capital in excess of €11 billion, and banks whose liability structure is principally founded on funding raised in the medium- and long-term markets.

Under the relevant rules, other banks may be authorised by the Bank of Italy to extend the medium- and long-term credit over the limit of 30% of total funding. Banks having regulatory capital in excess of €125 million and banks that lend more than 10% of their total lending to companies for two consecutive years may also be authorised by the Bank of Italy to provide medium- and long-term credit to companies without limit. Furthermore, the regulations include rules concerning control of the change in maturities as well as methods that empower the Bank of Italy to identify the banks most exposed to the risk of losses linked to interest rate fluctuations.

With reference to the provisions concerning funding activity, the regulations provide the opportunity for all banks to collect savings from the public in any form permitted by law. Banks are also permitted to use various instruments such as bonds, certificates of deposit, and other funding instruments, which can also be issued in the form of subordinated or perpetual debt for funding activities.

### **Mandatory Reserves**

The European Central Bank (“ECB”) and the Bank of Italy require banks based in Italy to keep obligatory cash reserves, directly or indirectly through an intermediary bank, with the Bank of Italy.

The amount of the reserve is calculated on a monthly basis at a 2% rate on the total of the following assets subject to the reserve requirements: liabilities from deposits, debt securities issued by the bank and money market paper, excluding liabilities due to any other institution not listed as being exempt from ECB’s minimum reserve system, to the ECB and to other national central banks. There is no applicable portion for deposits and debt securities issued with a maturity of more than two years or repayable with notice of more than two years and for repurchase agreements.

The reserve can be amended by banks for the whole amount during a particular month as long as the average amount of the daily balances is not less than the required reserve. The Bank of Italy pays interest on the reserve at the average refinancing rates set by ECB for that month. Sums in excess of the reserve required do not receive interest. In the case of contravention of the requirements of the obligatory reserve, the ECB may impose proportional fines on the bank (or intermediary bank).

### **Financial Intermediaries**

The Consolidated Banking Law also governs certain financial activities performed by non-banking entities, which, in order to be allowed to deal with the public, must be enrolled in a general register kept by the Ministry of Economy and Finance, through the Italian Exchange Office (*Ufficio Italiano dei Cambi*). Such regulated financial activities are as follows: acquiring equity investments; granting loans in any form (including leasing activities); and performing payment or brokerage services in foreign currency. Pursuant to Law No. 130 of 30 April 1999 relating to securitisations, the transferring of assets to special purpose vehicles and the collection of credits and cashier services are included among such regulated financial activities.

Financial intermediaries that deal with the public may engage in the activities listed above and, subject to specific authorisation, derivatives trading activities for their own accounts and placement of financial instruments, are required to observe the rules for clarity of contractual conditions set forth in the Consolidated Banking Law. Further provisions set forth requirements for the probity of the participants and for the probity and professional competence of their business representatives.

The financial intermediaries also have to be enrolled in a special register (provided for in Article 107 of the Consolidated Banking LawS, the “Special Register”) kept by the Bank of Italy if they meet certain objective criteria, defined by the Ministry for the Economy and Finance, which correspond to the activities they perform, their size and their debt-to-equity ratio. These intermediaries are subject to the supervision of the Bank of Italy, which, in August 1996, issued regulations concerning various aspects of capital



requirements and risk management (as amended and restated). Financial intermediaries must also comply with the rules of the individual and consolidated annual financial statements of banks.

### **The Financial Conglomerates Directive**

Under Legislative Decree No. 142 of 30 May 2005 (“Decree 142”), Italy implemented EC Directive 2002/87/EC on the supplementary supervision on credit institutions, insurance undertakings and investment firms in a financial conglomerate. Decree 142 aims to safeguard the stability of financial conglomerates and requires the supplementary supervision of companies that belong to a financial conglomerate. A company belongs to a financial conglomerate when:

- it belongs to a group where any group company is subject to regulation;
- the group conducts its business mainly in the financial industry;
- at least one group company operates in the insurance industry and at least one group company operates in the banking industry or in the investment industry; and
- from a consolidated prospective, the activities in the insurance sector and the activities in the banking and investment industry are significant.

Decree 142 identifies the relevant authorities as the home member state authority and those that authorised any of the regulated group companies, and requires that the relevant authorities assist each other in identifying group that may be considered financial conglomerates. Decree No. 142 also identifies which of the relevant authorities is to be the managing authority (in such role, the “Coordinator”) with the duty to perform supplementary supervision, and to coordinate the other relevant authorities. The Coordinator and the other relevant authorities are to cooperate with each other, share relevant data and provide all requested information. At least once a year, companies subject to supplementary supervision shall provide the Coordinator with all relevant information concerning concentration risks and operations entered into with other group companies, at the financial conglomerate’s level. Companies are also required to organise, at the financial conglomerate’s level, appropriate internal procedures for risk monitoring and risk management. The provisions of Decree 142 will begin to have an impact on financial statements as at and for the year ended 31 December 2005.

### **Securities Market Control and Legislation**

Law No. 415 of 1996 (or the “Eurosime Law”), implementing Council Directives 93/22/EEC on investment services and 93/6/EEC on market risk capital requirements, allowed banks to operate directly in regulated securities markets. Restrictions on access by foreign banks and investment firms to the Italian investment services sector have also been removed.

In 1998, the regulations introduced by the Eurosime Law were reorganised within the framework of Legislative Decree No. 58 of 24 February 1998 (the “Financial Act”).

The Financial Act contains rules concerning the prudential supervision applicable to intermediaries that provide investment services (including the requirement to use guarantee systems as protection against crises) and to intermediaries that offer collective investment management services (mutual funds and open-end investments companies). Other sections of the Financial Act concern standards for organisation and management of financial markets, centralised management of financial instruments, methods for soliciting investments and corporate governance of companies that have listed securities.

### **Regulated Markets**

The organisation and management of regulated markets are confined to companies limited by shares. Borsa Italiana S.p.A., for instance, runs the Italian stock exchange (which includes the screen-based share market MTA, including the MTA-STAR Segment, techSTAR, *Mercato Espandi*, SeDeX and MTF-ETF), the Italian derivative market (IDEM), the after-hours market (TAH) and the Fixed Income Market (MOT). All Italian regulated markets are entered on a register kept by CONSOB. CONSOB continues to exercise supervisory control over listed companies, intermediaries and the markets, as well as the correctness and intelligibility of



the information required of companies issuing listed securities and other forms of solicitation relating to securities. CONSOB is also empowered to verify compliance with the legislation regarding insider trading and to report infringements to the public prosecutors.

### **Intermediaries**

Securities market participants in Italy include (subject to partially different conditions) investment firms such as SIMs, financial intermediaries, the persons entered in the Special Register and banks. These intermediaries are under the control of CONSOB and the Bank of Italy, and have to observe prudential regulations governing, among other matters, the professional brokerage of and dealing in securities, underwriting, asset management, retail distribution of securities and advisory services regarding investments in securities.

### **Mutual Funds**

A specific category of authorised intermediaries, SGRs (*società di gestione del risparmio*) and SICAVs (*società di investimento a capitale variabile*) are in charge of the establishment, marketing, promotion, organisation and the management of mutual funds (even if established by third parties). The rules concerning the investment limits of mutual funds, with respect to single sectors or companies and overall minimum portfolio diversification, have been set by the Ministry of Economy and Finance. The reform introduced by the Financial Act allows SGRs, supervised by the Bank of Italy for those aspects concerning financial stability and risk management policies, to operate in the sector of asset management.

### **Corporate Governance**

#### ***Code of self-regulation***

In 1999, a committee coordinated by the Chairman of Borsa Italiana S.p.A. and composed of representatives of Italian banks, industry, insurance companies and associations representing issuers and investors, prepared a code of self-regulation (the “Code”), a model of corporate governance that emphasises the role and the responsibilities of the board of directors and ensures a balanced division of power among the executive and non-executive members of the board of directors, the auditing functions and relations with shareholders.

The importance of the Code, which is not binding, was immediately appreciated by the market and the board of directors of the Bank adopted the Code in 2005. Borsa Italiana currently requires all companies applying for listing on the MTA to submit a statement comparing their corporate governance model to the model of the Code.

#### ***Company law reform***

In January 2003, the Italian Government approved a reform of company law, affecting limited liability and joint-stock companies and co-operatives, which came into force in 2004. The main innovations introduced by the reform with regard to companies relate to their governance. Companies can adopt one of three forms of corporate governance, as described below.

- *The dual system.* The dual system provides for the creation of a management board and a supervisory board. The management board has exclusive responsibility for the management of the company’s business. The management board consists of at least two members who need not be shareholders and who are appointed by the supervisory board. The supervisory board comprises at least three members, one of whom must be a qualified auditor and are appointed by the shareholders. The supervisory board is responsible for supervising the management board and carries out many of the functions traditionally left to the shareholders’ meeting, including appointment and remuneration of members of the management board, approval of the annual financial statements and bringing actions against members of the management board.
- *The single system.* The single system provides for a management structure substantially in line with the traditional company structure, except that a sole director may not be appointed to manage the company and, rather than a board of statutory auditors, the company has a management supervision

committee appointed by the members of the board of directors who do not hold management positions in the company. One member of the committee must be a qualified auditor.

- *The traditional system.* Unless the by-laws of a company express otherwise, the traditional corporate governance structure will apply and the company will have a board of directors or sole director and a board of statutory auditors.

The Bank has chosen the tradition system and, accordingly, the supervisory role vis-à-vis the Bank is performed by a board of statutory auditors.

Pursuant to Italian law and applicable CONSOB rules, the Bank's board of statutory auditors must oversee compliance with the law and the By-laws, verify adherence to good principles of administration, and assess the adequacy of the Bank's internal controls and accounting reporting systems, as well as the adequacy of provisions concerning the supply of information to the subsidiaries.

Each shareholder may bring to the attention of the board of statutory auditors facts or acts which are believed by that shareholder to be wrongful. If shareholders collectively representing one fiftieth or more of the share capital make certain complaints to the board of statutory auditors, the board of statutory auditors must investigate without delay and must report its findings and recommendations to the shareholders' meeting (which must be convened immediately if the complaint appears to have reasonable basis and there is an urgent need to take action). The board of statutory auditors may report serious breaches by the directors of their duties to the competent court. The board of statutory auditors must also notify CONSOB of any irregularities found during its review of the Bank's activities. CONSOB may report serious breaches of the duties of the statutory auditors to the competent court.

The Bank's directors are obliged to inform the board of statutory auditors promptly, and at least quarterly, of material activities and transactions carried out by the Bank and its subsidiaries, in accordance with the provisions of Article 150 of Italian Decree No. 58 of 24 February 1998, and the By-laws. Any member of the board of statutory auditors may request information on the Bank's management from the directors and carry out inspections and audits. Additionally, the board of statutory auditors may, with prior notice to the chairman of board of directors, convene shareholders' meetings, meetings of the board of directors or of the executive committee, and exchange information with the Bank's independent auditors.

The members of the board of statutory auditors are required to be present at meetings of the board of directors and at shareholders' meetings. In addition, the board of statutory auditors is required to hold quarterly meetings for the fulfillment of their duties.

Statutory auditors are appointed by the shareholders at ordinary shareholders' meetings for a three-year term and may be re-elected for subsequent terms. Ordinary shareholders' meetings also determine the statutory auditors' remuneration for their entire term.

### ***The 2006 reform***

In January 2006, the Italian government implemented a further reform of corporate governance aimed at, *inter alia*, enhancing the powers of minority shareholders and introducing requirements as to integrity, experience and independence for members of both the Board of Directors and the Board of Statutory Auditors. Under the new rules, at least one of the members of the Board of Directors and the Board of Statutory Auditors (or, if the dual system referred to above is adopted, the management board and the supervisory board) must be appointed by the minority shareholders.

## BANCA ITALEASE CAPITAL TRUST

Banca Italease Capital Trust is a statutory trust formed on 28 April 2006 under the Delaware Statutory Trust Act, as amended (the “Trust Act”), under a trust agreement dated 28 April 2006 and the certificate of trust was filed with the Secretary of State of the State of Delaware on the same date. The registration number of the Trust is 4150992. The Trust Agreement will be amended and restated in its entirety on or about 6 June 2006.

The LLC will own 100% of the Trust Common Securities, which will have an aggregate liquidation preference of €1,000. The Trust will use all the proceeds derived from the issuance of the Trust Preferred Securities to purchase the LLC Preferred Securities from the LLC. The Trust Preferred Securities represent undivided beneficial ownership interests in the assets of the Trust. The assets of the Trust will consist of a corresponding amount of LLC Preferred Securities.

As set out in Section 2.3 of the Trust Agreement, the Trust exists exclusively for the purposes of:

- issuing the Trust Securities representing undivided beneficial ownership interests in the assets of the Trust;
- investing the proceeds of the Trust Preferred Securities in, and holding, the LLC Preferred Securities; and
- performing all of its obligations and enforcing all of its rights pursuant to the Trust Preferred Securities and the Trust Agreement.

Pursuant to the Trust Agreement, there will initially be five trustees (the “Trustees”) for the Trust. Three of the Trustees (the “Regular Trustees”) will be individuals and the others will be a financial institution that is unaffiliated with the Bank (the “Property Trustee”) and an entity that maintains its principal place of business in the State of Delaware (the “Delaware Trustee”). A majority of the Trustees will be residents of the United States.

The initial Regular Trustees will be Alessandro Bolognini, Maurizio Gobetti, and J. Bruce Herd.

Initially, Deutsche Bank Trust Company Americas will act as Property Trustee and Deutsche Bank Trust Company Delaware will act as Delaware Trustee.

The Property Trustee will hold title to the LLC Preferred Securities for the benefit of the holders of the Trust Preferred Securities. The Property Trustee will have the power to exercise all rights, powers and privileges with respect to the LLC Preferred Securities under the LLC Agreement as the holder of the LLC Preferred Securities as directed by the holders of a majority of the outstanding Trust Preferred Securities. In addition, the Property Trustee will maintain exclusive control of the property account to hold all payments received in respect of the LLC Preferred Securities for the benefit of the holders of the Trust Preferred Securities. The Property Trustee will hold the Trust Subordinated Guarantee for the benefit of the holders of the Trust Preferred Securities.

In accordance with the terms of the Trust Agreement, prior to the occurrence and continuance of a Trust Enforcement Event (as defined herein), the LLC, as the holder of all the Trust Common Securities, will have the right to appoint, remove or replace any of the Trustees and to increase or decrease the number of Trustees, *provided that* at least one Trustee is the Delaware Trustee, at least one Trustee is the Property Trustee and at least one Trustee is a Regular Trustee. After a Trust Enforcement Event occurs, and so long as it is continuing, a majority of the holders of the Trust Preferred Securities will have the right to appoint, remove or replace the Property Trustee and the Delaware Trustee in accordance with the terms of the Trust Agreement.

For so long as the Trust Preferred Securities remain outstanding, the Bank will covenant:

- (1) that 100% of the Trust Common Securities will be held by the LLC, or, with the prior approval of the Bank of Italy, if then required, any subsidiary of the Bank which is deemed to be a “company controlled by the parent company” within the meaning of Rule 3a-5 of the U.S. Investment Company Act of 1940 (the “1940 Act”);

- (2) not to permit, and not to take any action to cause, the Trust to issue securities other than the Trust Securities;
- (3) to use its commercially reasonable efforts to cause the Trust to remain a statutory trust and not to voluntarily dissolve, wind up or liquidate, except as permitted by the Trust Agreement;
- (4) to use its commercially reasonable efforts to ensure that the Trust will not be classified as an investment company for the purposes of the 1940 Act; and
- (5) that it will take no action which would be reasonably likely to cause the Trust to be classified as:
  - (a) other than a grantor trust for United States federal income tax purposes; or (b) an association or a publicly traded partnership taxable as a corporation for United States federal income tax purposes; or
  - (c) a foreign trust for United States federal income tax purposes.

The holder of the Trust Common Securities may, with the prior approval of the Bank of Italy, if then required, transfer such securities to any other subsidiary of the Bank that is deemed to be a “company controlled by the parent company” within the meaning of Rule 3a-5 of the 1940 Act, provided that, prior to such transfer it has received an opinion of an independent nationally recognised law firm in the United States experienced in such matters to the effect that: (1) the Trust will continue to be treated as a grantor trust for United States federal income tax purposes and such transfer will not cause the LLC to be classified as an association or a publicly traded partnership taxable as a corporation for United States federal income tax purposes; (2) the Trust will not be treated as a foreign trust for United States federal income tax purposes; (3) such transfer will not cause the Trust to be required to register under the 1940 Act; and (4) such transfer will not adversely affect the limited liability of the holders of the Trust Preferred Securities.

The rights of the holders of the Trust Preferred Securities, including economic rights, rights to information and voting rights, are as set forth in the Trust Agreement and the Trust Act. See “Description of the Trust Securities.”

On, or prior to, the Issue Date, the Trust, the LLC, the Bank and Deutsche International Corporate Services (Delaware) LLC (the “Service Provider”) will enter into a services agreement (the “Services Agreement”), by which the Service Provider will agree, among other things:

- (1) to provide legal, accounting, tax and other general support services to the Trust and the LLC;
- (2) to maintain compliance with all applicable U.S. and Italian local, state and federal laws; and
- (3) to provide administrative, record keeping and secretarial services for the LLC and the Trust.

As issuer of the LLC Preferred Securities, the LLC will pay all of the fees and expenses of the Trust, including any taxes, duties, assessments or governmental charges of whatever nature (other than withholding taxes) imposed by the United States or any other domestic taxing authority upon the Trust, and all other obligations of the Trust (other than with respect to the Trust Securities).

The location of the principal executive office of the Trust is c/o Deutsche Bank Trust Company Delaware, 1011 Centre Road, Suite 200, Wilmington DE 19805, United States and its telephone number is +1 302 636 3390.

## **BANCA ITALEASE FUNDING LLC**

Banca Italease Funding LLC is a limited liability company that was formed on 28 April 2006 under the Delaware Limited Liability Company Act, as amended (the “LLC Act”), pursuant to an initial limited liability company agreement dated 28 April 2006 and a certificate of formation filed with the Secretary of State of the State of Delaware, which will be amended and restated in its entirety on or about 6 June 2006 in order to reflect, among other things, the issue by the LLC of the LLC Securities.

The Property Trustee will initially hold 100% of the issued and outstanding LLC Preferred Securities on behalf of the holders of the Trust Preferred Securities. The Bank will initially hold 100% of the issued and outstanding LLC Common Securities.

The LLC will use the proceeds from the sale of the LLC Securities and the up-front fee payable by the Bank under the Initial Derivative Contract (the “Initial Proceeds”) to invest in Eligible Investments, including the Initial Subordinated Deposit, and to purchase the Trust Common Securities. Upon repayment of the Initial Subordinated Deposit, the LLC may reinvest the proceeds therefrom in other Eligible Investments, including other Subordinated Deposits subject to the conditions set forth in the section entitled “Description of the Eligible Investments—Initial Subordinated Deposit-Reinvestment of Proceeds.”

The LLC exists exclusively for the purposes of:

- (1) issuing the LLC Securities and entering into the Initial Derivative Contract with the Bank and any other Derivative Contract entered into as a renewal or replacement of a preceding Derivative Contract between the LLC and the Bank;
- (2) acting as the initial holder of the Trust Common Securities;
- (3) investing the Initial Proceeds in and holding the initial Eligible Investments, including the Initial Subordinated Deposit, and purchasing the Trust Common Securities;
- (4) reinvesting the proceeds of the Initial Subordinated Deposit and other Eligible Investments, upon repayment thereof, in and holding other Eligible Investments including Subordinated Deposits issued by any Eligible Borrower subject to certain conditions;
- (5) performing all of its obligations and enforcing all of its rights pursuant to the LLC Preferred Securities, the LLC Agreement and the Derivative Contracts (as defined in “Description of the Derivative Contracts”); and
- (6) engaging in only those other activities necessary, appropriate, proper, advisable, incidental or convenient thereto.

For so long as the LLC Preferred Securities remain outstanding, the Bank will covenant:

- (1) that 100% of the LLC Common Securities will be held directly or indirectly by the Bank, any other branch of the Bank or, with the consent of the Bank of Italy, if then required, one or more subsidiaries of the Bank, each of which is deemed to be a “company controlled by the parent company” within the meaning of Rule 3a-5 of the 1940 Act;
- (2) to use its commercially reasonable efforts to cause the LLC to remain a limited liability company and not to be voluntarily dissolved, wound up, liquidated or terminated, except as permitted by the LLC Agreement; and
- (3) to use its commercially reasonable efforts to ensure that the LLC will not be: (x) an investment company for purposes of the 1940 Act; or (b) an association or a publicly traded partnership taxable as a corporation for United States federal income tax purposes.

So long as the LLC Common Securities are outstanding, a holder of LLC Common Securities may not sell, transfer or otherwise dispose of the LLC Common Securities other than to a branch of the Bank or to one or more subsidiaries of the Bank, each of which is deemed to be a “company controlled by the parent company” within the meaning of Rule 3a-5 of the 1940 Act, without the prior approval of both a majority of the Board of Directors and the Independent Directors of the LLC and the consent of the Bank of Italy,

provided that, prior to such transfer, it has received an opinion of an independent nationally recognised law firm in the United States experienced in such matters to the effect that:

- (1) the LLC will continue to be treated as a partnership for United States federal income tax purposes and such transfer will not cause the LLC to be classified as an association or publicly traded partnership taxable as a corporation for United States federal income tax purposes;
- (2) such transfer will not cause the LLC or the Trust to be required to register as an “investment company” under the 1940 Act;
- (3) such transfer will not adversely affect the limited liability of the holders of the LLC Preferred Securities; and
- (4) such transfer will not cause a Capital Event (as defined in “Description of the Trust Securities”).

The LLC may also use any of its assets or proceeds therefrom, other than the Subordinated Deposits and proceeds therefrom, to pay its expenses at any time.

The rights of the holders of the LLC Preferred Securities, including economic rights, rights to information and voting rights, are set forth in the LLC Agreement and the LLC Act. See “Description of the LLC Securities”

The LLC’s business and affairs will be conducted by its Board, which will consist initially of five members, at least one of whom will be a Regular Independent Director. The initial Regular Independent Directors will be J. Bruce Herd; Amy L. Martin; and Elizabeth B. Ferry. The other initial members of the Board include Alessandro Bolognini, and Maurizio Gobetti, each of whom is an employee of the Group. The majority of the members of the Board will not be residents of Italy.

The LLC Agreement will provide, however, that for so long as any LLC Preferred Securities are outstanding, certain amendments of the LLC Agreement, including any provisions with respect to the enforcement of the LLC Subordinated Guarantee and the payment of Dividends, require the unanimous approval of all of the holders of the LLC Preferred Securities, and certain other amendments of the LLC Agreement require the approval by the affirmative vote of the holders of not less than 66<sup>2</sup>/<sub>3</sub>% of the outstanding LLC Preferred Securities, excluding any LLC Preferred Securities held by the Bank or any of its affiliates. If, for any Dividend Period, Mandatory Dividends, and any LLC Additional Amounts in respect of such Mandatory Dividends, have not been paid in full on the LLC Preferred Securities by the LLC or by the Bank under the LLC Subordinated Guarantee, holders of LLC Preferred Securities will be entitled to appoint a Special Independent Director, as described in further detail in “Description of the LLC Securities—LLC Preferred Securities—Voting Rights” and “Description of the LLC Securities—LLC Preferred Securities—Independent Director Approval.”

All officers and employees of the LLC may also be officers or employees of the Bank or any other member of the Group.

On or before the Issue Date, the LLC and the Trust will enter into the Services Agreement with the Service Provider. See “Banca Italease Capital Trust.” The Bank will provide the LLC with the funds necessary for payment by the LLC of all of its fees and expenses that are not covered by the income from the Eligible Investments, including any taxes, duties, assessments or governmental charges of whatever nature (other than withholding taxes) imposed by the United States or any other domestic taxing authority upon the LLC, and all other obligations of the LLC (other than with respect to the LLC Securities).

The location of the registered office of the LLC is c/o Deutsche International Corporate Services (Delaware) LLC, 1011 Centre Road, Suite 200, Wilmington, DE 19805, United States.



## DESCRIPTION OF THE TRUST SECURITIES

The Trust Securities will be issued pursuant to the terms of the Trust Agreement. The following summary of the material terms and provisions of the Trust Securities does not purport to be complete and is subject to, and qualified in its entirety by reference to, the Trust Agreement, the Agency Agreement (as defined below) and the Trust Act.

### General

The Trust Agreement authorises the Regular Trustees of the Trust to issue the Trust Securities, which represent undivided beneficial ownership interests in the assets of the Trust. Title to the LLC Preferred Securities will be held by the Property Trustee for the benefit of the holders of the Trust Securities. The Trust Agreement does not permit the Trust to acquire any assets other than the LLC Preferred Securities or the issuance by the Trust of any securities other than the Trust Securities or the incurrence of any indebtedness for borrowed money by the Trust. The payment of Dividends out of money held by the Trust, and payments out of money held by the Trust upon redemption of the Trust Preferred Securities or liquidation of the Trust, are irrevocably and unconditionally guaranteed by the Bank to the extent described under “Description of the Subordinated Guarantees.”

On or before the Issue Date, the Property Trustee, on behalf of the Trust, will enter into an agency agreement (the “Agency Agreement”) with BNP Paribas Securities Services, Luxembourg Branch, as the principal paying agent for the Trust Preferred Securities (the “Principal Paying Agent”), as the Luxembourg paying agent (the “Luxembourg Paying Agent”) and as registrar (the “Registrar”).

### Dividends

Periodic Dividends on the Trust Preferred Securities with respect to each Dividend Period (as defined below) will be paid to the extent that Dividends on the LLC Preferred Securities have been declared or deemed declared and in each case paid by the LLC to the Trust or paid by the Bank under the Subordinated Guarantees with respect to the relevant Dividend Period. Amounts paid to holders of the Trust Preferred Securities in respect of Dividends and other distributions will be limited to: (i) payments received by the Trust from the LLC in accordance with the terms and conditions of the LLC Preferred Securities or from the Bank under the LLC Subordinated Guarantee with respect to the LLC Preferred Securities; and (ii) amounts received from the Bank under the Trust Subordinated Guarantee.

Dividends on the Trust Preferred Securities, only if and to the extent the Trust has funds legally available for payment of such Dividends in the Trust’s property account, will accrue and be payable quarterly in arrear from and including 6 June 2006 on a non-cumulative basis as follows:

- (1) Dividends will accrue at the Initial Dividend Rate (namely, 1.3% above EURIBOR for three-month deposits) during each Dividend Period until the Dividend Period that begins on 6 June 2016 and will be payable on each Dividend Payment Date (namely, 6 March, 6 June, 6 September and 6 December each year), commencing on 6 September 2006; and
- (2) Dividends will accrue at the Subsequent Dividend Rate (namely, 2.3% above EURIBOR for three-month deposits) during each Dividend Period commencing on or after 6 June 2016 and will be payable on each Dividend Payment Date, commencing on 6 September 2016.

With respect to each Dividend Period 6 June, Dividends payable on each Dividend Payment Date will be calculated on a quarterly basis for each such Dividend Period, from and including the EURIBOR Reset Date (as defined below) falling in such quarter to but excluding the EURIBOR Reset Date falling in the next succeeding Dividend Period at the Dividend Rate (as defined below), determined on the related EURIBOR Determination Date (as defined below) for such Dividend Period. The Dividend in respect of each Dividend Period will be calculated on the basis of a 360 day year and the actual number of days elapsed during such Dividend Period. Each Dividend Payment Date will also be a EURIBOR Reset Date. If any EURIBOR Reset Date, Dividend Payment Date or Redemption Date falls on a day that is not a Business Day, such EURIBOR Reset Date, Dividend Payment Date or Redemption Date will be postponed to the next



succeeding day which is a Business Day, unless it would thereby fall into the next calendar month, in which case it will be brought forward to the preceding day that is a Business Day.

“Business Day” means any day: (a) other than a Saturday, Sunday or a day on which banking institutions in Luxembourg, New York or Milan are authorised or required by law or executive order to remain closed; and (b) that is a TARGET Settlement Day.

“Dividend Rate” means:

- (1) during each Dividend Period until the Dividend Period that begins on 6 June 2016, the Initial Dividend Rate (namely, 1.3% above EURIBOR for three-month deposits); and
- (2) during each Dividend Period commencing on or after 6 June 2016, the Subsequent Dividend Rate (namely, 2.3% above EURIBOR for three-month deposits).

“EURIBOR” with respect to a EURIBOR Determination Date, means the rate (expressed as a percentage per annum) for deposits in euro for a three-month period commencing on the EURIBOR Reset Date that appears on Telerate Page 248 (as defined below) as of 11:00 a.m. (Brussels time) on that EURIBOR Determination Date. If such rate does not appear on Telerate Page 248, EURIBOR will be determined by the Calculation Agent (as defined below) on the basis of the rates at which deposits in euro for a three-month period commencing on the EURIBOR Reset 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 are offered in the euro-zone interbank market by four major banks in the euro-zone interbank market selected by the Calculation Agent, after consultation with the Bank, at approximately 11:00 a.m. (Brussels time) on that EURIBOR Determination Date.

The Calculation Agent will request the principal euro-zone office of each of the banks selected as aforesaid by the Calculation Agent to provide a quotation of its rate. If at least two such quotations are provided, EURIBOR in respect of that EURIBOR Determination Date will be the arithmetic mean of such quotations. If fewer than two quotations are provided, EURIBOR in respect of that EURIBOR Determination Date will be the arithmetic mean of the rates quoted by three major lending banks in the euro-zone interbank market selected by the Calculation Agent at approximately 11:00 a.m. (Brussels time) on that EURIBOR Determination Date for loans in euro to leading European banks for a three-month period commencing on the EURIBOR Reset 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; *provided, however, 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 determined on the previous EURIBOR Determination Date.

“Calculation Agent” means BNP Paribas Securities Services, Luxembourg Branch, or any successor thereto.

“EURIBOR Determination Date” for any Dividend Period means the second TARGET Settlement Day preceding the applicable EURIBOR Reset Date.

“EURIBOR Reset Date” means the first day of any Dividend Period.

“TARGET Settlement Day” means a day on which the Trans European Automated Real Time Gross Settlement Express Transfer (“TARGET”) System is open.

“Telerate Page 248” means the display designated as “Page 248” on the 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).

All percentages resulting from any calculation regarding Dividends on the Trust Preferred Securities will be rounded to the nearest one hundred thousandth of a percentage point, with five one millionths of a percentage point rounded upwards (e.g., 9.876545% (or 0.09876545) would be rounded to 9.87655% (or 0.0987655)).

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, on or prior to the first day of any Dividend Period, notify the Luxembourg Stock Exchange of the Dividend Rate determined for such Dividend Period.

Dividends on the Trust Preferred Securities will be payable to the holders thereof as they appear on the books and records of the Trust on the relevant record dates, which will be the 15th day (whether or not a Business Day) prior to the relevant Dividend Payment Date. Such Dividends will be paid by the Property Trustee to a Paying Agent for the benefit of the relevant holders of the Trust Preferred Securities. Subject to any applicable laws and regulations and the provisions of the Trust Agreement, each such payment will be made as described under “—Form, Denomination and Transfer” below.

### **Payment of Additional Amounts**

All payments in respect of the Trust Preferred Securities will be made without withholding or deduction for or on account of any Relevant Tax, unless the withholding or deduction of such Relevant Tax is required by law. In that event, the Trust will pay such Additional Amounts as may be necessary in order that the net amounts received by the holders of the Trust Preferred Securities (or a third party on the holder’s behalf), after such withholding or deduction, will equal the amount which would have been received in respect of the Trust Preferred Securities in the absence of such withholding or deduction, except that no such Additional Amounts will be payable to a holder of Trust Preferred Securities (or to a third party on the holder’s behalf) with respect to any Trust Preferred Securities to the extent that such Relevant Tax is imposed or levied by virtue of such holder (or the beneficial owner of such Trust Preferred Securities):

- (1) having some connection with the Relevant Jurisdiction, other than being a holder (or beneficial owner) of such Trust Preferred Securities; or
- (2) not having made a declaration of non-residence in, or other lack of connection with, the Relevant Jurisdiction or any similar claim for exemption or any other proof or documentation, if the Trust or the LLC or either of their agents has provided the beneficial owner of such Trust Preferred Securities or its nominee with at least 60 days’ prior written notice of an opportunity to make such a declaration or claim.

### **Trust Enforcement Events**

The occurrence, at any time, of:

- (1) non-payment of Dividends which have been declared or deemed declared on the Trust Securities for any Dividend Period;
- (2) a default by the Bank in respect of any of its obligations under the Trust Subordinated Guarantee; or
- (3) an LLC Enforcement Event (as defined below under “Description of the LLC Securities—LLC Preferred Securities—LLC Enforcement Events”) with respect to the LLC Preferred Securities,

will constitute an enforcement event under the Trust Agreement with respect to the Trust Securities (a “Trust Enforcement Event”); provided that, pursuant to the Trust Agreement, the holder of the Trust Common Securities will be deemed to have waived any Trust Enforcement Event with respect to the Trust Common Securities until all Trust Enforcement Events with respect to the Trust Preferred Securities have been cured, waived or otherwise eliminated. In the case of a Trust Enforcement Event set forth in clause (1) above, the Trust may cure such Trust Enforcement Event by making Dividend payments on the Trust Securities in full on each Dividend Payment Date for 12 consecutive months.

Until every Trust Enforcement Event with respect to the Trust Preferred Securities has been so cured, waived or otherwise eliminated, the Property Trustee will be deemed to be acting solely on behalf of the holders of the Trust Preferred Securities and only the holders of the Trust Preferred Securities will have the right to direct the Property Trustee with respect to certain matters under the Trust Agreement and, in the case of non-payment of Mandatory Dividends on the LLC Preferred Securities for any Dividend Period, the election of one Special Independent Director to the Board. See “Description of the LLC Securities—LLC Preferred Securities—Voting Rights” and “Description of the LLC Securities—LLC Preferred Securities—

Independent Directors Approval.” Upon the occurrence of a Trust Enforcement Event, the Trust will notify or cause the Luxembourg Stock Exchange to be notified of such event.

Upon the occurrence of a Trust Enforcement Event:

- (1) the Property Trustee, as the holder of the LLC Preferred Securities and at the direction of the holders of a majority of the outstanding Trust Preferred Securities, shall have the right to enforce the terms of the LLC Preferred Securities, including:
  - (a) the right to vote for the election of one Special Independent Director to the Board (to the extent that such Trust Enforcement Event results from the non-payment of Dividends on the LLC Preferred Securities for any Dividend Period);
  - (b) the rights of the holders of the LLC Preferred Securities under the LLC Subordinated Guarantee; and
  - (c) the rights of the holders of the LLC Preferred Securities to receive Dividends (only if and to the extent declared or deemed to have been declared) on the LLC Preferred Securities; and
- (2) the Property Trustee shall have the right to enforce the terms of the Trust Subordinated Guarantee.

If the Property Trustee fails to enforce the Trust’s rights under the LLC Preferred Securities after a holder of Trust Preferred Securities has made a written request, such holder may directly institute legal proceedings against the LLC to enforce the Trust’s rights under the LLC Preferred Securities without first instituting any legal proceeding against the Property Trustee, the Trust, the Independent Directors or any other person or entity.

### **Redemption**

The LLC Preferred Securities may be redeemed by the LLC, at its option, in whole or in part, at the Regular Redemption Price on any Dividend Payment Date occurring on or after 6 June 2016, with the prior approval, if then required, of the Bank of Italy.

Upon the occurrence of an LLC Special Event (as defined below) (other than a Change in Law Tax Event and an Interpretation Tax Event (as defined below)) the LLC Preferred Securities may be redeemed by the LLC at its option, in whole but not in part, at the Regular Redemption Price on any Dividend Payment Date if such redemption occurs on or after 6 June 2016 (a “Regular Redemption Date”), or at the Special Redemption Price (as defined below) on any Dividend Payment Date if such redemption occurs prior to 6 June 2016 (the “Special Redemption Date” and, together with a Regular Redemption Date, a “Redemption Date”), in each case, with the prior approval, if then required, of the Bank of Italy. Upon the occurrence of a Change in Law Tax Event or an Interpretation Tax Event, the LLC Preferred Securities may be redeemed by the LLC, at its option, in whole but not in part, at the Regular Redemption Price on any Dividend Payment Date, with the prior approval, if then required, of the Bank of Italy.

If the LLC redeems the LLC Preferred Securities, the Trust must redeem a number of Trust Preferred Securities having an aggregate liquidation preference equal to the aggregate liquidation preference of the LLC Preferred Securities so redeemed at the Regular Redemption Price or the Special Redemption Price, as the case may be, per Trust Security. In addition, following any liquidation of the Trust as a result of the occurrence of a Trust Special Event (as defined below), holders of the Trust Securities will receive a corresponding number of LLC Preferred Securities with the equivalent aggregate liquidation preference.

An “LLC Special Event” means: (1) a Capital Event; (2) an Investment Company Event; or (3) a Tax Event.

The “Regular Redemption Price” means the relevant LLC Liquidation Preference per LLC Preferred Security, plus any accrued and unpaid Dividends for the Dividend Period ending on the day immediately preceding the Regular Redemption Date, plus (without duplication) any unpaid Mandatory Dividends, plus any LLC Additional Amounts thereon, *provided that*, for the avoidance of doubt, the regular Redemption Price will not include Dividends that have not been declared (nor deemed declared) in full or in part in respect of any Dividend Period on the LLC Preferred Securities.

“Special Redemption Price” means the greater of: (1) the relevant LLC Liquidation Preference per LLC Preferred Security; and (2) the Make-Whole Amount (as defined below), plus, in the case of either (1) or (2), any accrued and unpaid Dividends for the Dividend Period ending on the day immediately preceding the Special Redemption Date, plus (without duplication) any unpaid Mandatory Dividends, plus any LLC Additional Amounts thereon, *provided that*, for the avoidance of doubts, the Special Redemption Price will not include Dividends that have not been declared (nor deemed declared) in full or in part in respect of any Dividend Period on the LLC Preferred Securities.

“Redemption Price” means the Regular Redemption Price or the Special Redemption Price, as the case may be.

“Make-Whole Amount” means the amount equal to the sum of the present value of the Liquidation Preference per LLC Preferred Security, together with the present values of the full Dividend payments per LLC Preferred Security from the Special Redemption Date to the Dividend Payment Date on 6 June 2016, in each case, discounted to the Special Redemption Date on an annual basis (calculated on the basis of the actual number of days in the relevant calendar year and the actual number of days in such period) at the German Bund Rate (as defined below) plus 0.50%.

“German Bund Rate” means, with respect to the Special Redemption Date, the rate per annum equal to the equivalent yield to maturity of the 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 for such Special Redemption Price.

“Comparable German Bund Issue” means the German Bund security selected by the Calculation Agent as having a maturity comparable to 6 June 2016 that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities having a maturity of 6 June 2016.

“Comparable German Bund Price” means: (a) the average of five Reference German Bund Dealer Quotations for the Special Redemption Date, after excluding the highest and lowest such Reference German Bund Dealer Quotations; or (b) if the Calculation Agent obtains fewer than five such Reference German Bund Dealer Quotations, the average of all such Reference German Bund Dealer Quotations.

“Reference German Bund Dealer” means: (a) the Calculation Agent; and (b) any other German Bund dealer selected by the Calculation Agent after consultation with the LLC.

“Reference German Bund Dealer Quotations” 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 p.m., Frankfurt time, on the third German Business Day immediately preceding the Special Redemption Date.

“German Business Day” means a day other than a Saturday or Sunday or a day on which banking institutions in Frankfurt, Germany are authorised or required by law or executive order to remain closed.

If, at any time, a Trust Special Event shall occur and be continuing, the Regular Trustees shall, within 90 days following the occurrence of such Trust Special Event, elect either:

- (1) to dissolve the Trust upon not less than 30 nor more than 60 days’ notice to the holders of the Trust Securities, Euroclear and Clearstream, Luxembourg, with the result that, after satisfaction of liabilities to any creditors of the Trust, LLC Preferred Securities would be distributed on a *pro rata* basis to the holders of the Trust Securities in liquidation of such holders’ interest in the Trust, *provided, however*, that, if at the time there is available to the Trust the opportunity to cure, within such 90-day period, the Trust Special Event by taking some ministerial action, such as filing a form or making an election, or pursuing some other similar reasonable measures which in the sole judgment of the Bank has, or will cause, no adverse effect on the LLC, the Trust, the Bank or the holders of the Trust Securities, and will involve no material costs, the Trust will pursue such measure in lieu of dissolution; or

- (2) to cause the Trust Preferred Securities to remain outstanding, provided, that in the case of this clause (2), the LLC shall pay any and all expenses incurred or payable by the Trust attributable to the Trust Special Event.

A “Trust Special Event” means: (1) an Investment Company Event solely with respect to the Trust, but not with respect to the LLC; or (2) a Tax Event solely with respect to the Trust, but not with respect to the LLC or an Eligible Borrower.

“Capital Event” means the Bank is notified by the Bank of Italy to the effect that the LLC Preferred Securities may not be included in the consolidated Tier I capital of the Bank, or the Subordinated Deposits may not be included in the non-consolidated Tier I capital of the Bank.

An “Investment Company Event” means that the Bank shall have requested and received an opinion of a nationally recognised United States law firm experienced in such matters to the effect that there is more than an insubstantial risk that the Trust or the LLC 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), any adoption or amendment of any law, rule or regulation or any notice or announcement (including any notice or announcement of intent to adopt such rule or regulation) by any United States legislative body, court, governmental agency or regulatory authority after the date hereof.

A “Tax Event” means a Change in Law Tax Event, an Interpretation Tax Event or a Tax Deductibility Event.

A “Change in Law Tax Event” means the receipt by the Bank of an opinion of a nationally recognised law firm or other tax advisers in the Relevant Jurisdiction, as appropriate, experienced in such matters, to the effect that, as a result of any amendment to, or other change (including any announced prospective change) in, the laws or treaties (or any regulations promulgated thereunder) of such Relevant Jurisdiction or any political subdivision or taxing authority thereof or therein affecting taxation, which amendment or other change is effective, or which change is announced, on or after the date of issue of the Trust Preferred Securities, the LLC Preferred Securities or the Derivative Contract, there is more than an insubstantial risk that:

- (1) the Trust or the LLC is or will be subject to more than a *de minimis* amount of taxes, duties or other governmental charges;
- (2) if a payment in respect of the Trust Preferred Securities or the LLC Preferred Securities were to be due (whether or not the same is in fact then due) on or before the next Dividend Payment Date, the Trust, the LLC or the Bank under the Subordinated Guarantees, as the case may be, would be unable to make such payment without having to pay Additional Amounts, LLC Additional Amounts or Guarantor Additional Amounts, as the case may be; or
- (3) if a payment in respect of a Subordinated Deposit were to be due (whether or not the same is in fact then due) on or before the next interest payment date in respect of such Subordinated Deposit, the related Eligible Borrower would be unable to make such payment without having to pay Subordinated Deposit Additional Amounts,

*provided, however, that* none of the foregoing events shall constitute a Change in Law Tax Event if such event or events may be avoided by the Bank, the related Eligible Borrower, the Trust or the LLC taking reasonable measures which: (a) do not require the Bank, the Eligible Borrower, the LLC or the Trust to incur material out-of-pocket expenses; and (b) would not otherwise be disadvantageous to the Bank or the related Eligible Borrower, as determined in the Bank’s discretion and provided further that the Bank, the Eligible Borrower, the LLC or the Trust shall not be required to take any measures which are not fully in compliance with the applicable provisions of law.



An “Interpretation Tax Event” means the receipt by the Bank of two opinions each issued by a nationally recognised law firm or other tax advisers in the Relevant Jurisdiction, as appropriate, experienced in such matters, to the effect that, as a result of:

- (1) a change in the official interpretation of the laws or treaties (or any regulations promulgated thereunder) of such Relevant Jurisdiction or any political subdivision or taxing authority thereof or therein affecting taxation; or
- (2) any judicial decision, official administrative pronouncement, published or private ruling, official administrative notice or pronouncement (for purposes of this definition, an “Administrative Action”); or
- (3) any official clarification of, or change in the official 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 hitherto generally accepted position as at the Issue Date,

in each case, by any legislative body, court, governmental, administrative or regulatory authority or body, irrespective of the manner in which such official clarification or change is made known, which change in the official interpretation or which Administrative Action, clarification or change is effective, or which interpretation or pronouncement occurs, on or after the date of the initial issue of the Trust Preferred Securities or the LLC Preferred Securities, there is more than an insubstantial risk that:

- (A) the Trust or the LLC is or will be subject to more than a *de minimis* amount of taxes, duties or other governmental charges;
- (B) if a payment in respect of the Trust Preferred Securities or the LLC Preferred Securities were to be due (whether or not the same is in fact then due) on or before the next Dividend Payment Date, the Trust, the LLC or the Bank under the Subordinated Guarantees, as the case may be, would be unable to make such payment without having to pay Additional Amounts, LLC Additional Amounts or Guarantor Additional Amounts, as the case may be; or
- (C) if a payment in respect of a Subordinated Deposit were to be due (whether or not the same is in fact then due) on or before the next interest payment date in respect of such Subordinated Deposit, the related Eligible Borrower would be unable to make such payment without having to pay Subordinated Deposit Additional Amounts;

*provided, however, that* none of the foregoing events shall constitute an Interpretation Tax Event if such event or events may be avoided by the Bank, the related Eligible Borrower, the Trust or the LLC taking reasonable measures which: (a) do not require the Bank, the Eligible Borrower, the LLC or the Trust to incur material out-of-pocket expenses; and (b) would not otherwise be disadvantageous to the Bank or the related Eligible Borrower, as determined in the Bank’s discretion and provided further that the Bank, the Eligible Borrower, the LLC or the Trust shall not be required to take any measures which are not fully in compliance with the applicable provisions of law.

A “Tax Deductibility Event” means the receipt by the Bank of an opinion of a nationally recognised law firm or other tax advisers, as appropriate, in the Relevant Jurisdiction in which an Eligible Borrower under a Subordinated Deposit is located and experienced in such matters, to the effect that, as a result of:

- (1) any amendment to, or other change (including any announced prospective change) in, the laws or treaties (or any regulations promulgated thereunder) of such Relevant Jurisdiction or any political subdivision or taxing authority thereof or therein affecting taxation, which amendment or other change is effective, or which prospective change is announced, on or after the date of making of such Subordinated Deposit; or
- (2) a change in the official interpretation of the laws or treaties (or any regulations promulgated thereunder) of such Relevant Jurisdiction or any political subdivision or taxing authority thereof or therein affecting taxation; or

- (3) 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) (for purposes of this definition, an “Administrative Action”); or
- (4) any clarification of, or change in the official position or the interpretation or pronouncement of such Administrative Action or any interpretation or pronouncement that provides for a position with respect to such Administrative Action that differs from the hitherto generally accepted position,

in each case, by any legislative body, court, governmental, administrative or regulatory authority or body, irrespective of the manner in which such clarification or change is made known, which Administrative Action, clarification or change is effective, or which notice or announcement is made, on or after the making of such Subordinated Deposit, there is more than an insubstantial risk that such an Eligible Borrower will be subject to more than a *de minimis* additional amount of national income taxes due to a change or modification of the deductibility of the interest payments on such Subordinated Deposit, *provided, however, that* none of the foregoing events shall constitute a Tax Deductibility Event if such event or events may be avoided by the related Eligible Borrower, the Trust or the LLC taking reasonable measures which (a) do not require the Eligible Borrower, the LLC or the Trust to incur material out-of-pocket expenses and (b) would not otherwise be disadvantageous to the Bank or the related Eligible Borrower, as determined in the Bank’s discretion and provided further that the Bank, the Eligible Borrower, the LLC or the Trust shall not be required to take any measures which are not fully in compliance with the applicable provisions of law.

If the Trust gives a notice of redemption in respect of Trust Preferred Securities (which notice will be irrevocable), then, by 12:00 noon, New York City time, on the applicable Redemption Date, provided that the LLC has paid to the Property Trustee a sufficient amount of cash in connection with the related redemption of the LLC Preferred Securities, the Trust will irrevocably deposit with the Paying Agents funds sufficient to pay the applicable Redemption Price and will give the Paying Agents irrevocable instructions and authority to pay the applicable Redemption Price to the holders of the Trust Preferred Securities and will irrevocably deposit with the Property Trustee funds sufficient to pay such Redemption Price in respect of any Trust Preferred Securities in certificated form and will give the Paying Agents irrevocable instructions and authority to pay such amount to the holders thereof on surrender of their certificates. See “—Form, Denomination and Transfer”. Payments of such funds will be made as described under “—Payments” below.

If notice of redemption shall have been given and funds deposited as required, then, immediately prior to the close of business on the date of such deposit, all rights of holders of such Trust Preferred Securities so called for redemption will cease, except the right of the holders of such Trust Preferred Securities to receive the applicable Redemption Price (but without interest on such Redemption Price). In the event that payment of the applicable Redemption Price in respect of Trust Preferred Securities is improperly withheld or refused and not paid either by the Trust, or by the Bank pursuant to the Trust Subordinated Guarantee, distributions on such Trust Preferred Securities will continue to accrue at the then applicable rate from the original Redemption Date to the date of payment, in which case the actual payment date will be considered the date fixed for redemption for purposes of calculating the applicable Redemption Price.

In the event that fewer than all of the outstanding Trust Preferred Securities are to be redeemed, the Trust Preferred Securities will be redeemed *pro rata*.

In accordance with, and subject to, the limitations set forth in the LLC Agreement, so long as any LLC Preferred Securities are outstanding, neither the Bank nor any of its subsidiaries will be entitled to redeem, repurchase or otherwise acquire, or set apart funds for the redemption, repurchase or other acquisition of, any Parity Securities or Junior Securities (in each case, as defined in “Description of the LLC Securities”), through a sinking fund or otherwise, unless and until:

- (1) full Dividends on all LLC Preferred Securities for the prior financial year (or such lesser period during which the LLC Preferred Securities have been outstanding) and any Dividend Periods that have occurred during the current financial year have been paid or a sum sufficient for payment has been paid to the Paying Agents for payment of such Dividends; and



- (2) the LLC has declared a Dividend on the LLC Preferred Securities in full at the Dividend Rate for the then current Dividend Period and sufficient funds have been paid to the Paying Agents for payment of such Dividends. It is an obligation of the Bank to ensure that its subsidiaries observe the foregoing limitations.

If the LLC Preferred Securities are distributed to the holders of the Trust Preferred Securities following a Trust Liquidation (as defined below), the Bank and the LLC will notify such holders prior to such distribution in accordance with the provisions set forth in “General Information—Notices.” If the LLC Preferred Securities are distributed to such holders, the Bank will use its commercially reasonable efforts to cause the LLC Preferred Securities to be listed on the Luxembourg Stock Exchange or on such other international securities exchange or similar organisation as the Trust Preferred Securities are then listed or quoted. The LLC Preferred Securities presently are not listed on the Luxembourg Stock Exchange or any other securities exchange. See “Risk Factors—Risks relating to the Trust Preferred Securities—Optional Redemption”.

Upon dissolution of the Trust, on the date fixed for any distribution of LLC Preferred Securities: (i) the Trust Preferred Securities will no longer be deemed to be outstanding; and (ii) certificates representing Trust Preferred Securities will be deemed to represent the LLC Preferred Securities having an aggregate liquidation preference equal to the aggregate liquidation preference of such Trust Preferred Securities until such certificates are presented to the LLC or its agent for exchange.

### **Purchases**

The Bank or any of its affiliates may at any time and from time to time, with prior approval of the Bank of Italy (if then required), subject to compliance with applicable Italian regulatory requirements, purchase outstanding Trust Preferred Securities by tender in the open market or by private agreement. If purchases are made by tender, the tender must be available to all holders of Trust Preferred Securities.

### **Subordination of Trust Common Securities**

Upon and during the continuance of an event of default under the Subordinated Deposits or the Subordinated Guarantees and upon a Trust Liquidation (as defined below), holders of the Trust Preferred Securities will have a preference over holders of the Trust Common Securities as to payments of Dividends and other payments.

In the case of any Trust Enforcement Event, the holders of Trust Common Securities will be deemed to have waived any such Trust Enforcement Event until every Trust Enforcement Event with respect to the Trust Preferred Securities has been cured, waived or otherwise eliminated. Until all Trust Enforcement Events with respect to the Trust Preferred Securities have been so cured, waived or otherwise eliminated, the Property Trustee shall act solely on behalf of the holders of the Trust Preferred Securities and not on behalf of the holders of the Trust Common Securities, and only the holders of the Trust Preferred Securities will have the right to direct the Property Trustee to act on their behalf.

### **Liquidation Distribution upon Dissolution**

In the event of any voluntary or involuntary liquidation, dissolution, winding-up or termination of the Trust (each a “Trust Liquidation”), the holders of the Trust Securities will be entitled to receive out of the assets of the Trust, after satisfaction of liabilities to creditors, if any, the LLC Preferred Securities on a *pro rata* basis, except, in the case of the holders of Trust Common Securities, in the limited circumstances described above under “—Subordination of Trust Common Securities.”

Pursuant to the Trust Agreement, the Trust shall dissolve:

- (1) upon the bankruptcy, insolvency, liquidation or dissolution of the Bank or the LLC;
- (2) upon the filing of a certificate of cancellation with respect to the LLC;
- (3) the consent of at least a majority of the outstanding Trust Securities, voting together as a single class, to file a certificate of cancellation with respect to the Trust;

- (4) upon the election of the Regular Trustees, following the occurrence of a Trust Special Event, to dissolve the Trust;
- (5) upon the entry of a decree of a judicial dissolution of the LLC or the Trust; or
- (6) upon the redemption of all of the Trust Securities;

*provided, however, that* the Trust shall, to the fullest extent permitted by law, not be dissolved until: (a) all claims under the Subordinated Guarantees shall have been paid in full pursuant to the terms thereof; or (b) the LLC Preferred Securities shall have been distributed to holders of the Trust Securities in connection with the occurrence of a Trust Special Event.

### **Voting Rights**

Except as described herein, under the Trust Act and under “Description of the Subordinated Guarantees—Amendment,” and as otherwise required by law and the Trust Agreement, the holders of the Trust Preferred Securities will have no voting rights.

Subject to the requirement of the Property Trustee obtaining a tax opinion as set forth below, so long as a default by the Bank under either of the Subordinated Guarantees or by the LLC under the LLC Preferred Securities is continuing, holders of a majority of the outstanding Trust Preferred Securities have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Property Trustee, or direct the exercise of any trust power conferred upon the Property Trustee under the Trust Agreement, including the right to direct the Property Trustee, as holder of the LLC Preferred Securities:

- (1) to exercise the remedies available to it under the LLC Agreement as a holder of the LLC Preferred Securities;
- (2) to consent to any amendment, modification or termination of the LLC Agreement or the LLC Preferred Securities where such consent shall be required; *provided, however, that*, where a consent or action under the LLC Agreement would require the consent or act of the holders of more than a majority of the LLC Preferred Securities affected thereby, only the holders of the percentage of the aggregate liquidation amount of the Trust Securities which is at least equal to the percentage of the aggregate liquidation amount of the LLC Preferred Securities required under the LLC Agreement may direct the Property Trustee to give such consent or take such action on behalf of the Trust; and
- (3) to direct the Independent Directors with respect to matters (including enforcement of the Subordinated Deposits) for which the Independent Directors act on behalf of the Property Trustee, as holder of the LLC Preferred Securities. See “Description of the LLC Securities—LLC Preferred Securities—Voting Rights”.

Except with respect to directing the time, method and place of conducting a proceeding for a remedy as described above, the Property Trustee shall be under no obligation to take any of the actions described in clauses (1), (2) or (3) above unless the Property Trustee has obtained an opinion of an independent nationally recognised law firm in the United States experienced in such matters to the effect that, as a result of such action, the Trust will not fail to be classified as a grantor trust for United States federal income tax purposes and that after such action each holder of Trust Securities will continue to be treated as owning an undivided beneficial ownership interest in the LLC Preferred Securities.

Any required approval or direction of holders of Trust Preferred Securities may be given at a separate meeting of holders of Trust Preferred Securities convened for such purpose, at a meeting of all of the holders of Trust Securities or pursuant to a written consent. The Regular Trustees will cause a notice of any meeting at which holders of Trust Preferred Securities are entitled to vote, or of any matter upon which action by written consent of such holders is to be taken, to be mailed to each holder of record of

Trust Preferred Securities. See “—Notices”. Each such notice will include a statement setting forth the following information:

- (1) the date of such meeting or the date by which such action is to be taken;
- (2) a description of any resolution proposed for adoption at such meeting on which such holders are entitled to vote or of such matter upon which written consent is sought; and
- (3) instructions for the delivery of proxies or consents.

No vote or consent of the holders of Trust Preferred Securities will be required for the Trust to redeem and cancel Trust Preferred Securities or distribute LLC Preferred Securities to such holders in accordance with the Trust Agreement.

Notwithstanding that holders of Trust Preferred Securities are entitled to vote or consent under any of the circumstances described above, any of the Trust Preferred Securities that are beneficially owned at such time by the Bank or any entity directly or indirectly controlled by, or under direct or indirect common control with, the Bank, shall not be entitled to vote or consent and shall, for the purposes of such vote or consent, be treated as if such Trust Preferred Securities were not outstanding, *provided, however*, that persons (other than affiliates of the Bank) to whom the Bank or any of its affiliates have pledged Trust Preferred Securities may vote or consent with respect to such pledged Trust Preferred Securities pursuant to the terms of such pledge.

The procedures by which holders of Trust Preferred Securities may exercise their voting rights are described below. See “—Form, Denomination and Transfer.”

Holders of the Trust Preferred Securities will have no rights to appoint or remove the Regular Trustees, who may be appointed, removed or replaced solely by the Bank, as the holder of all of the Trust Common Securities.

Holders of the Trust Preferred Securities also have rights of direct action against the Bank in certain circumstances as described in “—Trust Enforcement Events” above, “Description of the LLC Securities—LLC Preferred Securities—LLC Enforcement Events” and “Description of the Subordinated Guarantees—Enforcement.”

### **Merger, Consolidation, Conversion or Amalgamation**

The Trust may not consolidate, amalgamate, convert or merge with or into, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to any corporation or other entity, except as described below. The Trust may, at the request of the holder of the Trust Common Securities, with the consent of a majority of the Regular Trustees and without the consent of the holders of the Trust Preferred Securities, the Property Trustee or the Delaware Trustee, consolidate, amalgamate, merge with or into, or be replaced by or convey, transfer or lease its properties substantially as an entity to a trust organised as such under the laws of any State of the United States, provided that:

- (1) if the Trust is not the surviving entity, such successor entity either: (a) expressly assumes all of the obligations of the Trust under the Trust Securities; or (b) substitutes for the Trust Securities other securities having substantially the same terms as the Trust Securities (the “Successor Securities”), so long as the Successor Securities rank the same as the Trust Securities rank with respect to distributions, assets and payments upon liquidation, redemption and otherwise;
- (2) the LLC expressly acknowledges a trustee of such successor entity possessing the same powers and duties as the Property Trustee as the holder of the LLC Preferred Securities;
- (3) the Trust Preferred Securities or any Successor Securities will continue to be listed or quoted, or any Successor Securities will be listed or quoted upon notification of issuance, on any securities exchange, automated quotation system or similar organisation on which the Trust Preferred Securities are then listed or quoted;

- (4) such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease does not cause the Trust Preferred Securities (including any Successor Securities) to be downgraded by any rating agency then rating the Trust Preferred Securities;
- (5) such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the holders of the Trust Preferred Securities (including any Successor Securities) in any material respect or trigger a tax or other redemption event;
- (6) such successor entity has a purpose substantially identical to that of the Trust;
- (7) the Bank guarantees the obligations of such successor entity under any Successor Securities to the same extent as provided by the Trust Subordinated Guarantee; and
- (8) prior to such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease, the Bank has received an opinion of an independent, nationally recognised law firm in the United States experienced in such matters to the effect that:
  - (a) such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease will not adversely affect the rights, preferences and privileges of the holders of the Trust Preferred Securities (including any Successor Securities) in any material respect; and
  - (b) following such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease:
    - (i) neither the Trust nor such successor entity will be required to register as an investment company under the 1940 Act;
    - (ii) the Trust (or such successor entity) will continue to be classified as a grantor trust for United States federal income tax purposes;
    - (iii) the Trust (or such successor entity) will not be classified as a foreign trust for United States federal income tax purposes; and
    - (iv) the LLC (and such successor entity) will not be classified as an association or a publicly traded partnership taxable as a corporation for United States federal income tax purposes.

Notwithstanding the foregoing, the Trust shall not, except with the consent of holders of 100% of the Trust Preferred Securities outstanding, consolidate, amalgamate, convert, or merge with or into, or be replaced by any other entity or permit any other entity to consolidate, amalgamate, merge with or into, or replace it, if such consolidation, amalgamation, conversion, merger, replacement, conveyance, transfer or lease would cause the Trust or the successor entity not to be classified as a grantor trust for United States federal income tax purposes.

### **Modification of the Trust Agreement**

The Trust Agreement may be modified and amended if approved by a majority of the Regular Trustees (and in certain circumstances the Property Trustee and the Delaware Trustee), provided that, if any proposed amendment provides for, or the Regular Trustees otherwise propose to effect:

- (1) any action that would materially and adversely affect the powers, preferences or special rights of the Trust Securities, whether by way of amendment to the Trust Agreement or otherwise; or
- (2) the dissolution, winding-up or termination of the Trust other than pursuant to the terms of the Trust Agreement,

then the holders of the Trust Securities voting together as a single class will be entitled to vote on such amendment or proposal and such amendment or proposal shall not be effective except with the approval of

at least a majority of the holders of any outstanding Trust Securities affected thereby; *provided that* if any proposed amendment provides for, or the Regular Trustees propose:

- (a) a change in the amount or timing of any Dividend on the Trust Securities or otherwise adversely affects the amount of any Dividend required to be paid in respect of the Trust Securities as of a specified date; or
- (b) a restriction in the right of a holder of Trust Securities to institute suit for the enforcement of any payment on the Trust Securities,

then such amendment or proposal shall not be effective except with the approval of 100% of the holders of the outstanding Trust Securities; *provided, further, that* if any amendment or proposal referred to in (1) above would adversely affect only the Trust Preferred Securities or the Trust Common Securities, then only holders of the affected securities will be entitled to vote on such amendment or proposal and such amendment or proposal shall not be effective except with the approval of a majority of holders of such securities.

The Trust Agreement may be amended without the consent of the holders of the Trust Securities to:

- (1) cure any ambiguity;
- (2) correct or supplement any provision in the Trust Agreement that may be inconsistent with any other provision of the Trust Agreement or to add any other provision with respect to matters or questions arising under the Trust Agreement that shall not be inconsistent with the other provisions of the Trust Agreement;
- (3) add to the covenants, restrictions or obligations of the Bank or the Trust;
- (4) conform to any change in the 1940 Act or the rules or regulations thereunder; and
- (5) modify, eliminate and add to any provision of the Trust Agreement to such extent as may be necessary or desirable to ensure that at all times that any Trust Securities are outstanding:
  - (a) the Trust will be classified as a domestic grantor trust and not a business entity for United States federal income tax purposes; and
  - (b) the Trust will not be required to register as an investment company under the 1940 Act;

*provided that* no such amendment shall have a material adverse effect on the rights, preferences or privileges of the holders of the Trust Securities and any such amendment shall become effective when notice thereof is given to the holders of the Trust Preferred Securities in accordance with “—Notices”.

Notwithstanding the foregoing, no amendment or modification may be made to the Trust Agreement if such amendment or modification would: (1) cause the Trust to fail to be classified as a grantor trust for United States federal income tax purposes; (2) cause the Trust to be classified as a foreign trust for United States federal income tax purposes; (3) cause the LLC to be classified as an association or publicly traded partnership taxable as a corporation for such purposes; (4) reduce or otherwise adversely affect the powers of the Property Trustee; (5) cause the Trust or the LLC to be required to register under the 1940 Act; or (6) cause the Trust Preferred Securities to fail to qualify as consolidated Tier I capital for the Bank.

## **Form, Denomination and Transfer**

### ***General***

The Trust Preferred Securities will be issued in the form of the temporary registered global certificate (the “Temporary Global Certificate”). Beneficial interests in the Temporary Global Certificate will be exchanged for beneficial interests in the Permanent Global Certificate upon the expiration of the 40-day period beginning on the later of the commencement of the offering and the Issue Date (the “restricted period”).

On or about the Issue Date, the Global Securities will be deposited with, and registered in the name of the Common Depositary for Euroclear and Clearstream, Luxembourg or its nominee. Beneficial interests in the

Permanent Global Certificate may be exchanged for definitive Trust Preferred Securities (at the cost and expense of the Bank) if and only if

- (1) the Trust Preferred Securities cease to be eligible for clearance through Euroclear and Clearstream, Luxembourg; or
- (2) either Euroclear or Clearstream, Luxembourg (or their respective successors) is closed for business for a continuous period of 14 calendar days (other than by reason of holidays, statutory or otherwise) or otherwise permanently ceases business or announces an intention permanently to cease business.

In such case, the Regular Trustees will cause definitive Trust Preferred Security Certificates to be issued and delivered, in full exchange for the Permanent Global Certificate, to Euroclear and Clearstream, Luxembourg for the accounts of the holders of interests in the Permanent Global Certificate. All definitive Trust Preferred Security Certificates will be security-printed, and will be issued in a liquidation preference of €50,000, plus integral multiples of €1,000 above €50,000, per Trust Preferred Security (the “Trust Preferred Security Certificates”). No definitive Trust Preferred Security Certificates delivered in exchange for a Permanent Global Certificate will be mailed or otherwise delivered to any location in the United States in connection with such exchange. An exchange for definitive Trust Preferred Security Certificates will be made at no charge to the holders of the interests in the Permanent Global Certificate being exchanged. Notwithstanding the foregoing, from and after such time as definitive Trust Preferred Security Certificates are issued in exchange for the Permanent Global Certificate, any remaining interest in the Temporary Global Certificate will be exchangeable only for definitive Trust Preferred Security Certificates. Until exchange in full, the holder of an interest in any Global Certificate shall in all respects be entitled to the same benefits as the holder of definitive Trust Preferred Security Certificates.

Upon surrender of the relevant Global Certificate by the Common Depositary, the Regular Trustees shall cause definitive Trust Preferred Security Certificates to be delivered to Trust Preferred Security holders in accordance with the instructions of such Common Depositary. None of the Trust nor the Trustees shall be liable for any delay in delivery of such instructions and may conclusively rely on, and shall be protected in relying on, such instructions.

A definitive Trust Preferred Security Certificate may be transferred or exchanged upon the surrender of the definitive Trust Preferred Security Certificate to be transferred or exchanged, together with the completed and executed assignment, at the specified office of the Registrar or any transfer agent. New certificates will be dispatched to holders within five business days of such surrender and assignment.

Definitive Trust Preferred Security Certificates will be transferred or exchanged at the offices of the Registrar as set forth in the Agency Agreement. No service charge will be imposed for any registration of transfer or exchange, but payment of a sum sufficient to cover any tax or other governmental charge imposed in connection therewith may be required.

### ***Transfers Within Global Securities***

Subject to the procedures and limitations described below under “—Global Securities” and “—Payments; Certifications by Holders of the Temporary Global Certificate,” transfers of beneficial interests within a global security may be made without delivery to the Bank, the Trust or the Property Trustee of any written certifications or other documentation by the transferor or transferee.

### ***Global Securities***

The laws of some jurisdictions require that some purchasers of securities take physical delivery of securities in definitive form. Such laws may impair the ability to transfer beneficial interests in the Trust Preferred Securities so long as the Trust Preferred Securities are represented by global securities.

Beneficial interests in and transfers of global securities will be shown on records maintained by, and payments on global securities will be made to beneficial owners through, the clearing systems that hold the global securities and their participants. The initial clearing systems for the global securities are Euroclear and Clearstream, Luxembourg.



Owners of beneficial interests in Global Securities will not be considered the holders of the Trust Preferred Securities under the Trust Agreement. Accordingly, to exercise any rights of a holder of Trust Preferred Securities, each beneficial owner must rely on the procedures of the clearing system that holds the global securities in which that beneficial owner has an interest and, if such owner is not a direct participant in such clearing system, on the participant and any other intermediaries through which such owner holds its beneficial interest.

#### ***Payments; Certifications by Holders of the Temporary Global Certificate***

On or after the restricted period, a certificate must be provided by or on behalf of a holder of a beneficial interest in a Temporary Global Certificate to the Principal Paying Agent, certifying that the beneficial owner of the interest in the Temporary Global Certificate is not a U.S. person. Unless such certificate is provided:

- (1) the holder of such beneficial interest will not receive any payments with respect to such holder's beneficial interest in the Temporary Global Certificate;
- (2) such beneficial interest may not be exchanged for a beneficial interest in the Permanent Global Certificate; and
- (3) settlements of trades with respect to such beneficial interest will be suspended.

#### **Information Concerning the Property Trustee**

The Property Trustee, prior to the occurrence of a default with respect to the Trust Securities, undertakes to perform only such duties as are specifically set forth in the Trust Agreement and, after such default, shall exercise the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provisions, the Property Trustee is under no obligation to exercise any of the powers vested in it by the Trust Agreement at the request of any holder of Trust Preferred Securities, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby. The holders of Trust Preferred Securities will not be required to offer such indemnity in the event such holders, by exercising their rights, direct the Property Trustee to take any action following a Trust Enforcement Event.

#### **Registrar, Transfer Agent and Paying Agents**

BNP Paribas Securities Services, Luxembourg Branch, will act as Registrar and as Principal Paying Agent for the Trust Preferred Securities. The Trust has the right at any time to vary or terminate the appointment of any paying agents and to appoint additional or successor paying agents; *provided, however*, that for so long as the Trust Preferred Securities are listed on the Luxembourg Stock Exchange, the Trust shall maintain a transfer agent and a paying agent in Luxembourg. BNP Paribas Securities Services, Luxembourg Branch, will also act as Luxembourg transfer and paying agent. Registration of transfers of the Trust Preferred Securities will be effected without charge by or on behalf of the Trust, but upon payment (with the giving of such indemnity as the Trust may require) in respect of any tax or other governmental charges that may be imposed in relation to it. The Trust will not be required to register or cause to be registered the transfer of Trust Preferred Securities after such Trust Preferred Securities have been called for redemption.

#### **Payments**

As long as the Trust Preferred Securities are in book-entry form, payments on the Trust Preferred Securities will be made by the paying agent to the Common Depositary, which will credit the relevant accounts at Euroclear and Clearstream, Luxembourg on the scheduled payment dates. The Payments will be distributed by Euroclear and Clearstream, Luxembourg to their respective accountholders.

If definitive Trust Preferred Securities are issued in the limited circumstances described above, payments on the Trust Preferred Securities will be made by cheque mailed to the address of the holder entitled to receive the payment as such address as appears on the Trust's register, provided that, on redemption of definitive Trust Preferred Securities, payment of the applicable Redemption Price shall be made to the holders against surrender to the relevant Paying Agent of the certificate(s) representing their Trust Preferred Securities.



## **Prescription**

Any Dividend or Redemption Price shall have a prescription period of ten years from its date of declaration, upon the expiry of which any such amount shall be forfeited and shall cease to be owing by the Trust.

## **Notices**

Notices to the holders of the Trust Preferred Securities will be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg and any other relevant securities clearing system for communication by each of them to 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, notice shall also be published in such manner as the rules of such stock exchange(s) may require. See “General Information—Notices.”

## **Governing Law and Jurisdiction**

The Trust Agreement and the Trust Preferred Securities will be governed by, and construed in accordance with, the laws of the State of Delaware.

In relation to any legal action or proceedings arising out of or in connection with the issuance of the Trust Preferred Securities, each of the Bank, the LLC and the Trust has irrevocably submitted to the jurisdictions of the courts of England, and has appointed Clifford Chance Secretaries Limited at its principal office from time to time, presently at 10 Upper Bank Street, London E14 5JJ, United Kingdom as its agent for service of process in England, and the courts of the State of New York and the United States Federal District Court located in the Borough of Manhattan in The City of New York, and has appointed Law Debenture Corporate Services Inc., at its principal office from time to time, presently at 767 Third Avenue, 31st Floor, New York, New York 10017, as its agent for service of process in New York.

The Bank, the LLC and the Trust will agree to waive:

- (1) any objection which it may have at any time to the laying of venue of any proceeding brought in any such court;
- (2) any claim that such proceedings have been brought in an inconvenient forum; and
- (3) the right to object, with respect to such proceeding, that such court does not have any jurisdiction over such party.

## **Miscellaneous**

The Regular Trustees are authorised and directed to conduct the affairs of and to operate the Trust in such a way that the Trust will not be required to register under the 1940 Act or be characterised as other than: (a) a grantor trust; or (b) a foreign trust for United States federal income tax purposes. In this connection, the Regular Trustees are authorised to take any action, not inconsistent with applicable law, in respect of the certificate of trust or the Trust Agreement that the Regular Trustees determine in their discretion to be necessary or desirable for such purposes as long as such action does not adversely affect the interests of the holders of the Trust Preferred Securities.

## DESCRIPTION OF THE LLC SECURITIES

*The following summary sets forth the material terms and provisions of the LLC Securities. All of the LLC Common Securities will be initially owned by the Bank and all of the LLC Preferred Securities will be initially owned by the Trust. See “Description of the Trust Securities.” The LLC Agreement prohibits the LLC from incurring indebtedness for borrowed money or issuing any debt securities or any class or series of securities other than the LLC Common Securities and the LLC Preferred Securities. This summary is qualified in its entirety by reference to the terms and provisions of the LLC Agreement.*

### LLC Common Securities

Any net income of the LLC remaining after Dividends or other payments on the LLC Preferred Securities or the payment of expenses of the LLC or the Trust will be distributed as soon as practicable to the Bank, as holder of the LLC Common Securities.

The LLC may also use any of its assets or proceeds therefrom, other than the Subordinated Deposits and proceeds therefrom, to pay its expenses at any time.

As the holder of the LLC Common Securities, the Bank will provide the LLC with funds necessary for payment by the LLC of all the fees and expenses of the LLC that are not covered by the income from the Eligible Investments. As issuer of the LLC Preferred Securities, the LLC will pay all fees and expenses of the Trust.

### LLC Preferred Securities

#### *General*

The LLC Preferred Securities will rank senior to the LLC Common Securities with respect to the payment of Dividends and the right to receive payments out of the assets of the LLC upon voluntary or involuntary dissolution, liquidation or winding-up of the LLC. The LLC Preferred Securities will rank *pari passu* among themselves.

When issued, the LLC Preferred Securities will be validly issued, fully paid and non-assessable. The holders of the LLC Preferred Securities will have no pre-emption rights with respect to any other securities of the LLC. The LLC Preferred Securities will not be convertible into any other securities of the LLC and will not be subject to any sinking fund or other obligation of the LLC for their repurchase or retirement.

#### *Dividends*

Dividends on the LLC Preferred Securities will be paid when, as and if declared (or deemed declared) by the LLC Board of Directors, out of assets of the LLC legally available for the payment of Dividends. Dividends will not be cumulative and Dividends which are not declared (or deemed declared) for payment will not accumulate or compound from Dividend Period to Dividend Period. This means that if Dividends are not declared or deemed declared in full or in part on the LLC Preferred Securities in respect of a relevant Dividend Period, holders of the LLC Preferred Securities (and consequently, holders of the Trust Preferred Securities) will not receive, and will have no right to, receive those Dividends or the unpaid portion of those Dividends at any time, even if Dividends or other distributions are declared or deemed declared or paid in respect of any future Dividend Period.

Dividends on the LLC Preferred Securities will accrue and be payable from and including 6 June 2006 on a non-cumulative basis as follows:

- (1) Dividends will accrue at the Initial Dividend Rate (namely, 1.3% above EURIBOR for three-month deposits) during each Dividend Period until the Dividend Period that begins on 6 June 2016 and will be payable, if declared or deemed declared, quarterly in arrear on the same date as the quarterly Dividend Payment Date of the Trust Preferred Securities, commencing on 6 September 2006; and
- (2) Dividends will accrue at the Subsequent Dividend Rate (namely, 2.3% above EURIBOR for three-month deposits) during each Dividend Period commencing on or after 6 June 2016 and will be

payable, if declared or deemed declared, quarterly in arrear on the same date as the quarterly Dividend Payment Date of the Trust Preferred Securities, commencing on 6 September 2016.

Dividends on the LLC Preferred Securities will be calculated on the same basis as Dividends on the Trust Preferred Securities. See “Description of the Trust Securities—Dividends.”

The LLC is required to pay the Mandatory Dividends in full on the LLC Preferred Securities on each Dividend Payment Date unless:

- (1) the Bank, according to the non-consolidated financial statements of the Bank relating to the financial year immediately preceding the financial year in which the relevant Dividend Payment Date falls or, where such accounts are not available, the last set of annual non-consolidated financial statements approved by the Bank, does not have net profits (“Distributable Profits”) that would be available for the payment of a dividend or the making of a distribution of any class of its share capital, or the Bank has not declared or paid dividends on any class of its share capital based on the financial statements used to calculate the relevant Distributable Profits; or
- (2) the Bank is otherwise prohibited under applicable Italian banking laws or regulations from declaring a dividend or making a distribution on any class of its share capital; or
- (3) a Capital Deficiency Event has occurred and is continuing or would result from the payment thereof;

*provided that* the LLC will be prohibited from paying Dividends for any Dividend Period upon the occurrence and during the continuation of a Capital Deficiency Event. Notwithstanding the foregoing, if (a) Dividends or other distributions have been declared or paid or (b) certain redemptions, repurchases or other acquisitions (as described below) have been made by the Bank or any Subsidiary (as defined below), as the case may be, on or in respect of any Parity Securities (as defined below) or any Junior Securities (as defined below) the LLC will be required to declare and pay such Dividends on any Dividend Payment Date:

- (1) in full if:
  - (A) the Bank or any Subsidiary (as defined below), as the case may be, has redeemed, repurchased or otherwise acquired a Parity Security or 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 (other than: (i) any redemption, repurchase or other acquisition of such share capital or other instrument held by any member of the Group; (ii) as a result of a reclassification of the equity share capital of the Bank or such Subsidiary or the exchange or conversion of one class or series of such equity share capital for another class or series of such equity share capital; (iii) the purchase of fractional interests in the share capital of the Bank or any such Subsidiary pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged; (iv) in connection with a levy of execution for the satisfaction of a claim by the Bank or any Subsidiary; (v) in connection with the satisfaction by the Bank or any Subsidiary of its obligation under any employee benefit plan or similar arrangement; and (vi) in connection with transactions effected by or for the account of customers of the Bank or any Subsidiary or in connection with the distribution, trading or market-making in respect of such securities) during the 12-month period immediately preceding and including such Dividend Payment Date;
  - (B) the Bank has declared or paid a dividend or distribution or made any other payment with respect to a Junior Security that pays dividends or other distributions annually, if any, during the 12-month period immediately preceding and including such Dividend Payment Date;
  - (C) the Bank has declared or paid a dividend or distribution or made any other payment with respect to a Junior Security that pays dividends or other distributions semi-annually, if any, during the six-month period immediately preceding and including such Dividend Payment Date; and
  - (D) the Bank has declared or paid a dividend or distribution or made any other payment with respect to a Junior Security that pays dividends or other distributions on a basis other than

annually or semi-annually during the three-month period immediately preceding and including such Dividend Payment Date; and

(2) *pro rata* if:

- (A) the Bank or any Subsidiary has declared or paid a dividend or distribution or made any other payment with respect to a Parity Security that pays dividends or other distributions on an annual basis during the 12-month period immediately preceding and including such Dividend Payment Date;
- (B) the Bank or any Subsidiary has declared or paid a dividend or distribution or made any other payment with respect to a Parity Security that pays dividends or other distributions on a semi-annual basis during the six-month period immediately preceding and including such Dividend Payment Date; and
- (C) the Bank or any Subsidiary has declared or paid a dividend or distribution or made any other payment with respect to a Parity Security, that pays dividends or other distributions on a basis other than annually or semi-annually during the three-month period immediately preceding and including such Dividend Payment Date.

In the event that Dividends are deemed payable on any Dividend Payment Date pursuant to (2) above *pro rata* with dividends and other payments on any Parity Security, such Dividends shall be deemed payable in the same proportion that the declaration or payment on such Parity Security bears to the stated annual dividends or distributions to be declared and paid on such Parity Security.

Dividend payments on the LLC Preferred Securities, and therefore on the Trust Preferred Securities, will be reduced on a *pro rata* basis in certain circumstances on the occurrence of a Capital Deficiency Event, *provided, however, that*, if the Mandatory Dividends are due, the LLC is obliged to pay full Dividends.

Notwithstanding any other provision in the LLC Agreement or applicable law, if the LLC Board of Directors does not declare or pay Mandatory Dividends on the LLC Preferred Securities at the times and in the amounts authorised in clauses (A) and (B) above, then such Mandatory Dividends on the LLC Preferred Securities shall be deemed declared at the times and in the amounts so authorised, and the holders of LLC Preferred Securities shall be entitled to receive such Mandatory Dividends without any further act, vote or approval of the Board of Directors, any holder of LLC Securities or any other person.

“Junior Securities” means all share capital of the Bank, including its preference shares (*azioni privilegiate*), ordinary shares (*azioni ordinarie*) and savings shares (*azioni di risparmio*), in issue at the Issue date or hereafter issued, other than any share capital of the Bank that expressly or effectively rank equally with the Subordinated Guarantees or any Parity Security.

“Parity Securities” means:

- (1) any preference share, guarantee or similar instrument (other than the Subordinated Guarantees) issued by the Bank which ranks equally with the Subordinated Guarantees (including any such guarantee or similar instrument of preferred securities or preferred or preference shares issued by any Subsidiary); and
- (2) the preferred securities or preferred or preference shares issued by a Subsidiary with the benefit of a guarantee or similar instrument from the Bank, which guarantee or similar instrument ranks equally with the Subordinated Guarantees (but does not include any such securities or shares issued to the Bank or any other Subsidiary by any such Subsidiary).

“Subsidiary” means any person or entity which is required to be consolidated with the Bank for financial reporting purposes under applicable Italian banking laws and regulations.

#### ***Payment of LLC Additional Amounts***

All payments in respect of the LLC Preferred Securities made by or on behalf of the LLC will be made without withholding or deduction for or on account of any Relevant Tax payable by or on behalf of the LLC, unless the withholding or deduction of such Relevant Tax is required by law. In that event and if the LLC

Preferred Securities are held by the Trust and the Trust is required by law to deduct any Relevant Tax on payments in respect of the Trust Preferred Securities, the LLC will pay the LLC Additional Amounts as may be necessary in order that the net amounts received by the holders of the LLC Preferred Securities and/or of the Trust Preferred Securities, after such withholding or deduction, will equal the amount which would have been received in respect of the LLC Preferred Securities and/or of the Trust Preferred Securities in the absence of such withholding or deduction, except that no such LLC Additional Amounts will be payable to a holder of LLC Preferred Securities (or to a third party on the holder's behalf) with respect to any LLC Preferred Securities to the extent that such Relevant Tax is imposed or levied by virtue of such holder (or the beneficial owner of such LLC Preferred Securities) or a holder (or beneficial owner) of Trust Preferred Securities:

- (1) having some connection with the Relevant Jurisdiction, other than being a holder (or beneficial owner) of such LLC Preferred Securities or Trust Preferred Securities; or
- (2) not having made a declaration of non-residence in, or other lack of connection with, the Relevant Jurisdiction or any similar claim for exemption, if the LLC, the Trust or their agents have provided the beneficial owner of such LLC Preferred Securities or Trust Preferred Securities or its nominee with at least 60 days' prior written notice of an opportunity to make such a declaration or claim.

### ***Voting rights***

Except as described below, or as expressly required by applicable law, the LLC Preferred Securities will have no voting rights on any matter, in any proceedings or to be represented at, or to receive notice of, any meeting of holders of LLC Securities.

If, for any Dividend Period, Mandatory Dividends on the LLC Preferred Securities and any LLC Additional Amounts in respect of such Mandatory Dividends on the LLC Preferred Securities have not been paid in full by the LLC or by the Bank under the LLC Subordinated Guarantee with respect to the LLC Preferred Securities (together with any additional amounts in respect of such guarantee), then the holders of outstanding LLC Preferred Securities will be entitled, by ordinary resolution passed by the holders of a majority of such securities present in person or by proxy at a separate general meeting of such holders convened for the purpose, to appoint one Special Independent Director to the Board of Directors. Any Special Independent Director appointed as provided above shall vacate office if Dividends have been paid in full on the LLC Preferred Securities by the LLC or under the LLC Subordinated Guarantee by the Bank on each Dividend Payment Date for 12 consecutive months. Any such Special Independent Director may be removed with or without cause by, and shall not be removed except by, the vote of a majority in liquidation amount of the outstanding LLC Preferred Securities entitled to vote, at a meeting of the holders of LLC Common Securities or of the LLC Preferred Securities entitled to vote thereon, called for that purpose.

No vote of the holders of the LLC Preferred Securities will be required for the LLC to redeem and cancel the LLC Preferred Securities in accordance with the LLC Agreement. See “—Redemption and Repurchase of LLC Preferred Securities”.

Notwithstanding that holders of LLC Preferred Securities are entitled to vote or consent under the limited circumstances described above, any LLC Preferred Securities that are beneficially owned at such time by the Bank or any entity directly or indirectly controlled by, or under direct or indirect common control with, the Bank, shall not be entitled to vote or consent and shall, for the purposes of such vote or consent, be treated as if such LLC Preferred Securities were not outstanding, except for the LLC Preferred Securities purchased or acquired by the Bank or any of its affiliates; *provided, however, that* persons (other than affiliates of the Bank) to whom the Bank or any of its affiliates have pledged LLC Preferred Securities may vote or consent with respect to such pledged LLC Preferred Securities pursuant to the terms of such pledge.

### ***LLC Enforcement Events***

If one or more of the following events (each, an “LLC Enforcement Event”) shall occur and be continuing:

- (1) non-payment of Dividends which have been declared or deemed declared on the LLC Preferred Securities for any Dividend Period;



- (2) a default by the Bank in respect of any of its obligations under the LLC Subordinated Guarantee; or
- (3) an event of default with respect to any Subordinated Deposit occurs and is continuing,

then the Property Trustee, in accordance with the Trust Agreement, for so long as the LLC Preferred Securities are held by the Property Trustee, will have the right, or, if the Property Trustee does not hold the LLC Preferred Securities, holders of the outstanding LLC Preferred Securities will be entitled, by ordinary resolution passed by the holders of a majority of such LLC Preferred Securities present in person or by proxy at a separate meeting of such holders convened for the purpose, to enforce the terms of the LLC Preferred Securities under the LLC Agreement, including the right to direct the Independent Directors to enforce:

- (A) the LLC's creditors' rights and other rights with respect to the Subordinated Deposits, to the maximum extent permitted by the applicable law;
- (B) the rights of the holders of the LLC Preferred Securities under the LLC Subordinated Guarantee; and
- (C) the rights of the holders of the LLC Preferred Securities to receive Dividends (to the extent declared or deemed declared) on the LLC Preferred Securities.

In addition, in the event of an LLC Enforcement Event, the Property Trustee, or if the Property Trustee does not hold the LLC Preferred Securities, holders of the outstanding LLC Preferred Securities, shall have the right to enforce the terms of the LLC Subordinated Guarantee with respect to the LLC Preferred Securities.

In the case of an LLC Enforcement Event set forth in (1) above, the LLC may cure such LLC Enforcement Event by making Dividend payments in full on the LLC Preferred Securities on each Dividend Payment Date for 12 consecutive months.

If the Independent Directors fail to enforce the LLC's rights under the Subordinated Deposits against the applicable Eligible Borrower or those of the holders of the LLC Preferred Securities under the LLC Subordinated Guarantee after a holder of the LLC Preferred Securities has made a written request to an Independent Director for such enforcement, such holder may to the fullest extent permitted by law directly institute legal proceedings against the Eligible Borrower to enforce the rights of the LLC under the Subordinated Deposits or against the Bank to enforce the rights of such holders under the LLC Subordinated Guarantee without first instituting any legal proceeding against the Property Trustee, the Independent Directors, the LLC or any other person or entity. In any event, if an LLC Enforcement Event has occurred and is continuing and such event is attributable to the failure of an Eligible Borrower to make any required payment when due on any Subordinated Deposit, then a holder of LLC Preferred Securities may on behalf of the LLC directly institute proceedings against such Eligible Borrower with respect to such Subordinated Deposit for enforcement of payment. In such circumstances, a holder of LLC Preferred Securities may also bring a direct action against the Bank to enforce such holder's right under the LLC Subordinated Guarantee.

Notwithstanding the foregoing, under no circumstances shall the Independent Directors have authority to cause the Board to declare Dividends on the LLC Preferred Securities to the extent such Dividends are not required to be declared. As a result, although the Independent Directors may be able to enforce the LLC's creditors' right to receive payments in respect of the Subordinated Deposits and the LLC Subordinated Guarantee, the LLC would be entitled to reinvest such payments in additional Subordinated Deposits, subject to satisfying certain reinvestment criteria described herein, rather than making distributions on the LLC Preferred Securities. Any member of the Board, including the Independent Directors, shall not, by virtue of acting in such capacity, be admitted as a member of the LLC or otherwise be deemed to be a member of the LLC and shall have no liability for the debts, obligations or liabilities of the LLC.

#### ***Independent Director approval***

The LLC Agreement will provide that, for as long as any LLC Preferred Securities are outstanding, there will at all times be a member of the Board who is not an employee, non-independent director or affiliate of the Bank or any of its affiliates and who shall act, to the fullest extent permitted by law, exclusively on behalf of the holders of the LLC Preferred Securities (the "Regular Independent Director").



The LLC Agreement provides that, for so long as any LLC Preferred Securities are outstanding, the Regular Independent Director, acting alone and without the vote or consent of the other members of the Board, has the right and obligation on behalf of the LLC to enforce and otherwise act on behalf of the LLC with respect to the Subordinated Deposits and the LLC Subordinated Guarantee. The LLC Agreement provides that the Regular Independent Director will, to the fullest extent permitted by law:

- (1) consider only the interests of the holders of LLC Preferred Securities in determining whether any proposed action requiring their approval is in the best interests of the LLC; and
- (2) in considering the interests of holders of LLC Preferred Securities, the Regular Independent Director shall owe the holders of the LLC Preferred Securities duties comparable to those that a director of a Delaware corporation owes to shareholders of a corporation.

So long as any LLC Preferred Securities are outstanding, the Designated Actions must be approved by the Regular Independent Director as well as by a majority of the entire Board of Directors. The Designated Actions include:

- (1) the payment of Dividends or the making of distributions on the LLC Common Securities other than in accordance with the LLC Agreement;
- (2) the conversion of the LLC into another type of entity or the consolidation or merger of the LLC into any other entity, the consolidation or merger of any other entity with or into the LLC or the sale of all or substantially all of the assets of the LLC other than in accordance with the LLC Agreement;
- (3) to the fullest extent permitted by law, any dissolution, liquidation, or winding-up of the LLC that is not concurrent with the dissolution, liquidation or winding-up of the Bank;
- (4) any amendment, modification or renewal of the LLC Preferred Securities, the LLC Subordinated Guarantee, the Subordinated Deposits or the Derivative Contracts (or any other security, contract obligation, agreement or instrument that is an asset of the LLC) which adversely affects the powers, preferences or special rights of the LLC Preferred Securities in any material respect;
- (5) the approval of the sale, transfer or other disposition by the Bank of the LLC Common Securities other than to a branch of the Bank or to a subsidiary of the Bank that is deemed to be a “company controlled by the parent company” under Rule 3a-5 of the 1940 Act; and
- (6) any other action by the LLC or the Bank that could reasonably be expected to adversely affect the interests of the holders of the LLC Preferred Securities in any material respect.

The Regular Independent Director, acting alone and without the vote or consent of the other members of the Board of Directors (other than any Special Independent Director), will be entitled to take any and all such actions on behalf of the LLC in respect of the Subordinated Deposits, the LLC Subordinated Guarantee or any other right or remedy or course of action available to the LLC against the Bank or any other party; *provided, however, that*, unless required by law to do so, the Regular Independent Director shall not take any action if otherwise directed by the Property Trustee as the holder of the LLC Preferred Securities as directed by the holders of a majority of the outstanding Trust Preferred Securities.

If there is only one Regular Independent Director, any action that requires the approval of a majority of Regular Independent Directors must be approved by such Regular Independent Director.

## **Redemption and Repurchase**

### ***Optional Redemption***

The LLC Preferred Securities may be redeemed by the LLC, at its option, in whole or in part, at the Regular Redemption Price on any Dividend Payment Date occurring on or after 6 June 2016, with the prior approval, if then required, of the Bank of Italy, upon not less than 30 nor more than 60 days’ notice to the holders of the LLC Preferred Securities (which notice shall be irrevocable). See “Description of the Trust Securities—Redemption.”

### ***LLC Special Events***

If an LLC Special Event occurs (other than a Change in Law Tax Event and an Interpretation Tax Event), then the LLC Preferred Securities may be redeemable on any Dividend Payment Date, in whole but not in part, at the option of the LLC, subject to the prior approval, if then required, of the Bank of Italy, at the Regular Redemption Price if such redemption occurs on or after 6 June 2016, or at the Special Redemption Price if such redemption occurs prior to 6 June 2016. Any such redemption shall be upon not less than 30 nor more than 60 days' notice to the holders of the LLC Preferred Securities. Upon the occurrence of Change in Law Tax Event or an Interpretation Tax Event, the LLC Preferred Securities may be redeemed by the LLC, at its option, in whole but not in part, at the Regular Redemption Price on any Dividend Payment Date, with the prior approval, if then required, of the Bank of Italy. See "Description of the Trust Securities — Redemption."

### ***Payment of Redemption Price***

In the event that payment of the applicable Redemption Price in respect of any LLC Preferred Security is improperly withheld or refused and not paid either by the LLC or by the Bank pursuant to the LLC Subordinated Guarantee, Dividends on such LLC Preferred Securities will continue to accumulate from the date fixed for redemption to the date of actual payment of such Redemption Price.

### ***Repurchases***

The LLC or the Bank or any of the Bank's other affiliates may at any time or from time to time, with prior approval of the Bank of Italy (if then required), subject to compliance with applicable Italian regulatory requirements, purchase outstanding LLC Preferred Securities by tender in the open market or by private agreement. If purchases are made by tender, the tender must be available to all holders of LLC Preferred Securities.

### ***Liquidation Distribution upon Dissolution***

In the event of any voluntary or involuntary liquidation, dissolution, termination or winding-up of the LLC, holders of the LLC Preferred Securities at the time outstanding will, subject to the limitations described herein, be entitled to receive the LLC Liquidation Preference per LLC Preferred Security plus, in each case, declared or deemed declared and unpaid Dividends for the then current Dividend Period to the date of the final distribution of assets of the LLC, in respect of each LLC Preferred Security out of the assets of the LLC available for distribution to securityholders after satisfaction of liabilities to creditors in accordance with applicable law. Such entitlement will arise following the distribution of the Subordinated Deposits and Eligible Investments to the holders of the LLC Common Securities.

Upon liquidation, dissolution or winding-up of the LLC, the Property Trustee (as defined herein) shall enforce the LLC Subordinated Guarantee solely for the benefit of the Trust as sole holder of the LLC Preferred Securities.

The LLC Agreement will provide that, in the event of any voluntary or involuntary liquidation, dissolution, winding-up or termination of the Bank, the LLC shall be liquidated automatically, subject to prior approval of the Bank of Italy, if then required, *provided, however, that* the LLC shall, to the fullest extent permitted by law, not be dissolved until all claims under the LLC Subordinated Guarantee shall have been paid to the fullest extent under the LLC Subordinated Guarantee.

### ***Merger, Consolidation, Conversion or Amalgamation***

The LLC may not consolidate, amalgamate, convert or merge with or into, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to any corporation or other body, except as described below or elsewhere herein. The LLC may, without the consent of the holders of the LLC Preferred Securities, consolidate, amalgamate, convert or merge with or into, or be replaced by a limited

partnership, limited liability company or trust organised as such under the laws of any state of the United States of America, provided, that:

- (1) such successor entity either:
  - (a) expressly assumes all of the obligations of the LLC under the LLC Preferred Securities; or
  - (b) substitutes for the LLC Preferred Securities other securities having substantially the same terms as the LLC Preferred Securities (the “LLC Successor Securities”) so long as the LLC Successor Securities are not junior to any equity securities of the successor entity, with respect to participation in the profits, distributions and assets of the successor entity, except that they may rank junior to the LLC Common Securities or any successor LLC Common Securities to the same extent that the LLC Preferred Securities rank junior to the LLC Common Securities;
- (2) each Eligible Borrower of the Subordinated Deposits then held by the LLC expressly acknowledges such successor entity as the holder of the Subordinated Deposits;
- (3) the LLC Preferred Securities or any LLC Successor Securities are listed upon notification of official issuance, on any international securities exchange or similar organisation on which the LLC Preferred Securities, if so listed, are then listed;
- (4) such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease does not cause the Trust Preferred Securities (or, in the event that the Trust is liquidated in connection with a Trust Special Event, the LLC Preferred Securities (including any LLC Successor Securities)) to be downgraded by any nationally recognised statistical rating organisation in the United States;
- (5) such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease does not adversely affect the powers, preferences and other special rights of the holders of the Trust Preferred Securities, if the LLC Preferred Securities are held by the Trust at the time, or LLC Preferred Securities (including any LLC Successor Securities) in any material respect;
- (6) such successor entity has a purpose substantially identical to that of the LLC;
- (7) prior to such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease, the LLC has received an opinion of an independent nationally recognised law firm in the United States experienced in such matters to the effect that:
  - (A) such successor entity will be treated as a partnership, and will not be classified as an association or a publicly traded partnership taxable as a corporation, for United States federal income tax purposes;
  - (B) if the LLC Preferred Securities are held by the Trust at the time, such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease would not cause the Trust to be classified as other than a grantor trust for United States federal income tax purposes;
  - (C) following such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease, such successor entity will not be required to register as an “investment company” under the 1940 Act; and
  - (D) such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease will not adversely affect the limited liability of the holders of the LLC Preferred Securities; and
- (8) the Bank guarantees the obligations of such successor entity under any LLC Successor Securities at least to the extent provided by the LLC Subordinated Guarantee.

## **Book-Entry and Settlement**

If the LLC Preferred Securities are distributed to holders of Trust Preferred Securities in connection with the involuntary or voluntary dissolution, winding-up or liquidation of the Trust as a result of the occurrence of a Trust Special Event, the LLC Preferred Securities will be issued in the same form as the Trust Preferred Securities they replace. Any global certificate will be replaced by one or more global certificates (each, a “Global LLC Preferred Certificate”) registered in the name of the relevant clearing system or its custodian as the depositary or its nominee. As of the date of this Prospectus, the description herein of the clearing system’s book-entry system and the clearing system’s practices as they relate to purchase, transfers, notices and payments with respect to the Trust Preferred Securities apply in all material respects to any LLC Preferred Securities represented by one or more Global LLC Preferred Certificates.

## **Registrar, Transfer Agent and Paying Agent**

BNP Paribas Securities Services, Luxembourg Branch, will act as Registrar and Principal Paying Agent for the LLC Preferred Securities. Registration of transfers of the LLC Preferred Securities will be effected without charge by or on behalf of the LLC, but upon payment (with the giving of such indemnity as the LLC may require) in respect of any tax or other governmental charges that may be imposed in relation to it. The LLC will not be required to register or cause to be registered the transfer of LLC Preferred Securities after such LLC Preferred Securities have been called for redemption.

## **Governing Law and Jurisdiction**

The LLC Securities and the LLC Agreement will be governed by, and construed in accordance with, the laws of the State of Delaware.

In relation to any legal action or proceedings arising out of or in connection with the issuance of the LLC Preferred Securities, each of the Bank, the LLC and the Trust has irrevocably submitted to the jurisdictions of the courts of England, and has appointed Clifford Chance Secretaries Limited, at its principal office from time to time, presently 10 Upper Bank Street, London E14 5JJ, as its agent for service of process in England, and the courts of the State of New York and the United States Federal District Court located in the Borough of Manhattan in The City of New York and has appointed Law Debenture Corporate Services Inc., at its principal office from time to time, presently at 767 Third Avenue, 31st Floor, New York, New York 10017, as its agent for service of process in New York.

The Bank, the LLC and the Trust will agree to waive:

- (1) any objection which it may have at any time to the laying of venue of the proceeding brought in any such court;
- (2) any claim that such proceedings have been brought in an inconvenient forum; and
- (3) the right to object, with respect to such proceeding, that such court does not have any jurisdiction over such party.

## **Miscellaneous**

The Board of Directors is authorised and directed to conduct the affairs of the LLC in such a way that:

- (1) the LLC will not be deemed to be required to register under the 1940 Act; and
- (2) the LLC will not be treated as an association or as a “publicly traded partnership” (within the meaning of Section 7704 of the U.S. Internal Revenue Code) taxable as a corporation for United States federal income tax purposes.

In this connection, the Board of Directors is authorised to take any action, not inconsistent with applicable law or the LLC Agreement, that the Board of Directors determines in its discretion to be necessary or desirable for such purposes, so long as such action does not adversely affect the interests of the holders of the LLC Preferred Securities. Any amendment of the LLC Agreement relating to Dividends or the LLC Subordinated Guarantee will require the consent of each holder of the LLC Preferred Securities.

## DESCRIPTION OF THE INITIAL DERIVATIVE CONTRACT

*The following summary sets forth the material terms and provisions of the Initial Derivative Contract (as defined below), and its description is qualified in its entirety by reference to the terms and provisions of the Initial Derivative Contract.*

### General

Contemporaneously with the issuance of the LLC Preferred Securities, the LLC will enter into a credit derivative contract with the Bank (the “Initial Derivative Contract”) under which, in exchange for an up-front fee in the amount of €2,625,000, the LLC will agree to make a Capital Deficiency Payment (as defined below) to the Bank upon the occurrence of a Capital Deficiency Event. The LLC is not obligated to make any other payment under the Initial Derivative Contract. The Initial Subordinated Deposit will secure the LLC’s obligations under the Initial Derivative Contract. Neither the Bank nor the LLC is under an obligation to make any other payments under the Derivative Contracts (as defined below).

Any credit derivative contract between the Bank and the LLC, including the Initial Derivative Contract, is referred to in this Prospectus as a “Derivative Contract” and will constitute an unconditional, unsecured subordinated obligation of the LLC and will rank senior in right of payment to the LLC Securities.

### Capital Deficiency Event

A “Capital Deficiency Event” will be deemed to have occurred if:

- (1) as a result of losses incurred by the Bank, on a consolidated or stand-alone basis, the total risk-based capital ratio of the Bank, on a consolidated or stand-alone basis, as calculated in accordance with applicable Italian banking laws and regulations, and either (a) reported in the Bank’s annual or semi-annual consolidated or stand-alone accounts or (b) determined by the Bank of Italy and communicated to the Bank, in either case, falls below the then minimum requirements of the Bank of Italy specified in its February 2000 regulations or such other applicable regulations governing *Strumenti Innovativi di Capitale*, as from time to time amended or replaced by other applicable regulation; 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 an event specified in clause (1) will occur in the near term.

As at the date of this Prospectus, the minimum ratio referred to in (1) above is 5%.

Upon the occurrence of a Capital Deficiency Event, under the Derivative Contracts the LLC will be obligated to pay to the Bank, 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 guarantee ranking *pari passu* with the Subordinated Guarantee an amount equal to the lesser of:

- (1) the amount that is sufficient to cure the Capital Deficiency Event; and
- (2) the outstanding amount payable by the LLC under the Derivative Contracts (the “Capital Deficiency Payment”), which may not exceed the amount standing to the credit, for the time being, of the Subordinated Deposit.

If the LLC fails to make a Capital Deficiency Payment in cash, the obligation of the LLC to pay the Bank a Capital Deficiency Payment under the Derivative Contracts will be satisfied by the Bank reducing the amount standing to the credit of the Subordinated Deposits by the amount of such Capital Deficiency Payment, according to set-off arrangements contained in the Subordinated Deposits and the Derivative Contracts.

### Expiry and Termination

The Initial Derivative Contract will expire on 6 June 2026, although the Bank and the LLC will undertake that, prior to the expiration of the Initial Derivative Contract, they will in good faith negotiate a renewal or replacement of such contract and the related collateral arrangements.

The Derivative Contract can be terminated by mutual consent, by the Bank and the LLC, with the prior approval, if then required, of the Bank of Italy. However, until 6 June 2016, the LLC and the Bank may only terminate a Derivative Contract (the “Subject Contract”) by mutual consent if:

- (1) the LLC and the Bank enter into a new Derivative Contract that is issued and effective simultaneously with the expiration of the Subject Contract and is secured by a Subordinated Deposit with the same stated amount and maturity date as the stated amount and maturity date of the Subordinated Deposit that secures the Subject Contract;
- (2) there would be no adverse withholding tax consequences to holders of the Trust Preferred Securities or the LLC Preferred Securities as a consequence of such termination;
- (3) the Bank receives written confirmation from the Bank of Italy approving such termination and the new Derivative Contract and confirming that the Trust Preferred Securities would continue to qualify as Tier I capital of the Bank on a consolidated basis;
- (4) neither the Trust nor the LLC would be required to register as an investment company under the 1940 Act;
- (5) the LLC would continue to be treated as a partnership and the Trust would be classified as a grantor trust, in each case, for U.S. federal income tax purposes; and
- (6) the Bank delivers to the LLC an officers’ certificate and an opinion of counsel stating that all conditions precedent to such termination and entering into such new Derivative Contract have been complied with.

The Derivative Contracts will be terminable by the mutual consent of the Bank and the LLC, without compliance with the conditions set out in (1) to (6) above, upon:

- (A) the payment in full of the Redemption Price of the LLC Preferred Securities or purchase or cancellation of all LLC Preferred Securities; or
- (B) the payment in full of the relevant LLC Liquidation Preference per LLC Preferred Security, plus any unpaid Dividends (to the extent declared or deemed declared) and any Additional Amounts thereon.

The Derivative Contracts will be automatically terminated upon the liquidation, dissolution or winding-up of (or similar proceedings in accordance with applicable Italian Law with respect to) the Bank.

If the Initial Derivative Contract is terminated before 6 June 2026, the LLC will refund the Bank’s up-front fee *pro rata* on the remaining term of such contract.

### **Amendment**

The Derivative Contracts may be amended by the parties thereto without the consent of the holders of the Trust Securities or the LLC Preferred Securities:

- (1) to cure any ambiguity;
- (2) to correct or to supplement any provision therein that may be inconsistent with any other provision thereof or to add any other provision with respect to matters or questions arising thereunder that will not be inconsistent with the other provisions of the Derivative Contract;
- (3) to add to the covenants, restrictions or obligations of the Bank; and
- (4) to modify, eliminate and add any provision of the Derivative Contract to such extent as may be necessary or desirable;

*provided, however*, that no such amendment will have a material adverse effect on the rights, preferences or privileges of the holders of the Trust Securities and any such amendment will become effective when notice is given to the holders of the Trust Preferred Securities in accordance with “Description of the Trust Securities—Notices.”



**Governing Law and Jurisdiction**

The Derivative Contracts will be governed by, and construed in accordance with, the laws of England.

In relation to any legal action or proceedings arising out of or in connection with the Derivative Contract, each of the Bank and the LLC has irrevocably submitted to the jurisdictions of the courts of England, and has appointed Clifford Chance Secretaries Limited, at its principal office from time to time, presently at 10 Upper Bank Street, London E14 5JJ, as its agent for service of process in England.

The Bank and the LLC will agree to waive:

- (1) any objection which it may have at any time to the laying of venue of any proceeding brought in any such court;
- (2) any claim that such proceedings have been brought in an inconvenient forum; and
- (3) the right to object, with respect to such proceeding, that such court does not have any jurisdiction over such party.

## DESCRIPTION OF THE SUBORDINATED GUARANTEES

*Set forth below is a summary of the Subordinated Guarantees that will be executed and delivered by the Bank for the benefit of the holders from time to time of the LLC Preferred Securities and the Trust Securities. The following summary does not purport to be complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the Subordinated Guarantees.*

### General

The Bank irrevocably and unconditionally will agree in the Subordinated Guarantees to pay in full, on a subordinated basis, to the holders of Trust Preferred Securities and the holders of LLC Preferred Securities, respectively, the Subordinated Guarantee Payments to the extent set forth therein, as and when due, regardless of any defence, right of set-off or counterclaim which the LLC or the Trust may have or assert, other than the defence of payment. The Bank's obligations under the Subordinated Guarantees are several and independent of the obligations of the LLC with respect to the LLC Preferred Securities or the obligations of the Trust with respect to the Trust Preferred Securities.

The Bank shall be liable as principal and debtor under the Trust Subordinated Guarantee to make the following Subordinated Guarantee Payments pursuant to the terms thereof (without duplication) with respect to the Trust Preferred Securities:

- (1) Dividends on the Trust Preferred Securities to the extent Dividends have been declared (or deemed declared) on the LLC Preferred Securities;
- (2) upon liquidation of the Trust, the relevant Liquidation Preference per Trust Preferred Securities (other than in connection with the distribution of LLC Preferred Securities to holders of the Trust Preferred Securities upon the occurrence of a Trust Special Event);
- (3) the applicable Redemption Price with respect to any Trust Preferred Securities called for redemption by the Trust; and
- (4) Additional Amounts, if any, by the Trust on any payment referred to in (1), (2) or (3), plus, in each case, interest accrued thereon from the date of making the claim under the Trust Subordinated Guarantee, subject to the limitations set forth therein.

The Bank shall be liable as principal and debtor under the LLC Subordinated Guarantee to make the following Subordinated Guarantee Payments pursuant to the terms thereof (without duplication) with respect to the LLC Preferred Securities:

- (1) Dividends on the LLC Preferred Securities, to the extent declared (or deemed declared);
- (2) upon liquidation of the LLC, the Liquidation Preference per LLC Preferred Security;
- (3) the applicable Redemption Price with respect to any LLC Preferred Securities called for redemption by the LLC; and
- (4) LLC Additional Amounts, if any, by the LLC on any payment referred to in (1), (2) or (3), plus, in each case, interest accrued thereon from the date of making the claim under the LLC Subordinated Guarantee, subject to the limitations set forth therein.

Notwithstanding the restrictions on the declaration and payment of Dividends by the LLC, the Bank will be permitted to make payments to the Trust, as holder of the Trust Preferred Securities, or to the holders of the Trust Preferred Securities, in each case under the Subordinated Guarantees or otherwise in its discretion; *provided, however*, that the Bank will be prohibited from making any Subordinated Guarantee Payment so long as a Capital Deficiency Event has occurred and is continuing. Notwithstanding the foregoing, if:

- (A) dividends or other distributions have been declared or paid on or in respect of any Parity Securities or Junior Securities; or
- (B) certain redemptions, repurchases or other acquisitions have been made by the Bank or any Subsidiary, as the case may be, on or in respect of any Parity Securities or Junior Securities, the Bank may be required to make a Subordinated Guarantee Payment in respect of Mandatory

Dividends on the LLC Preferred Securities at the times and in the amounts described in “Description of the LLC Securities—LLC Preferred Securities—Dividends.”

If the LLC fails to make a Capital Deficiency Payment to the Bank in cash upon the occurrence of a Capital Deficiency Event, under the Subordinated Deposits, all or a portion of the Subordinated Deposits will be reduced as a result of a set-off in the amount of any Capital Deficiency Payment. Consequently, it is anticipated that, a substantial portion of any claims of the holders of the LLC Preferred Securities after the occurrence of a Capital Deficiency Event will be required to be satisfied under the LLC Subordinated Guarantee.

If payment of the amounts described above cannot be made by reason of any limitation referred to above, such amounts will be payable *pro rata* in proportion to the amounts that would have been payable but for such limitation.

The Subordinated Guarantees of the LLC Preferred Securities and the Trust Preferred Securities by the Bank is intended to provide the holders thereof, as nearly as possible, with rights to Dividends and distributions upon redemption and liquidation equivalent to those to which the holders thereof would have been entitled, if the LLC Preferred Securities or the Trust Preferred Securities, as the case may be, were issued directly by the Bank.

### **Ranking**

Subject to applicable law, the Bank’s obligations under the Subordinated Guarantees constitute unsecured obligations and will rank subordinate and junior to indebtedness of the Bank (other than any instrument or contractual right expressed to rank *pari passu* with the Subordinated Guarantees), *pari passu* with the most senior tier I qualifying securities of the Bank, if any, and senior to the share capital of the Bank, including its *azioni privilegiate*, ordinary shares and *azioni di risparmio*, and the holders of the LLC Preferred Securities and the Trust Preferred Securities, by their acceptance thereof, are deemed to agree to the foregoing subordination.

### **Payment of Guarantor Additional Amounts**

All Subordinated Guarantee Payments in respect of the LLC Preferred Securities and the Trust Preferred Securities made by or on behalf of the Bank will be made without withholding or deduction for or on account of any Relevant Tax payable by or on behalf of the Bank, unless the withholding or deduction of the Relevant Tax is required by law. In that event, the Bank will pay such additional amounts (“Guarantor Additional Amounts”) as may be necessary in order that the net amount received by the holders after such withholding or deduction will equal the amount which would have been received in respect of the LLC Preferred Securities or the Trust Preferred Securities, as the case may be, in the absence of such withholding or deduction, except that no such Guarantor Additional Amounts will be payable to a holder (or a third party on its behalf) with respect to any LLC Preferred Securities or Trust Preferred Securities, as the case may be, to the extent that such Relevant Tax is imposed or levied by virtue of such holder (or the beneficial owner of such LLC Preferred Securities or Trust Preferred Securities, as the case may be):

- (A) having some connection with the Relevant Jurisdiction, other than being a holder (or beneficial owner of such LLC Preferred Securities or Trust Preferred Securities, as the case may be); or
- (B) not having made a declaration of non-residence in, or other lack of connection with, the Relevant Jurisdiction or any similar claim for exemption, if the Bank or its agent has provided the beneficial owner of such Trust Preferred Securities or LLC Preferred Securities or its nominee with at least 60 days’ prior written notice of an opportunity to make such a declaration or claim.

### **Enforcement**

The Property Trustee, on behalf of the holders of the LLC Preferred Securities and the Trust Preferred Securities, may enforce the Subordinated Guarantees directly against the Bank. If the Property Trustee fails to enforce its rights under the Subordinated Guarantees after a holder of the LLC Preferred Securities, or the Trust Preferred Securities, as the case may be, has made a written request, such holder may directly institute

a legal proceeding against the Bank to enforce the Property Trustee's rights under the Subordinated Guarantees without first initiating any legal proceeding against the Property Trustee, the LLC, the Trust, the Independent Directors or any other person or entity. Pursuant to the Subordinated Guarantees, the Bank will waive any right or remedy to require that any action be brought against the LLC, the Trust or any other person or entity before proceeding against the Bank.

### **Certain Covenants of the Bank**

#### ***Issue of preference shares and subordinated guarantees***

The Bank will agree under the Subordinated Guarantees that it will not issue any preferred securities or preferred securities or preference shares (or similar equity instruments) ranking senior to its obligations under the Subordinated Guarantees. Moreover, the Bank will agree that it will not issue any guarantee in respect of any preferred securities or preferred or preference shares issued by any Subsidiary of the Bank ranking senior to its obligations under the Subordinated Guarantees unless the holders of the Trust Preferred Securities and the LLC Preferred Securities are given such rights and entitlements so that the Trust Preferred Securities and the LLC Preferred Securities rank *pari passu* with any such guarantee.

#### ***Payment of Dividends***

The Bank will agree under the Subordinated Guarantees that if any amount due and payable under the Subordinated Guarantees in respect of any Dividends on the Trust Preferred Securities or on the LLC Preferred Securities in respect of the most recent Dividend Period, as the case may be, has not been paid, the Bank will pay such amount *pro rata* with any dividend or other payment made by the Bank or any Subsidiary on any Parity Securities and prior to any dividend or other payment made by the Bank on any Junior Securities.

#### ***Maintenance of ownership and existence of the LLC and the Trust***

The Bank will agree under the Subordinated Guarantees that, for so long as any Trust Preferred Securities or LLC Preferred Securities remain outstanding, 100% of the Trust Common Securities and the LLC Common Securities will be held by the Bank, a branch of the Bank 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 parent company" within the meaning of Rule 3a-5 of the 1940 Act.

The Bank will agree under the Subordinated Guarantees that to the fullest extent permitted by law:

- (1) for so long as any of the LLC Preferred Securities are outstanding, the Bank will not permit, or take any action to cause, the liquidation, dissolution or winding-up of the LLC unless the Bank is itself in liquidation and, if then required, the approval of the Bank of Italy to such action has been received and all claims under the Subordinated Guarantees shall have been paid in full; and
- (2) for so long as any of the Trust Preferred Securities are outstanding, the Bank will not permit, or take any action to cause, the dissolution, liquidation, winding-up or termination of the Trust, unless a Trust Special Event occurs or the LLC or the Bank is itself in liquidation and, if then required, the approval of the Bank of Italy to such action has been received and all claims under the Subordinated Guarantees shall have been paid in full.

See also "Banca Italease Capital Trust" and "Banca Italease Funding LLC" for certain additional covenants to be made by the Bank.

### **No Assignment**

The Bank will agree under the Subordinated Guarantees that it may not assign its obligations under the Subordinated Guarantees, except in the case of merger, de-merger (*scissione*) under Italian law, consolidation or a sale of substantially all of its assets where the Bank is not the surviving entity.

## Termination

The Subordinated Guarantees shall terminate and be of no further force and effect from the earlier of:

- (1) the payment of the applicable Redemption Price for all Trust Preferred Securities or purchase and cancellation of all Trust Preferred Securities;
- (2) if the Trust Preferred Securities are no longer outstanding but clause (1) is not satisfied, the payment of the applicable Redemption Price for all LLC Preferred Securities or purchase and cancellation of all LLC Preferred Securities;
- (3) full payment of the relevant Trust Liquidation Preference per Trust Preferred Security for all Trust Preferred Securities plus any unpaid Dividends (to the extent payable or deemed payable) and any Additional Amounts thereon; or
- (4) if the Trust Preferred Securities are no longer outstanding but clause (1) is not satisfied, full payment of the relevant LLC Liquidation Preference per LLC Preferred Security for all LLC Preferred Securities plus any unpaid Dividends (to the extent declared or deemed declared) and any LLC Additional Amounts thereon,

*provided, however*, that the Subordinated Guarantees will continue to be effective or will be reinstated, as the case may be, if at any time payment of any sums paid under the LLC Preferred Securities, the Trust Preferred Securities or the Subordinated Guarantees must be restored by a holder thereof for any reason whatsoever.

The occurrence of a Capital Deficiency Event will not cause redemption of the LLC Preferred Securities.

## Amendment

Except for those changes provided for in the last sentence of this paragraph (in which case no approval will be required) and changes to the provisions of the Subordinated Guarantees in respect of the Subordinated Guarantee Payments and the circumstances under which Dividends are deemed to have been declared (in which case approval of each holder of the LLC Preferred Securities and the Trust Preferred Securities is required), the Subordinated Guarantees may be modified only with the prior approval of the holders of not less than 66⅔% of the LLC Preferred Securities and not less than 66⅔% of the Trust Preferred Securities (excluding any LLC Preferred Securities and Trust Preferred Securities, as the case may be, held by the Bank or any of its affiliates, except that persons (other than affiliates of the Bank) to whom the Bank or any of its subsidiaries have pledged LLC Preferred Securities or Trust Securities may vote or convert with respect to such pledged securities pursuant to the terms of such pledge).

In accordance with the terms of the Subordinated Guarantees, the Subordinated Guarantees may be amended without the consent of the holders of the Trust Securities or LLC Securities:

- (1) to cure any ambiguity;
- (2) to correct or to supplement any provision in the Subordinated Guarantees that may be defective or inconsistent with any other provision of the Subordinated Guarantees;
- (3) to add to the covenants, restrictions or obligations of the Bank;
- (4) to conform to any change in the 1940 Act or the rules or regulations thereunder; and
- (5) to modify, eliminate and add to any provision of the Subordinated Guarantees to such extent as may be necessary or desirable; *provided that* no such amendment shall be made if such amendment would:
  - (A) cause the LLC or the Trust to be required to register as an investment company under the 1940 Act;
  - (B) cause the Trust to fail to be treated as a grantor trust and a domestic trust for United States federal income tax purposes;

- (C) cause the LLC to be treated as other than a partnership that is not a publicly traded partnership for United States federal income tax purposes; or
- (D) have a material adverse effect on the rights, preferences or privileges of the holders of the Trust Securities or LLC Preferred Securities.

If the Subordinated Guarantees are amended, notice thereof will be provided in the manner indicated under “Description of the Trust Securities—Notices.” Copies of the amended Subordinated Guarantees will be made available to holders as indicated in “General Information—Available Documents.”

### **Governing Law and Jurisdiction**

The Subordinated Guarantees will be governed by, and construed in accordance with, the laws of England except that the subordination provisions in the Subordinated Guarantees will be governed by the laws of Italy.

In relation to any legal action or proceedings arising out of or in connection with the Subordinated Guarantees, the Bank will agree to submit to the non-exclusive jurisdictions of the courts of England, and has appointed Clifford Chance Secretaries Limited, at its principal office from time to time, presently at 10 Upper Bank Street, London E14 5JJ, as its agents for service of process in England. The Bank will also agree to irrevocably waive, to the fullest extent it may effectively do so, the defence of any inconvenient forum to the maintenance of such action or proceeding.



## DESCRIPTION OF THE ELIGIBLE INVESTMENTS

*The following summary sets forth the material terms and provisions of the Eligible Investments, including the Initial Subordinated Deposit. The description of the Initial Subordinated Deposit is qualified in its entirety by reference to the terms and provisions of the Initial Subordinated Deposit.*

### Eligible Investments

The LLC will use the proceeds from the issue of the LLC Securities and the up-front fee payable by the Bank under the Initial Derivative Contract (the “Initial Proceeds”) to invest in Eligible Investments. “Eligible Investments” means cash or book-entry securities, negotiable instruments, bank deposits (including the Subordinated Deposits (as defined below)), swaps, derivative contracts or other securities which are identified as a permitted investment of a finance subsidiary pursuant to Rule 3a-5 under the 1940 Act at the time such security is acquired by the LLC.

The LLC will initially invest €150,000,000 in the Initial Subordinated Deposit and invest the remainder of the Initial Proceeds in other Eligible Investments. The purchase of the initial Eligible Investments by the LLC will occur contemporaneously with the issuance of the LLC Preferred Securities.

### Initial Subordinated Deposit

#### *General*

Any subordinated deposit with an Eligible Borrower, including the Initial Subordinated Deposit, is referred to in this Prospectus as a “Subordinated Deposit” and will constitute an unsecured obligation of the Bank and will rank subordinate and junior to indebtedness of the Bank (including bonds, notes and debentures, whether senior or subordinated, and instruments constituting “Upper Tier II” or “Lower Tier II” capital of the Bank, excluding any instrument or contractual right effectively ranking *pari passu* with the Subordinated Deposits), *pari passu* with (1) each other, (2) the most senior tier I qualifying securities of the Bank, including *azioni privilegiate*, ordinary shares and *azioni di risparmio* and (3) any other instruments issued by the Bank and expressed to rank *pari passu* with the share capital of the Bank.

The Initial Subordinated Deposit will mature on 6 June 2026, *provided, however*, that if the Initial Derivative Contract is renewed or replaced, the LLC will, to the extent necessary, enter into one or more other Subordinated Deposits with one or more branches of the Bank using the proceeds of the Subordinated Deposits then outstanding to secure its obligations under such renewed or replacement Derivative Contract, subject to the reinvestment criteria described in “—Reinvestment of Proceeds” below.

“Eligible Borrower” means the Bank, including one or more subsidiaries thereof.

The Subordinated Deposits will secure the LLC’s payment obligations under the Derivative Contracts. In the event that under a Derivative Contract the LLC is under an obligation to make a Capital Deficiency Payment to the Bank, if the LLC fails to make such Capital Deficiency Payment, such obligation will be satisfied by applying the amount of such Capital Deficiency Payment as a set-off against the Subordinated Deposits then outstanding on a *pro rata* basis by the Bank.

### Interest

Interest on the Subordinated Deposits will accrue and be payable as follows:

- (1) interest will accrue at the annual rate of 1.175% above EURIBOR for three-month deposits of the principal amount of the Subordinated Deposit from the Issue Date to but excluding 6 June 2016, and will be payable quarterly in arrear on the same dates as the quarterly Dividend Payment Dates of the Trust Preferred Securities and the LLC Preferred Securities; and
- (2) thereafter, interest will accrue at the annual rate of 2.175% above EURIBOR for three-month deposits of the principal amount of such Subordinated Deposit and will be payable quarterly in arrear, on the same dates as the quarterly Dividend Payment Dates of the Trust Preferred Securities and the LLC Preferred Securities.

Interest on the Initial Subordinated Deposit will be determined and will accrue in conformity with the conventions for Dividend determination and accrual under the LLC Agreement.

The payment of interest on each of the Subordinated Deposits will not be deferrable.

### ***Redemption***

The Subordinated Deposits cannot be redeemed as long as the Initial Derivative Contract, or any Derivative Contract, is in force.

### ***Payment of Subordinated Deposit Additional Amounts***

All payments made by or on behalf of any Eligible Borrower in respect of the Subordinated Deposits will be made without withholding or deduction for or on account of any Relevant Tax payable by or on behalf of any Eligible Borrower, unless the withholding or deduction of such Relevant Tax is required by law. In that event, such Eligible Borrower will pay, as further interest, such Subordinated Deposit Additional Amounts as may be necessary in order that the net amounts received by the holders of the Subordinated Deposits (or to a third party on such holder's behalf) after such withholding or deduction will equal the amount which would have been received in respect of the Subordinated Deposits in the absence of such withholding or deduction, except that no such Subordinated Deposit Additional Amounts will be payable to a holder of Subordinated Deposits (or to a third party on the holder's behalf) with respect to any Subordinated Deposits, to the extent that such Relevant Tax is imposed or levied by virtue of such holder (or the beneficial owner of such Subordinated Deposits):

- (1) having some connection with the Relevant Jurisdiction, other than being a holder (or beneficial owner) of such Subordinated Deposits; or
- (2) not having made a declaration of nonresidence in, or other lack of connection with, the Relevant Jurisdiction or any similar claim for exemption, if the Bank or any Eligible Borrower or their agent has provided the beneficial owner of such Subordinated Deposits, or its nominee with at least 60 days' prior written notice of an opportunity to make such a declaration or claim.

### ***Reinvestment of proceeds***

The LLC may reinvest the proceeds from the repayment of a Subordinated Deposit only if:

- (1) there would be no adverse tax consequences to the LLC, the Bank or any Eligible Borrower as a consequence of such reinvestment;
- (2) there would be no adverse withholding tax consequences to holders of the Trust Preferred Securities or the LLC Preferred Securities;
- (3) the Bank receives prior written confirmation from the Bank of Italy approving such reinvestment and that the Trust Preferred Securities would continue to qualify as Tier I capital of the Bank on a consolidated basis;
- (4) neither the Trust nor the LLC would be required to register as an investment company under the 1940 Act;
- (5) the LLC would continue to be treated as a partnership and the Trust would be classified as a grantor trust, in each case, for U.S. federal income tax purposes; and
- (6) the LLC receives an officers' certificate and an opinion of counsel stating that all conditions precedent to any reinvestment have been complied with.

Upon the occurrence of a Capital Deficiency Event, the Subordinated Deposit may be reduced, by an amount equivalent to the Capital Deficiency Payment according to set-off arrangements contained in the Subordinated Deposits and the Derivative Contracts.

### ***Governing law***

The Subordinated Deposits will be governed by the laws of the Republic of Italy.

## TAXATION

*The following is a summary of the principal U.S. federal and Italian income tax consequences of acquiring, holding and disposing of the Trust Preferred Securities.*

*The following summary does not address all tax consequences that may be relevant to a beneficial owner of Trust Preferred Securities, nor does it address the tax consequences for all categories of potential holders of Trust Preferred Securities (“Trust Preferred Securityholders” and, each of them, a “Trust Preferred Securityholder”), some of which may be subject to a special tax regime.*

*The U.S. tax summary is based upon the Internal Revenue Code of 1986, as amended, the Treasury regulations promulgated thereunder and other administrative and judicial authorities in effect as of the date hereof, all of which are subject to change (possibly with retroactive effect).*

*The Italian tax summary is based upon legislation in effect as of the date hereof and administrative practice, all of which are subject to change (possibly with retroactive effect).*

PROSPECTIVE PURCHASERS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISERS AS TO THE U.S. FEDERAL AND ITALIAN INCOME TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE TRUST PREFERRED SECURITIES, AS WELL AS THE EFFECT OF ANY STATE, LOCAL OR FOREIGN TAX LAWS.

### ITALY

#### Income Tax

The following is a general summary of the material Italian tax consequences of acquiring, holding and disposing of the Trust Preferred Securities for Italian resident beneficial owners who will hold non-qualified interests in the Trust.

No Italian withholding or substitute tax applies on payments on Trust Preferred Securities received by beneficial owners who are not resident in Italy for tax purposes and do not have a permanent establishment in Italy to which the Trust Preferred Securities are effectively connected, except as indicated below for payments made by the Guarantor.

If the Trust Preferred Securities are held in Italy, non-Italian resident beneficial holders of the Trust Preferred Securities may be required to make a declaration that they are non-Italian tax resident to the financial intermediary depository of the Trust Preferred Securities.

The Italian tax treatment of the Trust Preferred Securities concerning payments received by Italian residents will depend upon the classification under principles of Italian law of such securities.

#### *Treatment as bonds*

If the Trust Preferred Securities are classified as bonds or similar securities, payments in respect of the Trust Preferred Securities received by Italian resident beneficial owners would be classified as interest and subject to the following regime.

Pursuant to Legislative Decree No. 239 of 1 April 1996 (“Decree 239”), interest (including (i) any difference between the redemption amount and the issue price and (ii) in the case of sales for consideration of the Trust Preferred Securities, any proceeds that represent accrued and expressly or implicitly recognised interest and other proceeds in respect of sales of the Trust Preferred Securities) is subject to a 12.5% final substitute tax (*imposta sostitutiva*) if paid, *inter alia*, to the following categories of Italian resident beneficial owners:

- (1) Partnerships (other than *società in nome collettivo*, *società in accomandata semplice* or similar partnerships), *de facto* partnerships not carrying out commercial activities, professional associations, public and private entities other than companies not carrying out commercial activities, government entities and entities exempt from corporate income tax. Pursuant to Decree 239, *imposta sostitutiva* is applied by banks, SIMs, fiduciary companies, SGRs, stockbrokers and other entities identified in a decree by the Ministry of Economy and Finance (each an “Intermediary”). An Intermediary must

(a) be resident in Italy or be a permanent establishment in Italy of a non-Italian resident financial intermediary; and (b) intervene, in any way, in the collection of interest or in the transfer of the Trust Preferred Securities. For the purpose of the application of *imposta sostitutiva*, a transfer of Trust Preferred Securities includes any assignment or other act, either with or without consideration, which results in a change of the ownership of the relevant Trust Preferred Securities or in a change of the Intermediary with which the Trust Preferred Securities are deposited. Where the Trust Preferred Securities are not deposited with an Intermediary, *imposta sostitutiva* is applied and withheld by any Italian intermediary (including a permanent establishment in Italy of a foreign entity) paying interest to a beneficial owner. Where payments on the Trust Preferred Securities are not received through the intervention of an Italian resident intermediary and as such no *imposta sostitutiva* is applied, the recipients will be required to declare the income in their yearly tax return and subject them to 12.5% substitute tax, unless option for a different regime is allowed and made. The substitute tax is final and discharges all tax liabilities of the recipient in connection with the interest payments received.

- (2) Individuals holding Trust Preferred Securities otherwise than in connection with entrepreneurial activities. The 12.5% final *imposta sostitutiva* is required to be applied by the Intermediaries that intervene, in any way, in the collection of interest payments on the Trust Preferred Securities or in the transfer of the Trust Preferred Securities. Where the Trust Preferred Securities are not deposited with an Intermediary and no *imposta sostitutiva* is applied by any other Italian intermediary (including a permanent establishment in Italy of a foreign entity) intervening in the interest payments, the individual beneficial owners will be required to declare the payments in their yearly income tax return and subject them to a final substitute tax at a rate of 12.5%, unless option for a different regime is allowed and made. The individual beneficial owners may elect instead to pay ordinary personal income taxes 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 managed on a discretionary basis 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 otherwise than 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 Article 7, paragraph 3, of Legislative Decree No. 461 of 21 November 1997, (“Decree 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.

Interest paid to Italian beneficial owners who are collective investment funds, SICAVs or pension funds subject to the regime provided for by Articles 14, 14-ter or 14-quarter, paragraph 1, of Legislative Decree No. 124 of 21 April 1993 (“Decree 124”), is not subject to any Italian withholding tax or substitute tax. The interest is included in the aggregate management result of these funds accrued in each year, which is subject to a substitute tax:

- (1) in the case of Italian collective investment funds and SICAVs, at the rate of 12.5%, (pursuant to Article 12 of Law Decree No. 269 of 30 September 2003, converted into law by Law No. 326 of 24 November 2003 (“Decree 269”), the substitute tax rate is reduced to 5% in the case of collective investment funds or SICAVs that invest at least two-thirds of the funds’ or SICAVs’ assets in the stock of small or medium capitalised companies listed on an EU regulated exchange. Please note however that this regime has been categorised by the EU Commission as “state aid” incompatible with Article 87 of the EC Treaty and Italy has been requested to eliminate this regime with retroactive effect);
- (2) in the case of Italian pension funds subject to the regime provided for by Articles 14, 14-ter or 14-quarter, paragraph 1, of Decree 124, at the rate of 11%.

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<sup>1</sup> SICAVs (“société d’investissement à capital variable”) are limited companies used in France, Luxembourg and Italy for the purpose of managing security portfolios for subscribers. As new subscribers arrive, SICAVs issue units in the form of equity. Every subscriber thus becomes a shareholder and holds that fraction of the capital corresponding to his units.

Pursuant to Law Decree No. 351 of 25 September 2001, converted into law with amendments by Law No. 410 of 23 November 2001 (“Decree 351”), as amended by Decree 269, Italian resident real estate investment funds established starting from 26 September 2001 pursuant to Article 37 of Legislative Decree No. 58 of 24 February 1998, and Article 14-*bis* of Law No. 86 of 25 January 1994, or, in any case subject to the tax treatment provided for by Decree No. 351 as a consequence of option for application of such treatment having been promptly made by the managing company, are not subject to any taxation at the fund level on payments under the Trust Preferred Securities.

No Italian “entrance” withholding or substitute tax is applicable to interest paid to Italian resident beneficial owners who are corporate entities, commercial partnerships and permanent establishments in Italy of foreign entities to which the Trust Preferred Securities are effectively connected, provided that the Trust Preferred Securities are deposited with an Intermediary. In such cases, interest will generally be included in their aggregate taxable business income subject to tax in Italy according to the ordinary tax provisions (and in certain cases, depending on the status of the beneficial owners, interest may also contribute, according to the ordinary rules, to the calculation of the relevant net value of production to be subject to regional business tax (IRAP) at the relevant applicable rate). A tax credit may be generally available for taxes withheld abroad, if any.

### ***Early redemption***

Without prejudice to the above provisions, in the event that Trust Preferred Securities are redeemed, in full or in part, prior to 18 months from their issue date, Italian resident beneficial owners will be generally required to pay an additional amount equal to 20% of the interest and other proceeds accrued on the early redeemed Trust Preferred Securities up to the time of early redemption. Where Italian withholding agents intervene in the collection of interest on the Trust Preferred Securities or in the redemption of Trust Preferred Securities, this additional amount may be levied by such withholding agents by way of a withholding. In accordance with one interpretation of Italian tax law, the above 20% additional amount may also be due in the event of any purchase and subsequent cancellation of Trust Preferred Securities by the Trust prior to 18 months from the Issue Date.

### ***Treatment as shares***

If the Trust Preferred Securities are classified as shares or similar securities, payments in respect of the Trust Preferred Securities received by Italian resident beneficial owners would be classified as dividends and subject to the regime described below.

- (1) Dividends paid to Italian beneficial owners who are corporate entities and commercial partnerships (including permanent establishments in Italy of foreign entities to which the Trust Preferred Securities are effectively connected) are not subject to Italian withholding tax. In such cases, the dividends received will form part of the aggregate taxable business income of the investors limited to 5% of their amount and such 5% amount will be subject to taxation pursuant to their ordinary regime. Therefore, the investors must include a sum equal to 5% of the gross amount of the dividends in their income tax return and may generally benefit from a tax credit equal to 5% of the amount of the withholding taxes, if any, applied outside Italy.
- (2) Dividends paid to Italian pension funds, collective investment funds or SICAVs will form part of the aggregate management result of the funds accrued in each year, calculated on the difference between the value of the assets at the beginning of the tax year and the adjusted value of the assets at the end of the same tax year. The management result is subject to a substitute tax:
  - (a) in the case of Italian collective investment funds and SICAVs, at the rate of 12.5% (pursuant to Article 12 of Decree 269, the substitute tax rate is reduced to 5% in case of collective investment funds or SICAVs that invest at least two-thirds of the funds’ or SICAVs’ assets in the stock of small or medium capitalised companies listed on an EU regulated market. However, such regime has been qualified by the EU Commission as “state aid”, incompatible with Article 87 of the EC Treaty and Italy has been requested to eliminate this regime with retroactive effect);



- (b) in the case of Italian pension funds subject to the regime provided for by Articles 14, 14-*ter* or 14-*quarter*, paragraph 1, of Decree 124, at the rate of 11%.
- (3) Pursuant to Decree 351, as amended by Decree 269, Italian resident real estate investment funds established starting from 26 September 2001 pursuant to Article 37 of Legislative Decree No. 58 of 24 February 1998, and Art. 14-*bis* of Law No. 86 of 25 January 1994, or, in any case subject to the tax treatment provided for by Decree 351 as a consequence of option for application of such treatment having been promptly made by the managing company, are not subject to any taxation at the fund level on payments under the Trust Preferred Securities.
- (4) Dividends paid to Italian resident entities exempt from corporate income tax are subject to a definitive 27% withholding tax. This withholding tax is to be applied on the amount of dividends net of any tax withheld outside Italy and is required to be levied by the Italian withholding agent, if any, that intervenes in the collection of the dividends. Where payments on the Trust Preferred Securities are not received through the intervention of an Italian withholding agent and as such no withholding tax is applied, the recipient will be required to declare the payments in its yearly tax return and subject them to a final substitute tax at a rate of 27%.
- (5) Dividends paid to Italian resident beneficial owners who are individuals holding Trust Preferred Securities otherwise than in connection with entrepreneurial activities are subject to Italian withholding tax at a rate of 12.5%, if the payments are collected through the intervention of an Italian withholding agent. Such withholding tax is to be applied on the amount of dividends net of any tax withheld outside Italy and is final (with no obligation for Italian individual beneficial owners to include dividends in their global taxable income) for Italian individuals holding non-qualified interests in the Trust. In such case, individuals are not entitled to a tax credit for withholding taxes applied outside Italy, if any.

If payments on the Trust Preferred Securities are not received through the intervention of an Italian withholding agent and as such no withholding tax is required to be levied, the recipient holding a non-qualified interest in the Trust will be required to declare the payments in its yearly tax return and subject them to final substitute tax at a rate of 12.5%, unless option for a different regime is allowed and made.

The above-mentioned 12.5% final withholding tax does not apply if an individual resident in Italy declares in a timely manner upon collection of dividends that the dividends are connected (i) with an entrepreneurial activity in which the individual is engaged or (ii) with a “qualified” interest in the Trust held by the individual. In general, an interest in an issuer is deemed to be “qualified” if a beneficial owner (i) can dispose of more than 20% of the voting rights exercisable in the general meeting of the relevant issuer (more than 2%, where the issuer’s shares are listed on a regulated market); or (ii) controls more than 25% of the issuer’s capital or net worth (more than 5% where the issuer’s shares are listed on a regulated market). Dividends paid to Italian resident individuals on a “qualified” interest in the Trust held not in connection with an entrepreneurial activity are subject to 12.5% withholding tax on 40% of their amount; such withholding tax is on account of income taxes due in Italy on the dividends according to ordinary rules.

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 otherwise than in connection with entrepreneurial activities representing a non-qualified interest in the Trust, the *risparmio gestito* regime may be available, as an alternative method of taxation. Under the *risparmio gestito* regime, according to Article 7, paragraph 3, of Decree 461, the payments will not be subject to any Italian withholding tax and 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.



### *Treatment as atypical securities*

If the Trust Preferred Securities are classified as atypical securities, payments in respect of the Trust Preferred Securities received by Italian resident beneficial owners would be subject to the following regime:

- (1) Payments made to Italian resident beneficial owners who are corporate entities and commercial partnerships (including permanent establishments in Italy of foreign entities to which the Trust Preferred Securities are effectively connected) are not subject to any Italian “entrance” withholding tax. In such cases, the payments received will form part of the aggregate taxable business income of the recipients and will be subject to taxation pursuant to their ordinary tax regime (and in certain cases, depending on the status of the beneficial owners, payments may also contribute, according to the ordinary rules, to the calculation of the relevant net value of production to be subject to regional business tax (IRAP) at the relevant applicable rate). Therefore, the recipients must include the gross amount of the payments in their income tax return and may generally benefit from a tax credit for withholding taxes applied outside Italy, if any.
- (2) Payments made to Italian resident beneficial owners who are individuals holding Trust Preferred Securities otherwise than in connection with entrepreneurial activities will be subject to a 27% final withholding tax. This withholding tax is required to be levied by the entrusted Italian resident bank or other qualified financial intermediary (or permanent establishment in Italy of foreign intermediary), if any, that intervenes in the collection of payments on the Trust Preferred Securities, in the repurchase or in the transfer of the Trust Preferred Securities.

If payments on the Trust Preferred Securities are not received through an entrusted Italian resident bank or financial intermediary (or permanent establishment in Italy of foreign intermediary) that intervenes in the collection of payments on the Trust Preferred Securities, in the repurchase or in the transfer thereof, and as such no 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 taxes 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.

- (3) Payments made to any other Italian resident entity will be subject to a 27% final withholding tax. This withholding tax is required to be levied by the entrusted Italian resident bank or other qualified financial intermediary (or permanent establishment in Italy of a foreign entity), if any, that intervenes in the collection of payments on the Trust Preferred Securities, in the repurchase or in the transfer thereof, or applied directly by the recipient in its income tax return.

Due to the lack of any tax rulings or other authorities on the tax treatment of Trust Preferred Securities, there can be no assurance that payments of interest on the Trust Preferred Securities will be subject to the 12.5% substitute tax rather than the 27% withholding tax.

### **EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income (the “EU Savings Directive”), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries, including Switzerland, and dependent or associated territories of certain Member States have agreed to adopt similar measures (a withholding system in the case of Switzerland).

## Implementation in Italy of the EU Savings Directive

Italy has implemented the EU Savings Directive through Legislative Decree No. 84 of 18 April 2005 (“Decree 84”). Under Decree 84, subject to a number of important conditions being met, in the case of interest paid starting from 1 July 2005 to individuals who qualify as beneficial owners of the interest payment and are resident for tax purposes in another Member State, Italian paying agents (i.e. banks, *società di intermediazione mobiliare* (so called “SIMs”), fiduciary companies, *società di gestione del risparmio* (SGRs) resident for tax purposes in Italy, permanent establishments in Italy of non-resident persons and any other economic operator resident for tax purposes in Italy paying interest for professional or commercial reasons) are required to report to the Italian tax authorities details of the relevant payments and personal information on the individual beneficial owner. Such information is transmitted by the Italian tax authorities to the competent foreign tax authorities of the state of residence of the beneficial owner.

### Payments by the Guarantor

There is no authority directly regarding the Italian tax regime of payments on securities made by an Italian resident guarantor. Accordingly, there can be no assurance as to the tax treatment of such payments that may be asserted by the Italian tax authorities or that the Italian courts may support.

In accordance with one interpretation, any payments by the Guarantor under the Subordinated Guarantees should be treated in certain circumstances as payments by the Trust or the LLC and made subject to the tax treatment described in the above paragraphs.

According to another interpretation of Italian tax law, payments of liabilities equal to interest or dividends (depending on the classification of the Trust Preferred Securities as described above) made by the Guarantor under the Subordinated Guarantees may be subject in certain circumstances to a final withholding tax at a rate of 12.5% if the beneficial owner is an Italian pension fund, collective investment fund or SICAV. If the beneficial owners are Italian resident individuals holding Trust Preferred Securities otherwise than in connection with entrepreneurial activities or non-commercial entities, payments under the Subordinated Guarantees may be subject to withholding tax at a rate of 12.5% on account of income taxes due thereon and then should be included in the beneficial owners’ taxable income and subject as such to the tax rates applicable to them. For beneficial owners who are Italian resident corporate entities, the payments will form part of the annual taxable business income subject to tax according to the ordinary rules.

However, in the case of a beneficial owner of Trust Preferred Securities which is a non-resident of Italy, final withholding tax 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 tax.

In the case of payments under the Subordinated Guarantees to non-Italian resident beneficial owners who are resident for tax purposes in tax haven countries as defined in Article 110, paragraph 10, of Presidential Decree No. 917 of 22 January 1986, as amended (“Decree 917”), and identified by a Decree of the Treasury Ministry of 23 January 2002, as amended from time to time, final withholding tax should in any case apply at a rate of 27%.

According to a different interpretation of Italian fiscal law, payments made by the Guarantor under the Subordinated Guarantees should not be subject to Italian withholding tax.

### Capital Gains

*Italian collective investment funds, SICAVs, pension funds.* Capital gains deriving from the sale of the Trust Preferred Securities are included in the aggregate management result of these funds accrued in each year and subject to a substitute tax:

- (1) in the case of Italian collective investment funds and SICAVs, at the rate of 12.5% (pursuant to Article 12 of Decree 269, the substitute tax rate is reduced to 5% in case of collective investment funds or SICAVs that invest at least two-thirds of the funds’ or SICAVs’ assets in the stock of small or medium capitalised companies listed on an EU regulated market. Please note, however, that this

regime has been categorised by the EU Commission as “state aid”, incompatible with Article 87 of the EC Treaty and Italy has been requested to eliminate this regime with retroactive effect);

- (2) in the case of Italian pension funds subject to the regime provided for by Articles 14, 14-ter or 14-quarter, paragraph 1, of Decree 124, at the rate of 11%.

*Italian resident corporate investors.* The capital gains realised by corporations and commercial partnerships resident in Italy for tax purposes (including permanent establishments in Italy of foreign entities to which the Trust Preferred Securities are effectively connected) will generally contribute, according to the ordinary rules, to the calculation of the aggregate business income subject to the ordinary income tax according to the ordinary rules (and in certain cases, depending on the status of the corporate investors, may also contribute, according to the ordinary rules, to the calculation of the relevant net value of production to be subject to regional business tax (IRAP) at the relevant applicable rate). The gains are calculated as the difference between the acquisition cost and the sale price.

However, should the Trust Preferred Securities be classified as shares or similar securities, (a) capital gains realised by Italian resident corporate entities (including permanent establishments in Italy of foreign entities to which the shares are effectively connected) on the Trust Preferred Securities may be subject to the “participation exemption” regime regulated by Article 87 of Decree 917, and as such may be 91% exempt from corporate income tax (84% starting from 1 January 2007) and (b) capital gains realised by Italian commercial partnerships may be 60% exempt from income tax, in both cases if the following conditions are met:

- (i) the Trust Preferred Securities are accounted for as fixed assets (*immobilizzazioni finanziarie*) in the first financial statements closed during the holding period;
- (ii) the Trust Preferred Securities are held without interruption at least starting from the first day of the eighteenth month preceding the disposal; and
- (iii) the Trust Preferred Securities represent a participation in a company that carries on an actual business activity and is not resident in a tax haven jurisdiction, in both cases, with no interruption starting from at least the beginning of the third tax year prior to the disposal.

*Italian individual investors.* Where an Italian resident Trust Preferred Securityholder is an individual not holding the Trust Preferred Securities in connection with an entrepreneurial activity and certain other persons, any capital gain realised by such Trust Preferred Securityholder from the sale or redemption of Trust Preferred Securities representing the disposal of a non-qualified interest in the Trust would be subject to a substitute tax levied at the current rate of 12.5% (*imposta sostitutiva* provided for by Art. 5 of Decree 461). Trust Preferred Securityholders may generally set off capital losses against capital gains of the same nature.

In respect of the taxation of such capital gains, Italian resident individual investors holding Trust Preferred Securities otherwise than in connection with entrepreneurial activity may opt for one of the three regimes described below.

Under the tax declaration regime (*regime della dichiarazione*), which is the default regime for Italian resident individuals not engaged in entrepreneurial activity to which the Trust Preferred Securities are connected, the *imposta sostitutiva* on capital gains will be chargeable, on a cumulative basis, on all capital gains, net of any incurred capital loss of the same nature, realised by the Italian resident individuals holding Trust Preferred Securities otherwise than in connection with an entrepreneurial activity pursuant to all sales or redemptions of the Trust Preferred Securities carried out during any given tax year. Italian resident individuals holding Trust Preferred Securities otherwise than in connection with an entrepreneurial activity must indicate the overall capital gains realised in any tax year, net of any relevant incurred capital loss of the same nature, in the annual tax return and pay *imposta sostitutiva* on such gains together with any balance of income tax due for such year. Capital losses in excess of capital gains may be carried forward against capital gains of the same nature realised in any of the four succeeding tax years.

As an alternative to the tax declaration regime, Italian resident individual Trust Preferred Securityholders holding the Trust Preferred Securities otherwise than in connection with an entrepreneurial activity may

elect to pay the *imposta sostitutiva* separately on capital gains realised on each sale or redemption of the Trust Preferred Securities (the *risparmio amministrato regime*). Such separate taxation of capital gains is allowed subject to

- (1) the Trust Preferred Securities being deposited with Italian banks, SIMs or certain authorised financial intermediaries; and
- (2) an express election for the *risparmio amministrato* regime being punctually made in writing by the relevant Trust Preferred Securityholder.

The depository is responsible for accounting for *imposta sostitutiva* in respect of capital gains realised on each sale or redemption of the Trust Preferred Securities (as well as in respect of capital gains realised upon the revocation of its mandate), net of any relevant incurred capital loss of the same nature, and is required to pay the relevant amount to the Italian tax authorities on behalf of the taxpayer, deducting a corresponding amount from the proceeds to be credited to the Trust Preferred Securityholder or using funds provided by the Trust Preferred Securityholder for this purpose. Under the *risparmio amministrato* regime, where a sale or redemption of the Trust Preferred Securities results in a capital loss, such loss may be deducted from capital gains of the same nature subsequently realised, within the same securities management, in the same tax year or in the following tax years up to the fourth. Under the *risparmio amministrato* regime, the Trust Preferred Securityholder is not required to declare the capital gains in its annual tax return.

Any capital gains realised by Italian resident individuals holding the Trust Preferred Securities otherwise than in connection with an entrepreneurial activity who have entrusted the management of their financial assets, including the Trust Preferred Securities, to an authorised intermediary and have opted for the so-called *risparmio gestito* regime will be included in the computation of the annual increase in value of the managed assets accrued, even if not realised, at year end, subject to a 12.5% substitute tax, to be paid by the managing authorised intermediary. Under the *risparmio gestito* regime, any depreciation of the managed assets accrued at year end may be carried forward against increase in value of the managed assets accrued in any of the four succeeding tax years. Under the *risparmio gestito* regime, the Trust Preferred Securityholder is not required to declare the capital gains realised in its annual tax return.

However, the 12.5% *imposta sostitutiva* does not apply if the Trust Preferred Securities are deemed to be shares or securities similar to shares and the Trust Preferred Securityholder holds a qualified interest in the Trust. In this case, the Trust Preferred Securityholder should include 40% of the capital gain in the yearly tax return and should pay income taxes on the relevant amount according to the ordinary rules.

*Non-Italian residents.* Capital gains realised by non-Italian resident Trust Preferred Securityholders without permanent establishment in Italy to which the Trust Preferred Securities are effectively connected, from the sale or redemption of the Trust Preferred Securities are not subject to Italian taxation, provided that the Trust Preferred Securities are held outside Italy.

If the Trust Preferred Securities are held in Italy, the capital gains realised from the sale or redemption of Trust Preferred Securities by a non-Italian resident Trust Preferred Securityholder without permanent establishment in Italy to which the Trust Preferred Securities are effectively connected may be taxable in Italy, subject however to certain exceptions and in any case subject to application of double taxation treaties entered into by Italy, if more favourable.

### **Receipt of LLC Preferred Securities upon Liquidation of the Trust**

Under certain circumstances, as described under “Description of Trust Securities—Redemption”, LLC Preferred Securities may be distributed to holders of Trust Preferred Securities upon liquidation of the Trust. Such a distribution to an Italian resident holder would be treated as a taxable event for Italian tax purposes.

For the LLC Preferred Securities received in exchange, the cost will be equal to the redemption value of Trust Preferred Securities.

## Early Redemption

The early redemption of the securities may create a 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 holder as described above.

## Transfer Tax

Where applicable, upon transfer of Trust Preferred Securities executed in Italy, Italian transfer tax (*tassa sui contratti di borsa*) will be payable at a rate between a maximum of €0.0720 and a minimum of €0.00465 for every €51.65 (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 €929.62 for each transaction.

For transfer tax purposes, transfers of Trust Preferred Securities to or by Italian residents are considered as executed in Italy for presumption of law. Moreover, contracts of transfer of Trust Preferred Securities executed outside Italy between non-Italian residents will have legal effect (*efficacia giuridica*) in Italy to the extent that transfer tax is paid.

However, Italian transfer tax (*tassa sui contratti di borsa*) does not apply, *inter alia*, to the following:

- (1) contracts concluded in regulated markets regarding the transfer of the Trust Preferred Securities;
- (2) off-market transactions regarding the Trust Preferred Securities, provided that the Trust Preferred Securities are listed on a regulated market and such transactions occur either:
  - (a) between resident or non-resident banks or other investment companies regulated by Legislative Decree No. 58 of 24 February 1998, or stockbrokers;
  - (b) between the qualified intermediaries mentioned above, on the one hand, and non-Italian residents, on the other hand; or
  - (c) between the qualified intermediaries mentioned above, on the one hand, and undertakings for collective savings investments, on the other hand;
- (3) contracts related to public sale offering for admission to listing on a regulated market or involving financial instruments already listed on a regulated market; and
- (4) contracts regarding securities not listed on a regulated market entered into between the authorised intermediaries referred to in (2)(a) above, on the one hand, and non-Italian residents on the other hand.

## Inheritance and Gift Tax

According to Law No. 383 of 18 October 2001 (“Law 383”), starting from 25 October 2001, Italian inheritance and gift tax, previously generally payable on the transfer of securities as a result of death or donation, has been abolished.

However, according to Law 383, for donees other than spouses, direct descendants or ancestors and certain other relatives, if and to the extent that the value of the gift attributable to each such donee exceeds €180,759.91, the gift of Trust Preferred Securities may be subject to the ordinary transfer taxes provided for the transfer thereof for consideration. In this respect, the Italian tax authorities have expressed the view that the transfer tax mentioned above (*tassa sui contratti di borsa*) should not be considered as a “transfer tax ordinarily applicable” to transfers for consideration.

Moreover, an anti-avoidance rule is provided for under Law No. 383 for any gift of assets (such as the Trust Preferred Securities) which, if sold for consideration, would give rise to capital gains subject to the substitute tax (*imposta sostitutiva*) provided for by Decree No. 461. In particular, if the donee sells the Trust Preferred Securities for consideration within 5 years from the receipt thereof as gift, the donee is required to pay the relevant substitute tax (*imposta sostitutiva*) on capital gains as if the gift had never taken place.



## Tax Monitoring Obligations

Italian resident individuals, partnerships (other than *società in nome collettivo*, *società in accomandita semplice* or similar partnerships), *de facto* partnerships not carrying out commercial activities, professional associations and public and private entities, other than companies, not carrying out commercial activities, will be required to report in their yearly income tax return, for tax monitoring purposes:

- (1) the amount of investments held abroad and foreign financial assets generating foreign source income taxable in Italy (including the Trust Preferred Securities) held at the end of each tax year, if exceeding in the aggregate €12,500.00;
- (2) the amount of any transfers from abroad, towards abroad and occurring abroad, related to investments held abroad and foreign financial assets generating foreign source income taxable in Italy (including the Trust Preferred Securities), occurring during each tax year, if these transfers exceed in the aggregate €12,500.00 each year.

This also applies where, at the end of the tax year, investments held abroad and foreign financial assets generating foreign source income taxable in Italy (including the Trust Preferred Securities) are no longer held by the above-mentioned persons.

The above persons will not, however, be required to comply with the above reporting requirements with respect to Trust Preferred Securities (and other foreign financial assets) deposited for management or administration with qualified Italian financial intermediaries (including permanent establishments in Italy of foreign intermediaries) and with respect to contracts entered into through their intervention, upon condition that the items of income derived from the Trust Preferred Securities are collected through the intervention of the same intermediaries.

## U.S. FEDERAL INCOME TAX

**The discussion of tax issues in this Prospectus is not intended or written to be relied upon, and cannot be relied upon for the purpose of avoiding penalties that may be imposed under U.S. federal, state, or local tax laws. This discussion was written to support the promotion and marketing of the Trust Preferred Securities. Prospective investors should seek advice based on their particular circumstances from an independent tax adviser.**

For purposes of this discussion, a “Non-U.S. Holder” means a beneficial owner of a Trust Preferred Security that is for U.S. federal income tax purposes:

- a non-resident alien individual;
- a corporation that was not created or organised in or under the laws of the United States, any state of the United States or the District of Columbia;
- a trust if either:
  - primary supervision over the administration of the trust is unable to be exercised by a United States court, or
  - the authority to control all substantial decisions of the trust does not rest with one or more United States persons; or
- an estate the income of which is not subject to U.S. federal income tax on a net basis.

The treatment of a partner in a partnership generally depends on the status of the partner and the activities of the partnership. A partner in a partnership considering an investment in the Trust Preferred Securities should consult its own tax adviser about the consequences of the investment.

This discussion does not address: (i) a Non-U.S. Trust Preferred Securityholder whose income is effectively connected with the conduct of a trade or business in the United States or (ii) a Non-U.S. Trust Preferred Securityholder who is present in the United States for 183 days or more in the taxable year in which any gain on the sale of the Trust Preferred Securities is realised.



Also, this discussion does not address the U.S. federal estate tax consequences of the ownership of the Trust Preferred Securities. Trust Preferred Securityholders are urged to consult their own tax adviser regarding the application of the U.S. federal estate tax in their particular circumstances.

### **Classification of the Trust and the LLC**

For U.S. federal income tax purposes, the Trust should be treated as a grantor trust and the LLC should be treated as a partnership. Neither the Trust nor the LLC will be treated as a taxable entity for U.S. federal income tax purposes and a Trust Preferred Securityholder will be treated as owning an undivided beneficial interest in its proportionate share of the LLC Preferred Securities through the Trust. In purchasing the Trust Preferred Securities, the Trust Preferred Securityholder agrees with the Bank, the Trust, and the LLC that it will not take any positions or actions for U.S. federal income tax purposes contrary to the treatments described in this paragraph, will treat itself as a holder of the Trust Preferred Securities (and an owner of an undivided interest in the LLC Preferred Securities) for all U.S. federal income tax purposes, and will follow allocations made by the LLC pursuant to the LLC Agreement.

### **Tax Consequences to Certain Non-U.S. Trust Preferred Securityholders**

The LLC intends to operate so that it will not be engaged in the conduct of a trade or business for U.S. federal income tax purposes. Moreover, it is expected that the LLC's income from the payments from the Bank under the Initial Derivative Contract and Initial Subordinated Deposit (and other Eligible Investments) will not be U.S. source income for U.S. federal income tax purposes. However, to the extent that the LLC invests in Eligible Securities, the income from which is a U.S. source, Trust Preferred Securityholders will be subject to U.S. withholding tax with respect to their share of the LLC's income from such securities unless they certify on Internal Revenue Service Form W-8BEN, under penalties of perjury, that they are not U.S. persons.

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

Trust Preferred Securityholders will generally be exempt from backup withholding and information reporting requirements with respect to payments made outside of the United States by a non-U.S. payor. However, payments made in the United States or by brokers with certain U.S. connections may be subject to the information reporting and backup withholding rules, in which case Trust Preferred Securityholders may be required to certify that they are not U.S. persons or otherwise establish an exemption from the information reporting and backup withholding rules. Any amounts withheld under the backup withholding rules will be allowed as a credit against any U.S. federal tax liability (from other sources) or a Trust Preferred Securityholder or as a refund, provided the required information is furnished to the Internal Revenue Service.

**THE UNITED STATES FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A TRUST PREFERRED SECURITYHOLDER'S PARTICULAR SITUATION. TRUST PREFERRED SECURITYHOLDERS SHOULD CONSULT THEIR TAX ADVISERS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE TRUST PREFERRED SECURITIES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, NON-U.S., AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN U.S. FEDERAL OR OTHER TAX LAWS.**

## SUBSCRIPTION AND SALE

Each of the Joint Lead Managers, pursuant to a Subscription Agreement dated 6 June 2006 (the “Subscription Agreement”), has agreed with the Trust, the LLC and the Bank, subject to the satisfaction of certain conditions, to subscribe for the Trust Preferred Securities at their issue price of 100% of the relevant Trust Liquidation Preference Trust Preferred Security (or €150,000,000 million in aggregate). The Subscription Agreement provides that each of the Trust, the LLC and the Bank will indemnify the Joint Lead Managers against certain liabilities. The Joint Lead Managers will receive a commission of 0.75% of the aggregate liquidation preference of the Trust Preferred Securities per Trust Preferred Security or €1,125,000 million in total.

### **Selling Restrictions**

#### ***General***

No action has been or will be taken in any jurisdiction by the Trust, the LLC, the Bank or the Joint Lead Managers that would, or is intended to, permit a public offering of the Trust Preferred Securities, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Trust, the LLC, the Bank and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Trust Preferred Securities or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Trust Preferred Securities, in all cases at their own expense.

#### ***United States***

The Trust Preferred Securities and the Subordinated Guarantees have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each of the Joint Lead Managers has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Trust Preferred Securities (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, within the United States or to, or for the account or benefit of, U.S. persons, and they will have sent to each dealer to which they sell Trust Preferred Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sale of the Trust Preferred Securities within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The Trust Preferred Securities will be treated as Category 3 debt securities as defined in and pursuant to Regulation S, and therefore will initially be represented by the registered Temporary Global Certificate which will not be exchangeable for beneficial interests in the registered Permanent Global Certificate until the expiration of 40 days after the later of the commencement of the offering and the Issue Date. Under certain limited circumstances described under “Description of the Trust Preferred Securities — Form, Denomination and Transfer”, the Permanent Global Certificate may be exchanged for definitive Trust Preferred Securities, in each case upon certification of beneficial ownership in the Trust Preferred Securities by a non-U.S. person who purchased the Trust Preferred Securities in a transaction that did not require registration under the Securities Act.

The Trust Preferred Securities are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Trust Preferred Securities, an offer or sale of the Trust Preferred Securities within the United States by a dealer, whether or not such dealer is participating in the offering, may violate the registration requirements of the Securities Act.

### ***United Kingdom***

Each of the Joint Lead Managers has represented and agreed that:

- (a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Trust Preferred Securities in circumstances in which section 21(1) of the FSMA does not apply to the Trust or the Guarantor; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Trust Preferred Securities in, from or otherwise involving the United Kingdom.

### ***Italy***

The offering of the Trust Preferred Securities has not been registered pursuant to Italian securities legislation and, accordingly, each of the Joint Lead Managers has represented, warranted and agreed that it has not offered or sold or delivered, and will not offer or sell or deliver, any Trust Preferred Securities in Italy in an investment solicitation to which the rules of Legislative Decree No. 58 of 24 February 1998, as amended (“Decree No. 58”), apply and that sales of the Trust Preferred Securities in Italy shall be effected in accordance with all Italian securities, tax, exchange control and other applicable laws and regulations.

Each Joint Lead Manager has represented, warranted and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver any Trust Preferred Securities or distribute or make available copies of this Prospectus or any other material relating to the Trust Preferred Securities in Italy except to “professional investors”, as defined in Article 25 and Article 31, paragraph 2 of CONSOB Regulation No. 11522 of 1 July 1998, as amended (“Regulation No. 11522”), pursuant to Article 30, paragraph 2 and Article 100 of Decree No. 58, or in any other circumstances where an express exemption from compliance with the solicitation restrictions applies, as provided under Decree No. 58 or CONSOB Regulation No. 11971 of 14 May 1999, as amended.

Any such offer, sale or delivery of the Trust Preferred Securities or distribution of copies of this Prospectus or any other documentation relating to the Trust Preferred Securities in Italy must be made:

- 1. by investment firms, banks or financial intermediaries permitted to conduct such activities in Italy in accordance with Legislative Decree No. 385 of 1 September 1993, as amended (“Decree No. 385”), Decree No. 58, Regulation No. 11522 and any other applicable laws and regulations;
- 2. in compliance with Article 129 of Decree No. 385 and the implementing instructions of the Bank of Italy, pursuant to which, *inter alia*, the issue, offer, trading or placement of securities in Italy is subject to prior notification to the Bank of Italy, unless an exemption applies, depending, *inter alia*, on the aggregate amount and the characteristics of the securities issued or offered in Italy; and
- 3. in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

## **GENERAL INFORMATION**

### **Listing and Admission to Trading**

Application has been made to the CSSF to approve this document as a prospectus for the purposes of the Prospectus Directive. Application has also been made for the Trust Preferred Securities to be listed and admitted to trading on the regulated market of the Luxembourg Stock Exchange.

The total amount of expenses related to the admission to trading are approximately €22,000 comprised of listing fees and listing agent's fees.

### **Consents**

The Trust will obtain all necessary consents, approvals and authorisations in connection with the issue of the Trust Preferred Securities. The issuance of the Trust Preferred Securities will be authorised by the Trustees of the Trust on 6 June 2006.

The giving of the Subordinated Guarantees was authorised by the Bank on 4 November 2005.

### **Changes in Financial Position**

Except as otherwise disclosed in this Prospectus, there has been no significant change in the financial position of the Group since 31 December 2005.

### **Trend Information**

Except as otherwise disclosed in this Prospectus, there has been no material adverse change in the prospects of the Bank since 31 December 2005.

There has been no material adverse change in the prospects of the Trust since its creation and formation on 28 April 2006.

There has been no material adverse change in the prospects of the LLC since its creation and formation on 28 April 2006.

### **Litigation**

Save as disclosed in this Prospectus, neither the Bank nor any of its subsidiaries is involved or has in the past 12 months been involved in any governmental, legal or arbitration proceedings which may have, or have in the recent past had, a significant effect on the financial position or profitability of the Bank or the Group and, so far as the Bank is aware, no such governmental, legal or arbitration proceedings are pending or threatened.

Save as disclosed in this Prospectus, neither the Trust nor the LLC is involved, or has in the past 12 months been involved, in any governmental, legal or arbitration proceedings which may have, or have in the recent past had, a significant effect on the financial position or profitability of the Trust or the LLC and, so far as the Trust and the LLC are aware, no such governmental, legal or arbitration proceedings are pending or threatened.

### **Material Contracts**

Save as disclosed in this Prospectus, the Bank has not entered into any contracts in the last two years outside the ordinary course of business that have been, or may reasonably be expected to be, material to the ability of the Bank to meet its obligations to holders of the Trust Preferred Securities and the LLC Preferred Securities.

Save as disclosed in this Prospectus, neither the Trust nor the LLC has entered into any contracts in the last two years outside the ordinary course of business that have been, or may reasonably be expected to be, material to the ability of the Trust or the LLC to meet their obligations to holders of the Trust Preferred Securities and the LLC Preferred Securities respectively.

### **Potential Conflicts of Interest**

Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking or commercial banking transaction, and may perform services for the Bank, LLC, the Trust and their respective affiliates in the ordinary course of business.

### **Financial Statements Available**

So long as the Trust Preferred Securities and the LLC Preferred Securities are outstanding, the audited consolidated annual financial statements and unaudited consolidated interim financial information of the Bank will be available for physical inspection and can be obtained free of charge at the specified offices of the Principal Paying Agent and the Luxembourg Paying Agent (for so long as the Trust Preferred Securities are listed on the Luxembourg Stock Exchange). The Bank produces audited consolidated financial statements on an annual basis and unaudited consolidated financial statements on a semi-annual and quarterly basis.

Financial statements will not be published by the Trust or the LLC.

### **Documents Available for Inspection**

For so long as the Trust Preferred Securities and the LLC Preferred Securities are outstanding, copies of the following documents (and any amendments or modifications thereto) may be physically inspected and obtained free of charge at the specified offices of the Bank, the LLC, the Trust, the Principal Paying Agent and (for so long as the Trust Preferred Securities are listed on the Luxembourg Stock Exchange) the Luxembourg Paying Agent in each case at the relevant specified office as indicated herein (or at such further or other offices as may be notified to the holders of the Trust Preferred Securities and the LLC Preferred Securities):

- the Consolidated Report and Accounts of the Bank as at and for the years ended 31 December 2005, 2004 and 2003;
- the Consolidated Quarterly Report of the Bank as at 31 March 2006;
- By-laws (*statuto*) of the Bank;
- LLC Agreement;
- Trust Agreement and Certificate of Trust of the Trust;
- Subordinated Guarantees;
- Services Agreement;
- Agency Agreement;
- Calculation Agency Agreement;
- Account Agreement;
- Initial Banking Deposit Agreement; and
- Initial Derivative Contract.

### **Clearing Systems and Settlement**

The Trust Preferred Securities have been accepted for clearance through the facilities of Euroclear and Clearstream, Luxembourg.

The ISIN number for the Trust Preferred Securities is XS0255673070 and the Common Code is 025567307.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210, Brussels, and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

**Notices**

All notices shall be deemed to have been given upon: (i) the mailing by first class mail, postage prepaid, of such notices to holders of the Trust Preferred Securities at their registered addresses as recorded in the register of holders of Trust Preferred Securities; and (ii) so long as the Trust Preferred Securities are listed on the Luxembourg Stock Exchange and it is required by the rules of the Luxembourg Stock Exchange, publication of such notice to the holders of Trust Preferred Securities in English in a leading newspaper having general circulation in Luxembourg (which is expected to be *d'Wort*) or on the website of the exchange ([www.bourse.lu](http://www.bourse.lu)), provided that, so long as securities are held in registered global form and if the rules of the Luxembourg Stock Exchange would so permit, notifications may be made through Euroclear and Clearstream, Luxembourg in place of publication in a newspaper as described above.



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United States

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