



**€350,000,000**

## **MPS Capital Trust I**

**7.990% Noncumulative Trust Preferred Securities**  
**(liquidation preference €1,000 per Trust Preferred Security)**  
**representing a corresponding amount of**

**7.990% Noncumulative Company Preferred Securities of**  
**MPS Preferred Capital I, L.L.C.**

**guaranteed on a subordinated basis, as described herein, by**  
**Banca Monte dei Paschi di Siena S.p.A.**

The 7.990% Noncumulative Trust Preferred Securities (the "Trust Preferred Securities") issued by MPS Capital Trust I, a Delaware statutory business trust (the "Trust"), represent a beneficial interest in a corresponding amount of 7.990% Noncumulative Company Preferred Securities (the "Company Preferred Securities") held by the Trust.

Dividends and redemption and liquidation payments paid by MPS Preferred Capital I, L.L.C. (the "Company") on the Company Preferred Securities will pass through the Trust as distributions and redemption and liquidation payments on the Trust Preferred Securities. From February 7, 2001 to and including February 7, 2011, the Company Preferred Securities and related Trust Preferred Securities will pay noncumulative dividends at an annual rate of 7.990% on the liquidation preference annually in arrears on February 7 of each year, commencing on February 7, 2002. After February 7, 2011, the Company Preferred Securities and related Trust Preferred Securities will pay noncumulative dividends on a quarterly basis at a floating rate per annum equal to 3.90% above three-month EURIBOR on the liquidation preference. See "Description of the Company Preferred Securities – Dividends."

Under a guarantee agreement dated as of the Issue Date (the "Guarantee") among Banca Monte dei Paschi di Siena S.p.A. (the "Bank" or "BMPS"), the Company and the Guarantee Trustee (as described herein); the Bank will ensure payment on a subordinated basis, without duplication, of all payments in respect of the Company Preferred Securities to the extent described in this Offering Circular. All payment obligations of the Bank under the Guarantee will be subordinated obligations ranking behind the claims of the holders of Senior Indebtedness of the Bank (as defined herein) and before the claims of holders of Bank Ordinary Shares (as defined herein). See "Description of the Guarantee."

Prior to February 7, 2011, the Company Preferred Securities may not be redeemed, except under limited circumstances upon the occurrence of a Tax Event, an Investment Company Act Event or a Tier 1 Disqualification Event, each, as described herein. The Company has the option to redeem some or all of the Company Preferred Securities on any distribution date beginning February 7, 2011. See "Description of the Company Preferred Securities — Redemption."

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

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

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

The Trust Preferred Securities are expected to be assigned on issue a rating of BBB+ by Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc., and a2 by Moody's Investors Service Inc. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

**Offering price: 100% of €1,000 per Trust Preferred Security,**  
**plus accrued dividends, if any, from the date of original issue.**

It is expected that the Trust Preferred Securities will be ready for delivery in book-entry form only through the facilities of the Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme*, on or about February 7, 2001. See "Description of the Trust Preferred Securities — Denomination, Form and Exchange."

Joint Bookrunners

**Schroder Salomon Smith Barney**  
 (Structuring Advisor)

**JP Morgan**

**MPS Finance Banca Mobiliare S.p.A.**

(Joint Lead Manager)

February 5, 2001

The Bank, having made all reasonable inquiries, confirms that the information contained in this Offering Circular (with the exception of the material (i) regarding delivery of securities in the last paragraph of the cover page, (ii) regarding stabilization activities on page ii and (iii) regarding stabilization activities and concessions and reallowances to Managers other than the Bank under the heading “*Plan of Distribution*,” for which the Managers accept responsibility) is true and accurate in all material respects, that the opinions and intentions expressed herein are honestly held, and that there are no other facts the omission of which would make this Offering Circular as a whole or any of such information or the expression of any such opinions or intentions misleading. The Bank accepts responsibility accordingly.

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

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

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

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

*Any employee benefit plan subject to the fiduciary responsibility provisions of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), may not purchase either the Trust Preferred Securities or the Company Preferred Securities.*

**EACH PURCHASER OF THE TRUST PREFERRED SECURITIES MUST COMPLY WITH ALL APPLICABLE LAWS AND REGULATIONS IN FORCE IN ANY JURISDICTION IN WHICH IT PURCHASES, OFFERS OR SELLS THE TRUST PREFERRED SECURITIES OR POSSESSES OR DISTRIBUTES THIS OFFERING CIRCULAR AND MUST OBTAIN ANY CONSENT, APPROVAL OR PERMISSION REQUIRED BY IT FOR THE PURCHASE, OFFER OR SALE BY IT OF THE TRUST PREFERRED SECURITIES UNDER THE LAWS AND REGULATIONS IN FORCE IN ANY JURISDICTION TO WHICH IT IS SUBJECT OR IN WHICH IT MAKES SUCH PURCHASES, OFFERS OR SALES, AND NONE OF THE TRUST, THE COMPANY, THE SUBSIDIARY, THE BANK OR THE MANAGERS SHALL HAVE ANY RESPONSIBILITY THEREFOR.**

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

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

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

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

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

**IN CONNECTION WITH THE ISSUE OF THE TRUST PREFERRED SECURITIES, SALOMON BROTHERS INTERNATIONAL LIMITED MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILISE OR MAINTAIN THE MARKET PRICE OF SUCH SECURITIES AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

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## AVAILABLE INFORMATION

The Consolidated Financial Statements and the Interim Financial Statements (each as defined below) of the Bank and its consolidated subsidiaries and affiliates (the "Group") in the English language are incorporated by reference into this Offering Circular. Copies of the Consolidated Financial Statements, the Interim Financial Statements, the 1998 and 1999 Annual Reports of the Bank and other documents referred to in this Offering Circular will be available upon request to the Bank and free of charge at the specified office of the Paying Agent in Luxembourg. Except as otherwise specified in the 1998 and 1999 Annual Reports (the "Annual Reports"), the information included in the Annual Reports is only accurate as of the date therefor, and the Trust, the Company, the Bank and the Subsidiary undertake no responsibility to update any information set forth in the Annual Reports. Any statement contained in the Annual Reports shall be deemed to be modified or superseded for purposes of this Offering Memorandum to the extent that a statement contained herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Memorandum.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

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

Unless otherwise indicated, the financial information contained in this Offering Circular has been prepared in accordance with the accounting principles prescribed by Italian law (including Legislative Decree No. 87 of January 27, 1992, which implemented EC Directive No. 86/835) and the Bank of Italy regulations of January 16, 1995, as supplemented by the accounting principles issued by the *Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri* or, in the absence thereof, by the International Accounting Standards Committee (collectively, "Italian GAAP").

Unless otherwise indicated, any reference in this Offering Circular to "Consolidated Financial Statements" is to the consolidated financial statements of the Group as of and for the years ended December 31, 1997, 1998 and 1999 audited by KPMG S.p.A., independent accountants, and any reference to "Interim Financial Statements" is to the unaudited consolidated semi-annual statements of the Group for the six-month periods ended June 30, 1999 and 2000 and the unaudited consolidated financial statements for the nine-month periods ended September 30, 1999 and 2000. Both the Consolidated Financial Statements and the Interim Financial Statements are incorporated by reference in this Offering Circular and are available upon request to the Bank and free of charge at the specified office of the Paying Agent in Luxembourg.

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

## FORWARD-LOOKING STATEMENTS

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

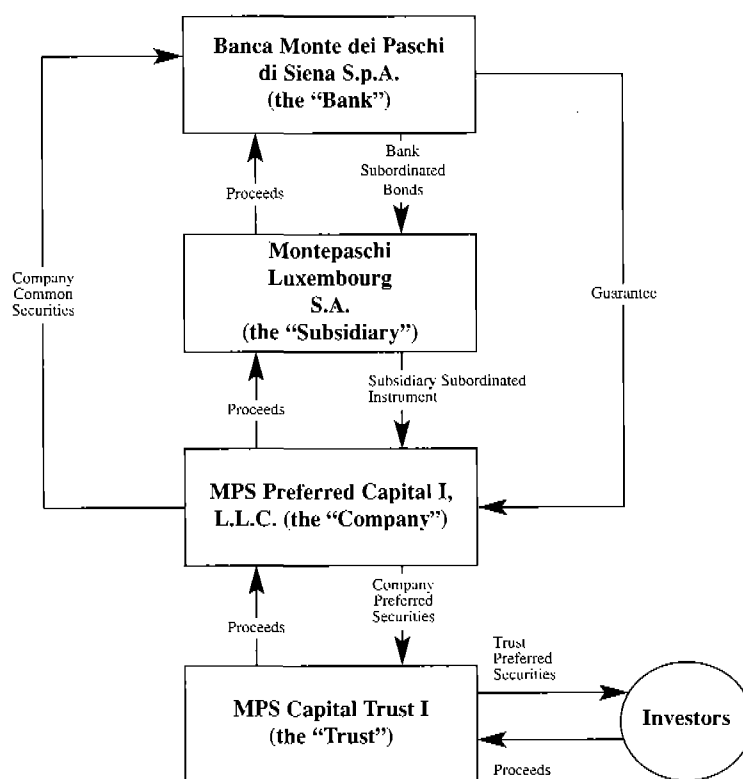
## OFFERING CIRCULAR SUMMARY

*The following summary is qualified in its entirety by the detailed information appearing elsewhere in this Offering Circular, in particular, the information under the headings “Description of the Guarantee,” “Description of the Trust Preferred Securities” and “Description of the Company Preferred Securities,” which describe the terms and conditions of the Trust Preferred Securities offered hereby. The “Glossary” commencing at page 101 contains the definitions of certain terms used in this Offering Circular.*

### Introduction

The 7.990% Noncumulative Trust Preferred Securities, liquidation preference €1,000 per security (the “Trust Preferred Securities”) are being issued by the Trust and the 7.990% Noncumulative Company Preferred Securities, liquidation preference €1,000 per security (the “Company Preferred Securities”) are being issued by the Company in a financing transaction that raises capital for the Bank. The Bank intends to treat the Company Preferred Securities as consolidated Tier 1 capital of the Bank under relevant regulatory capital guidelines of the Bank of Italy. The offering by MPS Capital Trust I of its Trust Preferred Securities and the related issuance to MPS Preferred Capital I, L.L.C. of the Company Preferred Securities are referred to herein as the “Offering.”

The following diagram outlines the relationship among investors in Trust Preferred Securities, the Trust, the Company, the Bank and the Subsidiary following completion of the Offering:



## **The Trust**

MPS Capital Trust I is a Delaware statutory business trust formed on January 25, 2001 for the purpose of (i) holding the Company Preferred Securities, (ii) issuing the Trust Preferred Securities representing a Corresponding Amount of Company Preferred Securities to be held by the Trust and (iii) performing functions necessary or incidental thereto. The Trust cannot issue other equity securities or any debt securities or engage in any other activities. The Company Preferred Securities will be the only assets of the Trust. Subject to the limitations and assumptions described under "*Taxation – U.S. Taxation*", the Trust will be treated as a grantor trust for United States federal income tax purposes, with the result that holders of the Trust Preferred Securities will be treated as beneficial owners of the Company Preferred Securities for United States federal income tax purposes.

## **The Company**

MPS Preferred Capital I, L.L.C. is a Delaware limited liability company formed on January 25, 2001 for the purpose of (i) issuing the Company Preferred Securities and the Company Common Securities, (ii) acquiring and holding a subordinated debt instrument (the "Subsidiary Subordinated Instrument") issued by the Subsidiary in connection with the Offering, (iii) acquiring and holding certain Eligible Investments, (iv) entering into and performing its obligations under the Guarantee and (v) performing functions necessary or incidental thereto. The Bank will own all of the Company Common Securities as described below. The Subsidiary Subordinated Instrument and other Eligible Investments owned by the Company from time to time will generate net income for distribution by the Company to the Trust as holder of the Company Preferred Securities (and consequently for pass through by the Trust to holders of the Trust Preferred Securities) and to the Bank as holder of the Company Common Securities. Subject to the limitations and assumptions described under "*Taxation – U.S. Taxation*," the Company will not be taxable as an association for United States federal income tax purposes.

The Bank will purchase all of the Company Common Securities, representing 100% of the voting rights in the Company (subject to the limited rights of holders of the Company Preferred Securities to nominate the Independent Directors and other rights as described herein). The Company Common Securities are being purchased for an aggregate purchase price of €30,000,000.

The Company will be managed by a Board of Directors. The Board of Directors will initially have five members, one of whom will be an Independent Director who is not, and has not been during the preceding three years, an officer or employee of the Bank or any affiliate of the Bank and who does not own Bank Ordinary Shares having a fair value of €500,000 or more. Under certain circumstances described under "*Description of the Company Preferred Securities – Voting Rights*," holders of Company Preferred Securities will have the right to elect two additional directors, and each additional director so elected shall be deemed to be an Independent Director irrespective of whether he or she meets the financial test described above.

## **The Subsidiary**

Montepaschi Luxembourg S.A. is a directly controlled subsidiary of the Bank organised on January 26, 2001 as a public limited company under the laws of the Grand Duchy of Luxembourg.

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

## The Bank

Banca Monte dei Paschi di Siena S.p.A. is the lead bank of an Italian banking group focused on retail customers and operating across the entire Italian territory (with a particularly strong presence in central Italy) and in the principal international financial centres. The Group offers a wide range of financial services and products to private individuals and corporations. These products and services include ordinary and specialised deposit-taking and lending (both short- and medium- to long-term), including leasing and factoring; payment services (home banking, cash management, credit or debit cards, treasury services for public entities); administration services for securities held in custody; asset management (closed- and open-ended mutual funds, management of customer investment portfolios and pension funds); bancassurance; brokerage services; corporate finance (project finance, merchant banking, financial consulting); and tax collection services.

As of September 30, 2000 the Group had assets of €98.815 billion and total shareholders equity of €4.718 billion. Its consolidated total risk based capital ratio as of June 30, 2000 was 8.37%. After giving effect to the Offering, as if it had occurred on June 30, 2000, its total risk based capital ratio would have been 8.91%.

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

### Securities Offered:

Trust Preferred Securities having a liquidation preference equal to €1,000 per security. The Trust Preferred Securities represent a Corresponding Amount of Company Preferred Securities of the Company and will have terms substantially identical to the terms of the Company Preferred Securities. See "*Description of the Trust Preferred Securities.*"

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

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

### Dividends:

*General:* Dividends on the Company Preferred Securities will be passed through by the Trust as distributions on the Trust Preferred Securities upon (and subject to) their receipt by the Trust. Amounts available to the Trust for distributions on the Trust Preferred Securities will be limited to dividends received by the Trust as holder of the Company Preferred Securities and payments made by the Bank under the Guarantee, if any. See "*Description of the Trust Preferred Securities–Distributions*"



and "*Description of the Company Preferred Securities—Dividends.*"

Dividends on the Company Preferred Securities will be payable, when, as and if declared or deemed declared by the Company's Board of Directors, on a noncumulative basis (i) from the Issue Date to and including the First Call Date, annually in arrears on February 7 of each year, commencing February 7, 2002 (or, if any such date is not a Business Day, the next succeeding Business Day), at a fixed rate per annum on the liquidation preference equal to 7.990% (calculated on an Actual/Actual (Bond) Basis), and (ii) thereafter, quarterly on each May 7, August 7, November 7 and February 7 (or, if any such date is not a Business Day, the next succeeding Business Day), at a variable rate per annum on the liquidation preference equal to 3.90% above three-month EURIBOR (calculated on an Actual/360 Basis) determined on the Determination Date for such Dividend Period. Dividends on the Company Preferred Securities will be mandatorily due and payable on a Dividend Payment Date and with respect to the related Dividend Period in the circumstances described under "*Description of the Company Preferred Securities—Required Dividends.*"

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

*Required Dividends:* The Company will be required to pay dividends in an amount calculated as set forth below on the Company Preferred Securities on each Dividend Payment Date unless (i) the Bank does not have Distributable Profits that would be available for the payment of a dividend or the making of a distribution on any class of its equity share capital and/or the Bank has not actually declared or paid dividends on any class of its equity share capital based on the unconsolidated annual accounts used for the determination of the Distributable Profits, (ii) a Capital Deficiency Event has occurred and is continuing or (iii) 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 equity share capital.

Notwithstanding the foregoing, the Company will be required to declare and pay dividends on the Company Preferred Securities on each Dividend Payment Date occurring during the one-year period beginning on and including the date on which (i) the Bank declares or pays dividends on the Bank Ordinary Shares (other than dividends consisting solely of additional

Bank Ordinary Shares) or (ii) the Bank or any subsidiary of the Bank declares or pays Discretionary Dividends or makes other discretionary distributions on any Bank Parity Securities. Dividends required to be paid pursuant to this paragraph and the preceding paragraph are referred to herein as "Required Dividends" and the Dividend Payment Dates on which such Required Dividends are due are referred to herein as "Required Dividend Payment Dates."

Subject to the foregoing, the amount of dividends to be paid on the Company Preferred Securities on each Required Dividend Payment Date (the "Required Dividend Payment Amount") will be determined as follows: (i) if dividends or other distributions are made on Bank Ordinary Shares, full dividends shall be paid; and (ii) if Discretionary Dividends or other distributions are made on Bank Parity Securities but not Bank Ordinary Shares, dividends shall be paid on a *pro rata* basis with such Bank Parity Securities, to be determined by (a) calculating the Notional Dividend Amount with respect to each payment of a Discretionary Dividend on an Underlying Security during the one-year period ending on and including the relevant Dividend Payment Date and (b) aggregating the Notional Dividend Amounts so determined.

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

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

**Guarantee:**

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

Under the Guarantee, the Bank will agree that it will contribute (or cause to be contributed) to the Guarantee Trustee on behalf of the Company and will ensure payment to the holders of the Company Preferred Securities, without duplication, such additional funds as are necessary (after payment of all Company expenses and taxes) (i) to pay any accrued but unpaid dividend, whether declared or deemed declared on any Dividend Payment Date, (ii) to pay the Redemption Price on

the Company Preferred Securities on the redemption date specified in a properly given notice of redemption, (iii) to pay upon dissolution of the Company the Liquidation Claim Amount and (iv) to pay Additional Amounts, if any, on any of the foregoing.

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

Notwithstanding (and as a limitation on) the foregoing, the Guarantee will provide that, in a dissolution of the Company that is concurrent with a liquidation of the Bank, holders of Company Preferred Securities (and, consequently, of the corresponding Trust Preferred Securities) will receive an amount equal to but not exceeding the amount to which such holders would have been entitled had they instead owned Bank Parity Securities having the same liquidation preference and dividend rights as the Company Preferred Securities.

Company Common Securities:

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

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

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

Additional Amounts:

All payments in respect of the Trust Preferred Securities made by or on behalf of the Trust will be made without withholding or deduction for or on account of any present or future taxes, duties or other governmental charges (collectively, "Relevant Tax") imposed or levied by or on behalf of (i) Italy, (ii)

Luxembourg, (iii) any jurisdiction in which a branch, other office or subsidiary of the Bank issuing Eligible Investments held by the Company or the Subsidiary is located, (iv) the United States, (v) any jurisdiction in which a relevant Paying Agent is located or (vi) any authority of or in any of the jurisdictions referred to in (i) – (vi) above (each, a “Relevant Jurisdiction”) that has the power to tax, unless the withholding or deduction of such Relevant Tax is required by law. In that event, the Trust will be required to pay as additional amounts included in the distributions otherwise then due and payable such amounts as shall be required (“Additional Amounts”) so that the net amount received by each holder of Trust Preferred Securities, after the withholding of any such Relevant Tax, will not be less than the amount of dividends or distributions then otherwise due and payable. However, the Trust will not be required to pay Additional Amounts (a) to the extent that the Relevant Tax is imposed or levied because the holder or beneficial owner of the Trust Preferred Securities or Company Preferred Securities, other than the Trust, fails to comply with any requirements imposed by the laws of the Relevant Jurisdiction, as applicable from time to time, in order to benefit from an exemption available either pursuant to the domestic laws of such Relevant Jurisdiction or pursuant to any applicable double taxation convention or (b) if the Relevant Jurisdiction is Italy or the United States or any state or division thereof (x) to the extent that the Relevant Tax is imposed or levied because the holder or beneficial owner of the Trust Preferred Securities or Company Preferred Securities, other than the Trust, has some connection with the Relevant Jurisdiction, other than being a holder (or beneficial owner) of the Trust Preferred Securities or Company Preferred Securities, or (y) to the extent that the Relevant Tax is imposed or levied because that holder (or beneficial owner), other than the Trust, has not made a declaration of non-residence in, or other lack of connection with, the Relevant Jurisdiction or any similar claim for exemption, if the Company, the Trust or their agents have given the beneficial owner or its nominee at least 60 days’ prior written notice of and opportunity to make the declaration or claim or (c) to the extent the holder could have received the payment in question free and clear of, and without withholding or deduction for or on account of, tax by presenting the Trust Preferred Securities or Company Preferred Securities to a Paying Agent duly appointed by the Bank in an E.U. Member State, if the Bank has given reasonable notice of the appointment of such a Paying Agent and of the procedures for receiving payments free of tax through the Paying Agent.

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

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

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

Redemption and Repurchase:

Redemption proceeds received by the Trust on the Company Preferred Securities will be contemporaneously passed through to redeem a Corresponding Amount of Trust Preferred Securities. The Company Preferred Securities are not redeemable at the option of the holders at any time and are not redeemable at the option of the Company prior to the Dividend Payment Date regularly scheduled to occur on the First Call Date, except in whole upon the occurrence a Tax Event, an Investment Company Act Event, or a Tier 1 Disqualification Event (each, a "Special Event").

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

The Company will also have the right, upon the occurrence of a Special Event prior to the First Call Date, to redeem the Company Preferred Securities at any time, in whole (but not in part), *provided* that such redemption shall be subject to compliance with the applicable regulatory requirements, including the approval of the Bank of Italy, if then required. The Redemption Price per Company Preferred Security for such Special Event redemptions will be the greater of (i) the Company Preferred Securities Make Whole Amount and (ii) the Company Preferred Securities Base Redemption Price.

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

So long as the Company Preferred Securities are outstanding, neither the Bank nor any of its consolidated subsidiaries will be entitled to repurchase, redeem or otherwise acquire, or set apart funds for the repurchase, redemption or other acquisition of, any Bank Parity Securities or Bank Ordinary Shares, through a sinking fund or otherwise, unless and until (i) full dividends on all Company Preferred Securities for the most recent preceding dividend period are paid or a sum sufficient for payment has been paid over to the Principal Paying Agent for payment of

Ranking – Dividends, Liquidation and Related Matters:

such dividends and (ii) the Company has paid a dividend on the Company Preferred Securities at the annual dividend rate for the then current dividend period or sufficient funds have been paid over to the Principal Paying Agent for the payment of such dividend. It is an obligation of the Bank to ensure that its consolidated subsidiaries observe the foregoing limitations.

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

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

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

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

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

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

**Subsidiary Subordinated Instrument:**

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

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

Interest on the Subsidiary Subordinated Instrument will be payable on a cumulative basis (i) from the Issue Date to and including the First Call Date annually in arrears on February 7 of each year, commencing February 7, 2002 (or, if any such date is not a Business Day, the next succeeding Business Day) at a fixed rate per annum on the principal amount from time to time outstanding equal to 7.790% (calculated on an Actual/Actual (Bond) Basis), and (ii) thereafter, quarterly on each May 7, August 7, November 7 and February 7 (or, if any such date is not a Business Day, the next succeeding Business Day) at a variable rate per annum on the principal amount equal to 2.40% above three-month EURIBOR (calculated on an Actual/360 Basis) determined on the Determination Date for such Interest Period.

The Subsidiary Subordinated Instrument will mature on February 7, 2031 (*provided, however, that such date may be*

extended by the mutual consent of the Company and the Subsidiary).

Upon the occurrence of a Capital Deficiency Event, the obligations of the Subsidiary in respect of principal and cumulative interest from prior periods under the Subsidiary Subordinated Instrument will be reduced by an amount equal to the lesser of the Bank Loss and the amount necessary to reinstate the consolidated risk-based capital ratio of the Bank above 5%. Any such reduction shall (a) be made on a *pro rata* basis with any *Strumenti Innovativi di Capitale* issued by the Bank, or issued by any subsidiary of the Bank with the benefit of a Bank Parity Guarantee, which are subject to loss absorption provisions on a consolidated basis similar to those described herein and outstanding upon occurrence of a Capital Deficiency Event, and (b) apply first to any unpaid cumulative interest from prior periods, and subsequently to principal. The obligations of the Subsidiary in respect of principal and interest under the Subsidiary Subordinated Instrument will be reinstated in the event of any voluntary or involuntary dissolution, liquidation or winding up of the Bank.

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

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

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



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

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

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

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

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

**Bank Subordinated Bonds:**

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

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

Interest on the Bank Subordinated Bonds will be payable on a cumulative basis (i) from the Issue Date to and including the First Call Date, annually in arrears on February 7 of each year, commencing February 7, 2002 (or if any such date is not a Business Day, the next succeeding Business Day) at a fixed rate per annum on the principal amount from time to time outstanding equal to 7.590% (calculated on an Actual/Actual (Bond) Basis), and (ii) thereafter, quarterly in arrears on each May 7, August 7, November 7 and February 7 (or if any such date is not a Business Day, the next succeeding Business Day) at a variable rate on the principal amount equal to 2.20% above

three-month EURIBOR (calculated on an Actual/360 Basis) determined on the Determination Date for such Interest Period.

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

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

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

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

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

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

Investment Policies – Eligible Investments:

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

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

No Indebtedness:

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

Independent Directors:

The Company Agreement will provide that, for so long as any Company Preferred Securities are outstanding, certain actions by the Company must be approved by both a majority of the

Board of Directors as a whole and by a majority of the Independent Directors (or by the Independent Director if there is only one Independent Director). The actions that require approval by the Independent Directors include (i) the amendment or modification of the Investment Policies, (ii) any amendment or modification of the Company's By-laws that would have a material adverse effect on the interests of the holders or beneficial owners of the Company Preferred Securities, (iii) to the fullest extent permitted by law, any liquidation, dissolution or termination of the Company without a concurrent liquidation of the Bank, (iv) the conversion of the Company into another type of entity or (v) the consolidation or merger of the Company with or into any other entity, the consolidation or merger of any other entity with or into the Company or the sale of all or substantially all of the assets of the Company (except as required by the Company Agreement). Additionally, a majority of the Independent Directors (or the Independent Director if there is only one Independent Director), acting alone and without the vote or consent of the other members of the Board of Directors, but, as described under "Description of the Guarantee," subject to the rights of holders of the Company Preferred Securities, have the right on behalf of the Company to enforce the Guarantee. The Independent Directors will be under a duty to consider the interest of the Company as a whole as to all matters other than enforcement of the Guarantee and, in connection with decisions involving enforcement of the Guarantee, shall be required to consider only the interest of holders of the Company Preferred Securities.

**Voting Rights:**

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

Each holder of outstanding Trust Preferred Securities will have the right to direct the Property Trustee, as holder of the Company Preferred Securities, as to the exercise of the voting rights pertaining to the Corresponding Amount of Company Preferred Securities represented by its respective Trust Preferred Securities, in respect of the matters on which holders of the Company Preferred Securities are entitled to vote.

If full dividends are not paid on any Dividend Payment Date, the holders of the Company Preferred Securities shall have the right to elect two persons of their choosing as additional directors (up to a maximum total of two additional Independent Directors). Each person so elected shall be deemed to be an Independent Director irrespective of whether he or she meets certain financial tests as described under "*Description of the Company – Management of the Company – Independent Directors.*" Such right may be exercised by the holders of a majority (by liquidation preference) of the Company Preferred Securities at a meeting called for such purpose (which the Company Agreement will provide shall be called at the request of any holder of the Company Preferred Securities), and shall

continue until full dividends have been paid on the Company Preferred Securities for a one-year period. Any vacancy in the office of an Independent Director during such period may be filled only by holders of the Company Preferred Securities voting as set forth above.

**Form and Denomination:**

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

**Certain Covenants of the Bank:**

The Bank will make the following additional covenants in the Guarantee in favour of the Company and the holders of the Company Preferred Securities, as applicable:

- (a) for so long as any of the Company Preferred Securities are outstanding, the Bank will not issue any preferred or preference shares (or similar instruments qualifying as Tier 1 capital of the Bank) ranking senior to its obligations under the Guarantee or give any guarantee or support undertaking in respect of any preferred securities or preferred or preference shares issued by any of its subsidiaries, if such guarantee or support undertaking would rank senior to the Guarantee;
- (b) for so long as any of the Company Preferred Securities are outstanding, 100% of the Company Common Securities will be held by the Bank or a branch thereof or, with the prior approval of the Bank of Italy, if then required, by one or more subsidiaries of the Bank, each of which is deemed to be a "company controlled" by the Bank within the meaning of Rule 3a-5 of the 1940 Act;
- (c) the Bank will not permit, or take any action to cause, the Company to issue securities other than the Company Common Securities and the Company Preferred Securities;
- (d) the Bank will not permit, or take any action to cause, the liquidation, dissolution, winding up or termination of the Company or the Subsidiary, unless the Bank, the

Subsidiary and the Company are themselves in liquidation and the approval of the Bank of Italy, if then required, for such action has been received and all claims under the Guarantee have been paid to the fullest extent according to its terms; and

- (e) the Bank will not assign its obligations under the Guarantee, except in the case of a merger, consolidation or sale of substantially all of its assets, where the Bank is not the surviving entity.

Use of Proceeds:

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

ERISA Considerations:

No Trust Preferred Security or Company Preferred Security, if applicable, may be purchased or transferred to (i) an employee benefit plan that is subject to the fiduciary responsibility provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (ii) a "plan" within the meaning of Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"), (iii) a person whose underlying assets include plan assets by reason of Department of Labor Regulation Section 2510.3-101 or otherwise, or (iv) a governmental plan that is subject to any federal, state or local law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code. Each Manager, and each subsequent transferee of a Trust Preferred Security or Company Preferred Security by its purchase or acquisition of any such Trust Preferred Security or Company Preferred Security, is deemed to represent that it is not a Plan.

Resale Restrictions:

The Company has not been registered under the 1940 Act and the Company Preferred Securities and Trust Preferred Securities have not been registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except in a transaction pursuant to Regulation S, as described under "*Notice to Purchasers*."

Ratings:

The Trust Preferred Securities are expected to be assigned on issue ratings of BBB+ by Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc. and a2 by Moody's Investors Services, Inc. A rating is not a recommendation to buy, sell or hold securities and may be

subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Listing:

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

Governing Law:

The Company Agreement, the Trust Agreement, the Guarantee, the Company Preferred Securities and the Trust Preferred Securities will be governed by, and construed in accordance with, the law of the State of Delaware, United States of America. The Subsidiary Subordinated Instrument will be governed by, and construed in accordance with the law of the State of New York, United States of America. The Bank Subordinated Bonds will be governed by, and construed in accordance with, the law of the Republic of Italy.

Common Code Number

012134282

ISIN Number

XS0121342827

## INVESTMENT CONSIDERATIONS

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

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

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

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

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

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

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

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

Amounts available to the Trust for distributions on the Trust Preferred Securities will be limited to dividends received by the Trust as holder of the Company Preferred Securities. As to any Dividend Payment Date that is not a Required Dividend Payment Date, the Bank may, for any reason, cause the Company to pay no dividends or less than full dividends on the Company Preferred Securities. Dividends on the Trust Preferred Securities are not cumulative. If no dividends or less than full dividends on the Company Preferred Securities are paid on any Dividend Payment Date that is not a Required Dividend Payment Date, holders of the Company Preferred Securities (including the Trust and, accordingly, investors in the Trust Preferred Securities) will not be entitled to receive such dividends whether or not funds are or subsequently become available.

### **Liquidation of the Bank**

In the event of financial distress of the Bank, it is expected that investors will receive liquidating distributions on the Company Preferred Securities if the Bank and the Company are concurrently liquidated. In such event, the Company's only assets available for making liquidating distributions on the Company Preferred Securities will be amounts realized by the Guarantee Trustee on behalf of the Company pursuant to the undertakings and covenants of the Bank in the Guarantee. All payment obligations of the Bank under the Guarantee are subordinated obligations ranking behind the claims of the holders of Senior Indebtedness of the Bank and before the claims of holders of Bank Ordinary Shares. In the event that the Bank has insufficient assets



to satisfy all of its claims in concurrent liquidation of the Company and the Bank, the investors may receive less than €1,000 in liquidating distributions per Trust Preferred Security.

#### **Redemption upon Occurrence of a Tax Event, Investment Company Act Event or Tier 1 Disqualification Event**

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

#### **No Operating History**

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

#### **No Voting Rights**

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

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

The Bank will be the sole holder of the Company Common Securities and is involved in virtually every aspect of the Company’s existence. As the holder of all of the outstanding voting securities of the Company, the Bank will have sole responsibility for the management and administration of the Company, subject to the provisions of the Company Agreement. In addition, the Bank in its sole discretion will have the right to prohibit or limit the payment of dividends on the Company Preferred Securities (subject to the required dividend provisions). There may be circumstances where the Bank will determine that it is in the best interest of the Bank that no dividends or less than full dividends be paid on the Company Preferred Securities notwithstanding that it may be in the best interest of holders of Company Preferred Securities that full dividends be paid. Similarly, decisions with respect to enforcement of the Subsidiary Subordinated Instrument or any other Eligible Investments and actions to be taken by the Company upon a Failure of Payment by the Bank thereunder will be made by the Board of Directors of the Company, which will be controlled by the Bank, as holder of the Company Common Securities. Accordingly, there can be no assurance that under any circumstances enforcement action will be taken by the Company with respect to a failure of payment under the Subsidiary Subordinated Instrument or any other Eligible Investments.

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

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

The Company has not been registered under the 1940 Act, and the offer and sale of the Trust Preferred Securities and the Company Preferred Securities have not been registered under the Securities Act and will be

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

## **USE OF PROCEEDS**

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

The Bank expects the net proceeds from the Offering to be approximately €346,500,000. The Bank intends to use such net proceeds for general business purposes, including to pay certain expenses relating to the Offering.

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

The total capitalisation of the Trust as adjusted to give effect to this Offering and the use of proceeds therefrom is €350,000,000. Upon consummation of the Offering, the authorised and issued capital of the Trust will consist of €350,000,000 in Trust Preferred Securities and no outstanding debt.

The total capitalisation of the Company as adjusted to give effect to this Offering and the use of proceeds therefrom is €380,000,000. Upon consummation of the Offering, the authorised and issued capital of the Company will consist of €30,000,000 in Company Common Securities and €350,000,000 in Company Preferred Securities and no outstanding debt.

The total capitalisation of the Subsidiary as adjusted to give effect to this Offering and the use of proceeds therefrom is €370,125,000. Upon consummation of the Offering, the authorised and issued capital stock of the Subsidiary will consist of 125 shares having an aggregate stated amount of €125,000, and the Subsidiary will have outstanding debt (consisting of the Subsidiary Subordinated Instrument and other Eligible Investments issued to the Company) of €370,000,000.

The share capital of the Bank consists of 2,151,583,000 Bank Ordinary Shares with a nominal value of Lit. 1,000 per share and 8,574,700 savings shares with a nominal value of Lit. 1,000 per share, all of which are issued and outstanding. The Bank's savings shares do not entitle holders to any voting rights, except in limited circumstances where such holders' rights are affected, and may not comprise more than 50% of the Bank's share capital under Italian law.

The following table sets forth the consolidated capitalisation of the Bank, together with its consolidated subsidiaries and affiliates as of and for the period ending June 30, 2000 and as adjusted to give effect to the offering of the Trust Preferred Securities. Except as set forth in this table, there has been no material change in the capitalisation of the Bank since June 30, 2000.

	As of June 30, 2000	
	Actual	As Adjusted
	(billions of lire)	
Debt:		
Sums owed to banks .....	31,375	31,375
Sums owed to customers .....	82,741	82,741
Notes .....	43,413	43,413
Subordinated debt .....	2,676	3,354
Total debt .....	160,205	160,883
Preferred Securities of Companies in the Group.....	—	678
Minority interests .....	1,455	1,455
Shareholders' equity:		
Share capital(1) .....	2,160	2,160
Additional paid-in capital .....	932	932
Reserves(2) .....	5,148	5,148
Net income .....	548	548
Total shareholders' equity .....	8,788	8,788
Total capitalisation .....	170,448	171,126

(1) As of June 30, 2000 the Bank had a fully paid up share capital of Lit. 2,160,157,700 divided into 2,151,583,000 Bank Ordinary Shares issued and outstanding, each share having a par value of Lit. 1,000 (for an amount of Lit. 2,151,583,000,000) and 8,574,700 savings shares each having a par value of Lit. 1,000 (for an amount of Lit. 8,574,700,000).

(2) Includes the Group's revaluation reserve, which was equivalent to Lit. 286,844 billion, as of June 30, 2000 and the Group's reserve for general banking risks, equivalent to Lit. 895,973 billion, as of June 30, 2000. See "— *Capital Adequacy of the Bank.*"

## Capital Adequacy of the Bank

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

Under the Bank of Italy's guidelines, risk-weighted capital ratios are required to be calculated for the Bank on an unconsolidated basis and for the Bank and its consolidated subsidiaries as a group. In addition, certain of the Group's banking subsidiaries are subject to the capital adequacy guidelines on a stand-alone basis. The Group is required to maintain a consolidated total capital ratio (which is the ratio of total capital to total Risk Weighted Assets) of at least 8%, and each of its banking subsidiaries is required to maintain a total capital ratio on a stand-alone basis of 7%. See "*The Banking Sector in Italy*." At June 30, 2000, the Group's consolidated total capital ratio was 8.37% and the Bank's was 12.14%.

## DIVIDEND HISTORY OF THE BANK

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

Year ended December 31	Total dividend to holders of Bank Ordinary Shares	Dividends per Bank Ordinary Share	Total dividend to savings shareholders	Dividends per savings share
	<i>(Millions of lire)</i>	<i>(lire)</i>	<i>(Millions of lire)</i>	<i>(lire)</i>
1996 .....	50,000	250	428.7	500
1997 .....	100,000	500	600.2	700
1998 .....	150,000	750	814.6	950
1999(1) .....	344,253	160	1,543.4	180

(1) On June 25, 1999, the number of Bank Ordinary Shares was increased by 151,583,000 in connection with the initial public offering of Bank Ordinary Shares of the Bank.

## THE COMPANY

MPS Preferred Capital I, L.L.C. is a Delaware limited liability company formed on January 25, 2001 for the purpose of (i) issuing the Company Preferred Securities and the Company Common Securities (ii) acquiring and holding the Subsidiary Subordinated Instrument issued by the Subsidiary, (iii) acquiring and holding certain Eligible Investments, (iv) entering into and performing its obligations under the Guarantee and (v) performing functions necessary or incidental thereto. The Company's certificate of formation was filed with the Secretary of State of the State of Delaware on January 25, 2001 and the Bank as sole member of the Company entered into a limited liability company agreement on that date. The Company intends to continue its operations pursuant to an Amended and Restated Limited Liability Company Agreement of the Company (the "Company Agreement") to be dated as of the Issue Date between the Bank, as holder of the Company Common Securities, the Trust as holder of the Company Preferred Securities and the persons who may from time to time become additional holders of the Company Preferred Securities. Subject to the limitations and assumptions described under "*Taxation – U.S. Taxation*," the Company will not be taxable as an association for United States federal income tax purposes.

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

Upon consummation of the Offering, the Company will have outstanding 1,000 Company Common Securities all of which will have been acquired by the Bank at an aggregate purchase price of €30,000,000. The Bank has agreed with the Company in the Guarantee that, so long as any Company Preferred Securities are outstanding, it will maintain direct or indirect ownership of 100% of the outstanding Company Common Securities, representing 100% of the voting rights in the Company (subject to the limited rights of holders of the Company Preferred Securities to select the Independent Directors and other rights as described herein).

The principal executive offices of the Company will be located at 55 East 59th Street, New York, New York 10022-1112. Copies of the Company Agreement will be available upon request to the Bank or free of charge at the specified office of the Paying Agent in Luxembourg.

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

#### *General*

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

#### *Dividends*

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

It is anticipated that dividends with respect to Company Preferred Securities will be payable out of the interest received by the Company on the Subsidiary Subordinated Instrument and other Eligible Investments and out of amounts contributed by the Bank to the Guarantee Trustee on behalf of Company pursuant to the Guarantee. Under the Delaware Limited Liability Company Act, the Company may not make dividend or other distributions on the Company Preferred Securities or the Company Common Securities if, after giving effect to the distributions, the Company's liabilities would exceed the fair value of its assets. The Company is precluded by the Company Agreement from incurring any indebtedness for borrowed money and does not anticipate having any material liabilities.

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

amounts required to be paid under the Guarantee. See “*Description of the Company Preferred Securities – Dividends – Required Dividends.*”

#### *Investment Policies*

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

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

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

#### *No Indebtedness*

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

#### *Employees and Administration Agreement*

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

The Company will maintain limited liability company records and audited financial statements that are separate from those of the Subsidiary or any of its affiliates. None of the officers, employees or directors of the Company will have any direct or indirect pecuniary interest in any security to be acquired or disposed of by the Company or in any transaction in which the Company has an interest. The Company’s first set of accounts will be in respect of the period from January 25, 2001 to December 31, 2001.

#### *Legal Proceedings*

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

#### **Management of the Company**

##### *Directors and Executive Officers*

The Company Agreement will provide that the Company’s Board of Directors will at all times be composed of no less than five nor more than seven members, at least one of whom will be an Independent Director. Initially the Company’s Board of Directors will be composed of five members, one of whom will be the Independent Director. The directors will be designated as “managers” of the Company within the meaning of the Delaware Limited Liability Company Act. The directors will serve until their successors are duly elected and

qualified. There is no current intention to alter the number of directors comprising the Board of Directors except if additional Independent Directors are elected as described under “– *Independent Directors*.” The Company will have three officers at issuance of the Company Preferred Securities. It is currently anticipated that all of the officers of the Company will also be officers or employees of the Bank or its affiliates. The Company Agreement will provide that meetings of the Board of Directors be held outside of Italy.

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

<u>Name</u>	<u>Position and Offices Held</u>
Giulio Natalicchi .....	Director, Chairman and President
Paolo Lucioi .....	Director and Secretary
Bruno Orru.....	Director and Treasurer
Aldo Carnasciali .....	Director
Donald J. Puglisi .....	Independent Director

Each of the initial directors (other than the Independent Director) and officers of the Company are individuals who are officers or employees of the Bank or the Subsidiary. The initial Independent Director is Donald J. Puglisi who is a Professor of Finance at the University of Delaware. The Company Agreement will provide that a majority of the directors shall not be residents of Italy.

#### *Independent Directors*

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

Under the Company Agreement, each Independent Director, in determining whether any proposed action requiring his approval is in the best interests of the Company (i) as to matters relating to the Guarantee, to the fullest extent permitted by law, will consider only the interests of the holders of the Company Preferred Securities and (ii) as to all other matters, will consider the interests of the Company as a whole.

The Company Agreement will provide that, for so long as any Company Preferred Securities are outstanding, certain actions by the Company must be approved by both a majority of the Board of Directors as a whole and by a majority of the Independent Directors (or by the Independent Director if there is only one Independent Director). The actions that require approval by the Independent Directors include (i) the amendment or modification of the Investment Policies, (ii) any amendment or modification of the Company’s By-laws that would have a material adverse effect on the interests of the holders or beneficial owners of the Company Preferred Securities, (iii) to the fullest extent permitted by law, any liquidation, dissolution or termination of the Company without a concurrent liquidation of the Bank, (iv) the conversion of the Company into another type of entity, or (v) the consolidation or merger of the Company with or into any other entity, the consolidation or merger of any other entity with or into the Company or the sale of all or substantially all of the assets of the Company (except as required by the Company Agreement). Additionally, a majority of the Independent Directors (or the Independent Director if there is only one Independent Director), acting alone and without the vote or consent of the other members of the Board of Directors, but without prejudice to the rights of holders of the Company Preferred Securities as third-party beneficiaries as described under “*Description of the Guarantee – Enforcement and Third Party Beneficiaries*,” have the right on behalf of the Company to enforce and take other action with respect to the Guarantee.

If full dividends are not paid on any Dividend Payment Date, the holders of the Company Preferred Securities shall have the right to elect two persons of their choosing as additional directors (up to a maximum total of two additional Independent Directors). Each person so elected shall be deemed to be an Independent Director irrespective of whether he or she meets the financial test described above. Such right may be exercised by the holders of a majority (by liquidation preference) of the Company Preferred Securities, acting by written consent, or at a meeting called for such purpose (which the Company Agreement will provide shall be called at the request of any holder of the Company Preferred Securities), and shall continue until full dividends have been paid on the Company Preferred Securities for a one-year period. Any vacancy in the office of an Independent Director during such period may be filled only by holders of the Company Preferred Securities voting as set forth above.



### *Compensation of Directors and Officers*

The Company intends to pay the initial Independent Director a fee for his services as a director of the Company equal to \$6,000, plus reimbursement of expenses for attendance at each meeting of the Board of Directors.

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

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

## THE TRUST

MPS Capital Trust I is a statutory business trust created under the Delaware Business Trust Act pursuant to a certificate of trust filed with the Delaware Secretary of State and the execution of a trust agreement of the Trust on January 25, 2001. The Trust will continue its existence from and after the Issue Date pursuant to the Amended and Restated Trust Agreement (the "Trust Agreement") to be entered into by and among the Company, as grantor, The Bank of New York, as Property Trustee, and The Bank of New York (Delaware), as Delaware Trustee as of the Issue Date.

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

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

All expenses and liabilities of the Trust other than payments required under the terms of the Trust Preferred Securities will be paid by the New York branch of the Bank, *provided* that if the Trustees of the Trust incur fees, charges or expenses at the request of a holder of Trust Preferred Securities or other person for which the Trust is not otherwise liable under the Trust Agreement, such holder or other person will be liable for such fees, charges and expenses.

The principal executive offices of the Trust will be located at c/o The Bank of New York (Delaware), Route 273, White Clay Center, Newark, Delaware 19711, U.S.A. Copies of the Trust Agreement will be available upon request to the Bank or free of charge at the specified office of the Paying Agent in Luxembourg.

## THE SUBSIDIARY

Montepaschi Luxembourg S.A. is a directly controlled subsidiary of the Bank organised under the laws of the Grand Duchy of Luxembourg as a public limited company with a share capital of €125,000 (one hundred-twenty-five thousand euro) represented by 125 (one hundred twenty-five) registered shares having a par value of €1,000 (one thousand euro) per share, fully paid. The two founding shareholders of the Subsidiary are (i) the Bank, which holds 124 (one hundred twenty-four) shares and (ii) Monte Paschi Banque S.A., a company incorporated under the laws of France, having its registered offices at F-75762 Paris, 96 avenue Raymond Poincaré, which holds 1 (one) share.

The Subsidiary was formed on January 26, 2001. It is anticipated that the principal business activity of the Subsidiary will be to carry out the following functions in connection with the offering: (i) to issue the Subsidiary Subordinated Instrument and one or more Eligible Investments to the Company, (ii) to use the proceeds from such issuance toward the purchase of the Bank Subordinated Bonds issued by the Bank (and certain similar subordinated debt instruments issued by an affiliate of the Bank), (iii) to hold the Bank Subordinated Bonds and such related subordinated debt instruments and (iv) to perform functions necessary or incidental thereto.

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

The principal executive offices of the Subsidiary will be located at 3, boulevard du Prince Henri, L-1724 Luxembourg.

## BANCA MONTE DEI PASCHI DI SIENA S.p.A.

### General

Banca Monte dei Paschi di Siena S.p.A. is the lead bank of an Italian banking group focused on retail customers and operating across the entire Italian territory (with a particularly strong presence in central Italy) and in the principal international financial centres. The Group offers a wide range of financial services and products to private individuals and corporations. These products and services include ordinary and specialised deposit-taking and lending (both short- and medium- to long-term), including leasing and factoring; payment services (home banking, cash management, credit or debit cards, treasury services for public entities); administration services for securities held in custody; asset management (closed-ended and open-ended mutual funds, management of customer investment portfolios and pension funds); bancassurance (traditional, index linked and unit linked policies); brokerage services; corporate finance (project finance, merchant banking, financial consulting); and tax collection services.

As of September 30, 2000, the Group was the fifth largest banking group in Italy in terms of total assets, the fourth in terms of total customer funds and assets under management, and the second largest Italian banking group in the field of bancassurance in terms of premium income. It is also the leading banking group in Tuscany and Central Italy. As of September 30, 2000, the Group had total assets of Lit. 191,333 billion, outstanding customer loans of Lit. 113,663 billion, total customer funds of Lit. 292,653 billion and, for the nine-month period then ended, consolidated net profits of Lit. 741 billion.

The Group's operating profits for the first nine months of 2000 amounted to Lit. 2,776 billion compared to Lit. 2,000 billion in the first nine months of 1999. The Group operates through a dense network of branches which are strongly rooted in their respective areas of operation, permitting the Group to develop close ties with its large retail customer base. Giving effect to the acquisition of a majority stake in Banca Agricola Mantovana S.p.A. ("BAM") and in Banca 121 (which previously operated under the name Banca del Salento), the Group has nearly 4 million individual customers. Substantially all of the Group's assets and operating profits are derived from its operations in Italy, where it plays a particularly significant role in offering financial services to private individuals and to small- and medium-sized companies.

### History

BMPS, which is believed to be the oldest bank in the world, has operated continuously since 1472, when its original charter was approved by the General Council of the Republic of Siena. The Bank, then known as "Monte di Pietà", was originally established by the Republic of Siena for the purpose of providing a controlled source of lending for the local community, principally to fight usury. In 1624, the Bank changed its name to "Monte dei Paschi di Siena" after the *paschi*, the grazing fields owned by the Grand Duchy of Tuscany, the income from which was pledged to support the Bank's capital. Following the unification of Italy, the Bank extended its activities beyond the immediate outskirts of Siena; but only after World War I did the Bank expand significantly, both geographically (with the opening of approximately 100 additional branches) and in terms of activities undertaken (with the commencement of various tax collection activities on behalf of national and regional governments). In 1936, the Bank was declared a public credit institution (*Istituto di credito di diritto pubblico*) organised under a new charter, which, although modified during this period, remained in force until 1995.

In 1995, the Bank was again reorganised according to the Amato Law. At that time the Bank was formed as a *società per azioni*, or joint stock company, which was owned by Monte dei Paschi di Siena — Istituto di Diritto Pubblico (the "Foundation"), a newly-formed non-profit entity. In accordance with the Amato Law, the Bank was given sole responsibility for all banking activities, while the objects of the Foundation were limited to pursuing projects of social importance in the areas of scientific research, education and health care.

Over the course of the Bank's history, expansions and acquisitions have contributed to the formation of the Group as it exists today. In 1929, the Bank participated in the creation of Banca Toscana S.p.A. ("Banca Toscana"), which was formed through the merger of Credito Toscano and Banca di Firenze and is now the Group's second largest bank. In the 1980s, the Group pursued an expansion program to strengthen its operations both in the wealthier regions of central and northern Italy and in the regions of southern Italy, where the banking sector was less developed. At the start of the 1990s, the Group strengthened its presence in the medium- and long-term lending sector by acquiring control of Mediocredito Toscano, which was specialised in industrial lending and

Istituto Nazionale di Credito Agrario ("INCA"), which was specialised in agricultural lending. In 1992, the Group acquired Cassa di Risparmio di Prato ("Cariprato"), thereby strengthening its presence in Tuscany.

From the beginning of the 1990s, the Group has sought to diversify its sources of income to anticipate changes in customer demand for financial services and to address the need for fee-based revenues. This policy has led to the development of mutual fund management services (which have been offered through Ducato Gestioni since 1994) and bancassurance services (which have been offered principally through Montepaschi Vita S.p.A. ("MPV"), since 1991 and Grow Life Limited, since 1999).

Recently, the Group has streamlined its operations, both within and outside Italy, to allocate better resources and improve efficiency. In particular, a number of functions that were previously carried out by subsidiaries, are now carried out directly by BMPS including mortgage lending, leasing and factoring. BMPS's information technology systems have also been combined with those of Banca Toscana and Cariprato. With regard to its international operations, the Group has sold its controlling shareholdings in MPS Australia Ltd. and Sindibank S.A., and integrated the operations of Italian International Bank Plc ("IIB") into those of the Bank's London branch.

The strategic plan adopted by the Bank's Board of Directors in 1999 included strengthening the Group's presence in established geographic areas and expanding into new territories with high economic potential. According to this plan, the Bank has acquired stakes in regional banks with strong territorial presence and an emphasis on innovative banking services. Significantly, on February 20, 1999 the Bank acquired 70% of BAM, a bank operating principally in the regions of Lombardy and Emilia with 304 branches as of December 2000, and on July 27, 2000, the Bank purchased approximately 53.25% of Banca 121. Following a public tender offer to acquire the residual outstanding shares which was completed on November 13, 2000 the Bank increased its shareholding in Banca 121 to 93.98%. Banca 121, located in the region of Puglia in southern Italy, is a retail bank focused on servicing retail customers with efficient and innovative distribution channels including, as of December 2000, 97 branches, 202 financial shops and on-line services. The acquisition of Banca 121 is also intended to broaden the range of banking services offered by the Group. Banca 121 offers banking services, including by telephone, Internet and television, to nearly 80,000 customers as of December 2000.

In 1999, the Bank also acquired minority stakes in: Banca Monte Parma S.p.A. (41%), a small bank operating in the province of Parma with 41 branches, Cassa di Risparmio di San Miniato S.p.A. (25%), a bank operating with 54 branches in Tuscany. In 1998, BMPS also acquired 20% of Banca Popolare di Spoleto, a bank with 72 branches in Umbria.

On June 25, 1999, the Bank and the Foundation completed an initial public offering of 575,728,000 ordinary shares of the Bank (representing approximately 28% of the then outstanding ordinary shares) to investors in Italy and to institutional investors in certain other jurisdictions. The Foundation currently holds 66% of the Bank's ordinary shares which are listed on the Mercato Telematico Azionario (MTA) and quoted on the Stock Exchange Automated Quotation System of the London Stock Exchange (SEAQ).

On February 1, 2001, the Bank indicated that it expected to enter into formal discussions with Banca Popolare di Vicenza Srl ("BPV") with a view toward acquiring part of BPV's 7.8% shareholding in Banca Nazionale del Lavoro S.p.A. ("BNL"). BNL, based in Rome, had approximately 683 bank branches and total assets of approximately Lit. 166.8 billion as of June 30, 2000.

## **Group Structure**

The Group's operations are divided between banking entities, which manage the Group's branch network and other distribution channels, and other subsidiaries, most of which offer specified types of services (the "Product Companies"). The Group operates an integrated structure in which the banks and the Product Companies coordinate their activities in order to optimise the ability for each bank to offer a comprehensive range of services to its customers and thereby become the "bank of choice" for its clients.

As of September 30, 2000, the Bank, Banca Toscana, BAM (as a group) and Cariprato were the Group's principal banks in Italy and, together, managed 1,586 branches throughout Italy, with a particularly strong presence in central Italy. The Bank's operations are concentrated in southern Tuscany, Lazio and Campania; Banca Toscana in northern Tuscany, Umbria, the Marches and Liguria; and Cariprato in the Prato province, the second largest province in Tuscany by population.

The Product Companies are active in the provision of product and services, which include: (i) industrial and agricultural lending, leasing and factoring (the latter services being provided solely to Banca Toscana and Cariprato — the Bank undertakes its own leasing and factoring activities) and consumer credit; (ii) asset management; (iii) bancassurance; (iv) brokerage; and (v) tax collection.

Within this structure, the banks, which function autonomously, distribute the Group's comprehensive range of products and services to their respective customers. The banks are encouraged by the Bank to develop their own development strategy tailored to their respective markets and territories of operation. Other than in a few limited cases, the Product Companies do not have their own separate distribution capability and are dedicated to the development of specialised products and services essential to the operations of the banks. These include various types of specialised lending, mutual funds and insurance policies. This operational strategy enables the Group to exploit synergies which arise from combining the specialisation of the Product Companies with the strong territorial presence and operational experience of the banks within the Group. This operational strategy is also intended to enable the Group to find opportunities to further streamline its operations in order to exploit economies of scale and achieve better operating efficiency.

At the international level, the Group operates through a network of representative offices, foreign branches and foreign subsidiaries, which principally serve the local requirements of the Group's domestic customers.

The chart below sets forth the organisational structure of the Group as at September 30, 2000 including percentage holdings, and shows the principal companies of the Group:



During the course of 1998, the Group broadened the scope of activities of its "supplies" division, by merging its operation with those of Banca Toscana's equivalent unit. The supplies division coordinates and optimises relationships with suppliers of the Bank, Banca Toscana and will shortly extend its scope to BAM, Cariprato and Banca 121. In order to improve the coordination of the Group's strategic and operational processes, the Group has established procedures in 1999 relating to strategy, coordination and control. The Strategic Coordination Committee, which meets at least twice a year, includes the President and Vice President of the Bank and the Presidents and Vice Presidents (as well as Chief Executive Officers, where applicable) of the principal subsidiaries of the Group. This Committee ensures that there is consistency between the development strategies of each subsidiary and the general objectives of the Group, which are set by the Bank, and monitors progress towards achieving those objectives. In addition, the Operations Coordination Committee (which brings together the Chief Executive Officers and Vice Chief Executive Officers of the Bank and the other banks of the Group) reviews activities undertaken in reaching the objectives of the Group. Chief Executive Officers of the Product Companies may attend the meetings of this committee which generally take place every two months.

## **Strategy**

The Group has adopted a strategy to expand its traditional activities of retail banking and strengthen its position as the "bank of choice" for private individuals and small and medium-sized companies by anticipating client needs and offering an increasing range of innovative products and services. In this respect, the Group intends to continue to pursue a policy aimed at broadening its sources of revenue to a range of income-generating activities designed to provide the Group with more stable sources of revenue. Particular emphasis is placed on asset management and bancassurance services, payment facilities, and the provision of consulting services and assistance to small and medium-sized companies. The Group will seek to increase productivity by continuing its strategy of reducing and re-allocating its operating expenses, as well as exploiting synergies inherent within the Group's organisational structure, by redirecting resources to the more productive activities of marketing and customer care. At the same time, the Group will follow a policy of selective credit allocation aimed at preserving its spreads through a careful risk versus profit analysis of its clients. In addition, the Group is seeking to expand and diversify its distribution channels in a way which will complement its branch network. These alternative distribution channels include electronic on-line banking, automated branches, financial shops and a network of financial advisers.

The Group intends to participate in the current consolidation process of the Italian banking sector and increase its territorial presence both by strengthening the Group's presence in areas where it has traditionally been present and extending its presence into new territories through acquiring, and/or entering into strategic alliances with other retail banks.

On November 14, 2000, the Bank's Board of Directors approved a new strategic plan (the "Strategic Plan") for the Group to be implemented in the period from 2001 to 2004. The key elements of the Group's Strategic Plan are described below.

The Group will focus on asset gathering and management and on the provision of financial advice and services to small and medium-sized enterprises. A new corporate structure will be established, governed by a corporate center set up within BMPS with the objective of strengthening integration within the Group and based on the following four strategic platforms.

*Commercial Banking and Related Services.* The commercial banks within the Group will be specialised into retail and corporate business units and will focus on managing and growing their customer base and developing opportunities for cross-selling. In order to enhance profitability the Bank will seek to benchmark the commercial banks' performance to the Group's best practices. In addition, commercial banking products and services will be provided through an increased range of channels in order to encourage customers to utilise more efficient delivery channels.

*Personal Financial Services.* Banca 121 and its related companies will focus on asset gathering and management and advisory services. Using multiple distribution channels and distinctive branding, Banca 121 will seek to develop its existing customer base and target new mid net-worth retail customers, as well as small business customers, providing customised financial products and advisory services. The Group intends to promote Banca 121 as the "bank of choice for households" and is currently considering whether to list the company on the Milan Stock Exchange during 2001.



*Private Banking.* The Strategic Plan provides for further growth in the Group's private banking arm, Banca Steinhauslin, which is based in Florence and operates through 10 branches in Italy. Following a proposed brand relaunch, Banca Steinhauslin plans to be increasingly integrated with the Group's existing foreign private banking subsidiaries and will focus on attracting new high net-worth customers. New investment centres will be set up in markets with potential for growth and opportunities evaluated to develop a range of private banking products in cooperation with international partners with experience in these products.

*New Initiatives.* The Group will continue to develop new initiatives with emphasis on the e-Business sector.

The Group strategy has four main objectives:

- *Achieving improved profitability*, by enhancing commercial effectiveness, cost efficiency, risk management and control. Management expects to achieve improved cost control and economies of scale through centralisation of support and service functions and by reorganising the Bank's head office. Risk control and management will be improved through centralisation of asset and liability management functions, treasury and proprietary trading activities and through establishing a dedicated loan work-out unit.
- *Achieving further increases in growth rate*, by focusing on developing Banca 121 and Banca Steinhauslin through the acquisition of new clients and on enhancing their market profile with customers. The Group will also continue to review opportunities for growth, both through acquisitions and strategic alliances, including alliances with companies active in the bancassurance market in Italy.
- *Achieving effective governance*. A Group reorganisation will be implemented in order to simplify the Group's ownership structure. The Bank will also review the scope for disposals of non-strategic businesses and for the reduction of non-core minority equity holdings. The Group's reorganisation is expected to include the specialisation of Group activities into production, distribution and service roles performed by specialised business units. Corporate governance functions and key strategic activities will be centralised in the corporate center.
- *Strengthening of human resources management*, by focusing on professional development, recruiting, staff mobility and performance appraisal. Personnel skills will be developed through targeted programs and management appointments made according to competence-based criteria. Performance-based evaluation criteria and compensation are expected to be introduced for all personnel. In addition, stock option and stock incentive plans are expected to be introduced for senior managers in key roles.

The Group's strategy and objectives reflect a number of assumptions as to macroeconomic conditions in Italy and are forward-looking in nature. The Group's ability to achieve its objectives and targets will depend upon the accuracy of the assumptions outlined above as well as other factors, certain of which are beyond the Bank's control.

## **Distribution**

### *General*

The Group's banks draw their funding and provide their services through a variety of channels, predominantly relying on their extensive networks of branches. Other distribution channels include financial shops, ATMs, online and remote banking services and a network of POS terminals, call centres and personal financial consultants.

The Group's distribution philosophy focuses on proximity to the client, which management seeks to achieve through a strong territorial presence and by continuously tailoring its market approach to cater to a range of clients. The traditional branch remains the mainstay of client contact, but electronic and telephone banking are growing rapidly in importance. Management believes that the lower overhead costs required by these non-traditional networks provide an opportunity for significant saving, while also granting clients access to a wide range of banking and financial services. In addition, with non-traditional networks performing a substantial volume of routine transactions and the distribution of lower value-added products, the overhead costs of the branch network can be reduced.

## *The Branch Network*

The Group had a network of 1,586 branches in Italy at September 30, 2000, compared to 1,534 branches at December 31, 1999, covering most of the Italian territory. It is management's goal to expand the network, including the BAM and Banca 121 branches but not including possible future acquisitions, to a total of approximately 1,900 by the end of 2002.

As of September 30, 2000, the Bank operated through 897 branches (57% of the Group's total) which are divided into 34 groups, which generally correspond to one or more Italian provinces. Each group of branches is headed by one lead branch (*capogruppo*) which centralises certain functions of the Bank's network for its area and acts as an interface between the central administration and the other branches within that group. In particular, these lead branches perform specialised marketing functions relating to asset management products and medium and long-term lending, as well as centralising the credit approval process. The other branches are classified as either *succursali* or *agenzie*, depending upon their location rather than their size. There is some concentration of the branches in central Italy and particularly in Tuscany, where the activity of the Bank and its clients have traditionally been based.

As of September 30, 2000, Banca Toscana operated through 344 branches (21% of the Group's total). These branches were located in Liguria, Tuscany, Umbria, Lazio, Marche and Abruzzi. The Banca Toscana branch network overlaps somewhat with the Bank's network in certain areas, and particularly in Tuscany. However, management believes that, besides serving partially different needs and client bases, the two banks have distinct areas of concentration, with the Bank mainly concentrating in the southern part of Tuscany, and Banca Toscana in the northern part of Tuscany. Moreover, management believes that the joint presence of the Bank and Banca Toscana in Tuscany has strengthened the Group due to the deep territorial rooting of the two banks and their respective brands, which is reflected in the large market share that each bank holds in its respective area of concentration.

As of September 30, 2000, BAM and its subsidiaries operated through 304 branches (19% of the Group's total), principally located in the regions of Lombardy, Emilia Romagna and Abruzzo.

As of September 30, 2000, Cariprato operated through 41 branches (3% of the Group's total) principally located in the provinces of Prato and Florence, an area characterised by a concentration of textile industries.

As of September 30, 2000, Banca 121 operates through an integrated multichannel distribution network that includes 103 traditional branches (97 as of December 2000), principally located in Puglia, 166 financial shops (202 as of December 2000) and over 1,000 licensed financial consultants (1,250 as of December 2000).

## **Funding**

### *General*

The Group relies on a number of sources to fund its activities. The traditional sources of funding such as checking accounts, demand and term deposits and certificates of deposits (CDs) are the Group's principal source of funding. At September 30, 2000 these funding sources accounted for 65.9% of the Group's direct funding from customers. Funding from repurchase agreements represented 11.8% of the Group's direct funding from customers. The Group also issues various securities, principally fixed and floating rate bonds placed with retail customers of the Group and in the international markets, which represented 18.8% of total direct funding at September 30, 2000. The Group's remaining funding needs were met principally through the interbank market (which represents 19.9% of total funding).

The structure of the Group's funding is driven by the Bank's position as a retail bank benefiting from a widespread base of individual customers with longstanding relationships with the Bank. As at September 30, 2000, and after giving effect to the BAM and Banca 121 acquisitions, the Group had approximately 4.2 million customers. The Group's access to this large body of private clients together with its brand recognition, gives the Group a strong competitive advantage in funding its activities through retail products, particularly in its core operating regions.

## *Bond Indebtedness*

The Bank meets its medium term funding requirements (as well as the medium term funding requirements of Mediocredito Toscano, INCA and Consum.it) by issuing a variety of debt instruments on the Italian and the international markets. At June 30, 2000, the total level of the Group's bond indebtedness (excluding Banca 121 which had total outstanding bond indebtedness of Lit. 1,061 billion at that date) was Lit. 23,702 billion. During the first half of 2000, the Bank issued debt for an aggregate of Lit. 2,342 billion (€1,210 million) which was mainly euro-denominated including a fixed rate, zero coupon and floating rate bonds.

The Bank has been devoting increasing attention to the international markets as a source of funding in recent years. The Bank has established three international debt programmes. A new funding programme established on February 4, 2000 (the "Debt Issuance Programme") replaced the \$5,000,000,000 continuously offered Euro Depositary Receipt Programme (the "Depositary Receipts Programme"). The second programme is a short term Euro Certificate of Deposit Program which can be issued in different denominations by the London branch up to the equivalent of \$2 billion. The third programme is the Commercial Paper Program under securities which are issued by MPS Commercial Paper Corp. (Delaware) up to \$1 billion and are placed by the Bank's New York branch. As of September 30, 2000, approximately \$58,678,149 had been issued under this programme.

The Bank also places its bonds to its retail customers through its domestic branch network as a relatively cost effective means of funding as compared to offerings to institutional investors.

In March 1999, the Bank issued lower Tier 2 subordinated debt for €375 million (with warrants for an additional €125 million) bearing interest at a fixed rate of 5% per annum and with a ten year maturity. On August 12, 1999, the Bank issued \$250,000,000 Floating Rate Notes due 2004. On August 27, 1999, the Bank issued €42,915,000 5% Subordinated Depositary Receipts due 2009 pursuant to the exercise of 128,745 outstanding warrants. The depositary receipts form a single series with the €375,000,000 5% Subordinated Depositary Receipts due 2009 issued by the Bank on March 12, 1999 pursuant to the Depositary Receipts Programme. On September 1, 1999 and September 15, 1999, the Bank issued €700,000,000 Senior Floating Rate Depositary Receipts due 2000 and €300,000,000 Senior Floating Rate Depositary Receipts due 2000, respectively, under the Depositary Receipt Programme, with the aim of providing short-term funding to cover any lack of liquidity up to the end of 1999. On September 30, 1999 the Bank issued €210,000,000 Subordinated Bonds due 2006 outside of the Depositary Receipts Programme (as a private placement in Italy). On November 29, 1999, the Bank issued a further €200,000,000 Senior Floating Rate Depositary Receipts due 2002 under the Depositary Receipt Programme.

The Bank's funding in international markets during 2000 has been primarily through the Debt Issuance Programme. In May 2000 the Bank issued €400,000,000 Senior Notes due 2007. In September 2000 the Bank issued €500,000,000 Senior Notes due 2003. Also in September 2000, the Bank made five equity-linked Senior Notes issuances, in an aggregate amount of Lit. 750 billion, to match the requests of its insurance subsidiary (MPV). On October 17, 2000 the Bank issued a further €500,000,000 Senior Floating Rate Notes due 2002. In July 2000, the Bank completed two separate privately placed lower Tier 2 Subordinated Notes, both due 2015, for a total aggregate amount €55,000,000. Also in July 2000 the Bank made two further private placements of Senior Notes for a nominal amount of €15,000,000 and €20,000,000 with a maturity of ten and fifteen years, respectively. On November 22, 2000, the Bank made a further private placement of €100,000,000 Senior Floating Rate Notes.

At June 30, 2000, the Bank, Banca Toscana, BAM (as a group) and Cariprato had bonds outstanding of approximately Lit. 14,847.9 billion, Lit. 4,382.9 billion, Lit. 3,520.3 billion and Lit. 449.5 billion, respectively.

## **Information Technology**

In recent years the Group has implemented a reorganisation of its information technology (IT) operations directed at promoting more uniformity of IT systems and structures within the Group. As part of this restructuring, a consortium was created to manage the Group's IT systems and serve the need of the various functions within the Bank, Banca Toscana and Cariprato.

The initial process for the banking subsidiaries of the Group was substantially completed in October 1998 with the introduction of a single IT system (Sistema Informativo Unificato, or SIU) for the Bank, Banca Toscana and Cariprato.

The consortium is currently engaged in several development projects principally for the areas of risk management, trading back office procedures, credit rating and scoring, customer service center, new products catalogue, payment and settlement procedures, and software enhancement for the international branches.

The Group does not have a separate hardware system for immediate recovery procedures; however, the Group has two distinct hardware systems (one located at the Bank and the other in Florence, serving Banca Toscana and Cariprato) operating with the same IT system. The Group also maintains back-up files of its data. Management believes that, should severe disruptions occur on one hardware system, services can be restored, although on a limited basis, by operating the second hardware system.

## Competition

The Group faces significant competition from a large number of banks throughout Italy and abroad. According to the ABI, more than 900 banks were operating in Italy at the end of 1999. The implementation of the EU Directives, the Amato Law and the Dini Directive (see "*The Banking Sector in Italy*") have led to a privatisation and consolidation process in the Italian banking system and are expected to lead to the creation of larger, more publicly accountable and more competitive banking institutions. The deregulation of the banking industry in Italy, and throughout the European Union, is intensifying competition in both deposit-taking and lending activities, which has contributed to a progressive narrowing of spreads between deposit and loan rates. In attracting retail deposits and financing retail customers, the Bank primarily competes at the local level with medium-sized local banks, and to a lesser extent, with super-regional banks. The Bank's major competitors in other areas of the Italian banking market are Italian national and super-regional banks, such as San Paolo IMI, Banca Intesa, UniCredito Italiano, Banca Commerciale Italiana, Banca Nazionale del Lavoro and Banca di Roma. The leasing and factoring markets in Italy are also maturing, leading to increased competition in those areas.

Foreign banking institutions operating in Italy, that may also have greater financial and other resources than the Group, are growing in number and are regarded as increasingly more effective competitors, mainly in corporate banking and sophisticated services related to asset management, securities dealing and brokerage activities and, increasingly, in mortgage lending. In addition, as with all European banks, the adoption of the European Monetary Union (EMU) has increased competition from non-Italian banks and eliminated or significantly changed certain markets in which the Group has historically held a comparative advantage, principally Lire-denominated markets.

## Legal Proceedings

The Group is subject to a variety of claims and the Bank and its subsidiaries are party to a large number of legal proceedings arising in the ordinary course of business. Although the outcome of such claims is inherently uncertain and several actions claim relatively large sums as damages, management does not believe that liabilities related to such claims are likely to have a material adverse effect on the Group's consolidated financial position or results of operations. In addition, the Group and its directors are parties to the significant claims and legal proceedings described below:

- In April 1999, the Bank of Italy, which also functions as the antitrust authority for the Italian banking industry, commenced an enquiry alleging that 13 major Italian banks (including the Bank) have been involved, from 1997 to 1999, in regular meetings and general exchange of information on commercial terms and conditions and on commercial strategies that may violate Italian antitrust regulation. On January 19, 2000 the Bank of Italy notified the 13 Italian banks of an antitrust fine of Lit. 33,260,965,690, of which Lit. 1,508,927,634 was imposed on the Bank (such fine to be paid within 90 days from the notification). Notwithstanding the possibility to appeal to the TAR (*Tribunale Amministrativo Regionale*) of Lazio within sixty days of such notification, the Bank decided, in an approach consistent with the position of the other banks involved, to end the proceedings and to pay the fine.
- Following an inspection, the Ministry of the Treasury claimed that the Bank, in connection with the context of the treasury services it performs for the *Istituto Postelegrafonici*, had agreed to accept in deposit from the *Istituto Postelegrafonici* sums larger than allowed by Art. 40 of Decree no. 119 dated March 30, 1991. The Treasury consequently imposed a fine of Lit. 95 billion. The Group has commenced a proceeding challenging this claim before the Administrative Tribunal of Lazio. Management believes that the Group's case is well founded but, in light of the complexity of the matter, the outcome of the case cannot be predicted.

- In July 1997, Sante Dalle Carbonare, principal shareholder of Trevitex S.p.A., together with other interested parties including members of his family, sued a syndicate of 24 banks including the Bank claiming Lit. 1,220 billion in damages in connection with the restructuring of the debt of Trevitex S.p.A., in which those banks participated. On April 16, 2000 the Court of Vicenza excluded certain members of the Dalle Carbonare family from the proceedings and consequently reduced Sante Dalle Carbonare's claim for damages. In addition, the plaintiffs, including those excluded from the proceedings, have been ordered by the Court to pay Lit. 39 billion towards the legal costs of the banks. On December 1, 2000, following the merger of two of the defendant banks in the syndicate, the Court of Vicenza suspended the proceedings against all the syndicate banks. The plaintiffs have six months from the date proceedings were suspended to recommence their action against the syndicate banks. Management believes the plaintiffs' claims are without merit, that the risk of loss on the merits is low and adequately covered by the Bank's provision for future losses. In 1997 the trustee in bankruptcy of Trevitex S.p.A. also sued the Bank and another seven banks, which were the lead lenders in the syndicate, claiming that these were liable for Lit. 700 billion of damages to the non-banking creditors. Following negotiations between the banks involved in the proceedings and the trustee in bankruptcy, the Bank expects the dispute will be settled by a payment from the Bank to the trustee in bankruptcy of a sum between 5 and 10 billion lire.
- Effective December 30, 1996, Serit terminated its tax collection activities in Sicily in a further attempt to resolve the dispute over the sums owed by the region. The termination was only carried on for a few days. Serit had given six months advance formal notice of the termination and had made available to the region all personnel and structures necessary to continue tax collection on the territory. Subsequently, the District Attorney of Palermo commenced a criminal proceeding against the then directors of Serit and the Bank (including one current director of the Bank) for the crime of interruption of public service. Management believes that the claims are without merit and that, regardless of the outcome, the litigation could not have a material adverse effect on the Group.
- In June 1999 a shareholder of BAM filed a suit challenging the validity of the BAM shareholders' meeting resolution of February 20, 1999 concerning the transformation of BAM into a joint stock company. Management believes that the claim is without merit and that the risk of loss on the merits is low.
- In 1997 the Public Prosecutor at the Tribunal of Siena commenced criminal proceedings for breach of Article 2621 of the Civil code and Article 4, clause f) of Law no. 516/1982. The proceedings are being taken against the members of the board of directors and the Board of Auditors of BMPS who held office from 1992 to 1995 (including two current directors of the Bank and the current Chairman of the Board of Auditors of one of the Bank's affiliated companies, as well as against some other officers of the Bank). The Public Prosecutor claims that the audited financial statements of BMPS for the years 1992 to 1995 incorrectly recorded a security in favour of Cariprato for Lit. 430 billion which the Bank had assumed from the Interbanking Fund for the Safeguard of Deposits (*Fondo Interbancario per la Tutela dei Depositi*) in connection with the acquisition of Cariprato by the Bank in 1992.

Following his initial investigations, the Public Prosecutor has submitted a request for the dismissal of the proceedings to the preliminary investigations magistrate (*Giudice per le Indagini*). In response, the preliminary investigations magistrate has ordered that the Public Prosecutor should carry out further investigations. The Prosecutor has requested assistance from expert witnesses and is currently gathering evidence in the pre-trial stage of the proceedings. Management believes that, regardless of the outcome of any trial, these proceedings will not have a material adverse effect on the Bank.

- The Italian Banking Association and several major Italian Banks, including the Bank, are involved in pending litigation challenging regulations governing subsidised residential mortgages. On May 13, 1999, the Italian Government approved Law no. 133/99 concerning subsidised residential mortgage loans (*mutui agevolati*). The law, implemented by Treasury Decree no. 110 on March 24, 2000, with retroactive effect to July 1999, allows for either the borrower or the entity subsidising the loan to renegotiate the originally agreed fixed interest rate with the lending bank. Thus far, no such loans have been renegotiated, therefore, the Bank still applies the originally agreed interest rate.

If the Bank and the other litigants do not succeed in their challenge to this regulation, they could be required to renegotiate the relevant subsidised residential loans and such renegotiations could adversely impact the Bank's expected future interest income. However, due to the maturity structure of the Bank's portfolio of subsidised mortgage loans, the possible losses would decrease continually in future years.

Due to the retroactive effect of the new regulation, the Bank might have to pay back a part of interest payments it has already received, i.e., the difference between the originally agreed interest rate and the reduced renegotiated interest rate. To cover such possible repayments, the Bank plans to make appropriate provisions in an amount still to be determined by the Bank's board of directors.

For further important information regarding legal proceedings to which the Bank is not a party but which may have a significant impact on the Bank and the Italian banking sector generally, see *"The Banking Sector in Italy – Italian Banking Regulation – Recent Developments."*

## **Employees**

The Group had average employees in 1996, 1997, 1998, 1999 and the first six months of 2000 of 22,524; 22,188; 21,507; 25,141 (25,685 including BAM) and 26,235 (including BAM but excluding Banca 121), respectively. During those periods, the Bank had 14,167; 13,905; 13,624; 13,522 and 13,629 average employees, accounting for 62.9%, 62.7%, 63.3%, 53.8%, 52.5% and 51.9% of the Group's employees respectively.

Management believes that its relations with its employees are satisfactory. The level of unionisation of the Group's employees is higher than the average in Italian banks, although management believes that this does not negatively impact labour relations in the Group. In the last three years there have not been work stoppages with any significant effect on the activities of the Group.

## SUMMARY FINANCIAL INFORMATION OF THE GROUP

*The Consolidated Financial Statements and the Interim Financial Statements of the Group are incorporated by reference into this Offering Circular. Copies of the 1999 and 1998 Annual Reports (including the Consolidated Financial Statements) and the Interim Financial Statements are available on request from the Bank and free of charge at the office of the Paying Agent in Luxembourg.*

### Summary Historical Financial Information

The following tables set forth summary financial data and statistical information for the Group as of and for each year in the three-year period ended December 31, 1999, 1998 and 1997 and each of the six month periods ended June 30, 2000 and June 30, 1999. The financial information and certain of the statistical information as of the end of and for each year in the three-year period ended December 31, 1999, 1998 and 1997 has been derived from the audited Consolidated Financial Statements, which have been prepared in accordance with Italian GAAP. The six-month financial information and certain of the related statistical information have been derived from the unaudited consolidated Interim Financial Statements of the Group which, in the opinion of the management of the Bank, contain all adjustments and accruals that are necessary for a fair presentation of the interim financial information.

	As of and for the six months ended June 30,			As of and for the years ended December 31,			
	2000 <i>euro</i> (1)	2000 <i>lire</i> (2)	1999 <i>lire</i> (2)	1999 <i>euro</i> (1)	1999 <i>lire</i> (2)	1998 <i>lire</i> (2)	1997 <i>lire</i> (2)
<b>Income Statement Data:</b>							
Interest income .....	2,357.1	4,564	4,383	4,445.1	8,607	9,323	10,492
Interest expenses .....	(1,385.1)	(2,682)	(2, 429)	(2,489.3)	(4,820)	(5,992)	(6,996)
Net interest income: .....	972.0	1,882	1,954	1,955.8	3,787	3,331	3,496
Income from financial transactions .....	131.7	255	257	54.2	105	594	484
Net commissions and other income .....	1,056.2	2,045	1,597	1,809.7	3,504	2,473	1,849
Dividends and tax credits.....	95.5	185	186	79.0	153	183	52
Non-interest income.....	1,283.4	2,485	2,040	1,942.9	3,762	3,250	2,385
Total net interest income and non-interest income .....	2,255.4	4,367	3,994	3,898.7	7,549	6,581	5,881
General and administrative expenses.....	(1,225.6)	(2,373)	(2,263)	(2,366.4)	(4,582)	(3,870)	(3,987)
Gross operating profit .....	1,029.8	1,994	1,731	1,532.3	2,967	2,711	1,894
Depreciation and amortisation .....	(116.7)	(226)	(213)	(267.5)	(518)	(325)	(311)
Provisions for risks and contingencies .....	(91.9)	(178)	(70)	(111.6)	(216)	(146)	(72)
Net adjustments to loans .....	(122.4)	(237)	(356)	(370.3)	(717)	(722)	(506)
Provisions for loan risk .....	(11.4)	(22)	(18)	(22.2)	(43)	(25)	(41)
Net adjustments to securities and investments in associated companies.....	7.2	14	(60)	(16.0)	(31)	(17)	(24)
Income before extraordinary items, provision for general banking risks and income taxes .....	694.6	1,345	1,014	744.7	1,442	1,476	940
Extraordinary items.....	20.7	40	94	402.3	779	341	248
Provision for general banking risks .....	(12.9)	(25)	27	(157.0)	(304)	(5)	(40)
Income taxes .....	(364.1)	(705)	(635)	(479.8)	(929)	(941)	(607)
Net income before minority interest.....	338.3	655	500	510.2	988	871	541
Minority interest.....	(55.3)	(107)	(44)	(60.4)	(117)	(78)	(59)
Net income .....	283.0	548	456	449.8	871	793	482

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(2) Presented in billions of lire, except for statistical ratios and per share data.

	As of and for the six months ended June 30,			As of and for the years ended December 31,			
	2000 <i>euro(1)</i>	2000 <i>lire(2)</i>	1999 <i>lire(2)</i>	1999 <i>euro(1)</i>	1999 <i>lire(2)</i>	1998 <i>lire(2)</i>	1997 <i>lire(2)</i>
<b>Balance Sheet Data:</b>							
<b>Assets</b>							
Cash and deposits with central banks and post offices .....	292.8	567	568	382.7	741	535	540
Total loans and advances: .....	72,855.1	141,067	121,596	66,548.1	128,855	106,242	106,788
Loans and advances to banks .....	16,841.1	32,609	27,710	14,235.1	27,563	27,676	32,174
Loans and advances to customers .....	56,014.0	108,458	93,886	52,313.0	101,292	78,566	74,614
Securities: .....	13,385.5	25,918	32,934	16,818.4	32,565	31,987	27,868
Trading securities .....	7,283.1	14,102	22,592	10,817.7	20,946	23,513	16,088
Investment securities .....	6,102.5	11,816	10,342	6,000.7	11,619	8,474	11,780
Investments in associated companies .....	1,050.5	2,034	1,886	936.3	1,813	1,579	1,646
Fixed assets, net .....	2,487.8	4,817	4,398	2,378.1	4,605	2,698	2,712
Other assets .....	8,267.4	16,008	15,103	10,257.9	19,862	15,159	15,075
Total assets .....	98,339.1	190,411	176,485	97,321.7	188,441	158,200	154,629
<b>Liabilities and Shareholders' Equity</b>							
Funding: .....	81,357.0	157,529	144,872	80,831.7	156,512	132,703	130,685
Deposits from banks .....	16,203.8	31,375	35,025	18,749.5	36,304	38,190	37,259
Customers accounts .....	42,732.2	82,741	70,244	39,616.9	76,709	59,158	56,511
Securities issued .....	22,421.0	43,413	39,603	22,465.3	43,499	35,355	36,915
Provision for termination indemnities .....	442.1	856	985	421.9	817	1,056	1,065
Other liabilities .....	8,085.1	15,655	16,658	8,028.8	15,546	12,423	11,973
Provision for risks and charges .....	1,782.8	3,452	2,820	1,700.7	3,293	2,823	2,832
Subordinated loans .....	1,382.0	2,676	1,804	1,144.0	2,215	930	560
Net equity attributable to minority interest .....	751.4	1,455	1,494	768.0	1,487	723	668
Shareholders' equity: .....	4,538.7	8,788	7,852	4,426.6	8,571	7,542	6,846
Share capital .....	1,115.6	2,160	2,160	1,115.5	2,160	2,008	2,008
Reserves .....	3,140.1	6,080	5,236	2,861.2	5,540	4,741	4,356
Net income for the period .....	283.0	548	-456	449.8	871	793	482
Total liabilities and shareholders' equity ....	98,339.1	190,411	176,485	97,321.7	188,441	158,200	154,629
<b>Selected Off-Balance Sheet Data:</b>							
Guarantees .....	6,540.4	12,779	11,973	6,141.7	11,892	8,963	8,397
Commitments .....	16,702.2	32,340	33,466	16,505.4	31,959	33,044	26,195
<b>Assets under management:</b>							
Mutual funds .....	15,850.1	30,690	29,322	15,820.1	30,632	16,763	7,506
Customer investment portfolio management .....	14,910.6	28,871	29,421	15,151.3	29,337	21,117	8,871
Life insurance .....	6,940.1	13,438	8,517	5,788.4	11,208	6,770	4,456
Pension funds .....	43.4	84.0	90	27.9	54	15	-

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(2) Presented in billions of lire, except for statistical ratios and per share data.



	As of and for the six months ended June 30,		As of and for the years ended December 31,		
	2000	1999	1999	1998	1997
<b>Balance Sheet Account Ratios</b>					
Loans and advances to customers/ total assets .....	56.96	53.20	53.75	49.66	48.25
Securities/total assets .....	13.61	18.66	17.28	20.22	18.02
Fixed assets/total assets .....	2.53	1.07	2.44	1.00	1.06
Due to customers and debts represented by securities/total liabilities and shareholders' equity .....	66.25	62.24	63.79	59.74	60.42
Shareholders' equity/total liabilities and shareholders' equity .....	4.62	4.45	4.55	4.77	4.43
<b>Profitability Ratios</b>					
Net interest income/total assets .....	0.99	1.11	2.01	2.11	2.26
Net interest income and non-interest income/total assets .....	2.29	2.26	4.01	4.16	3.80
Non-interest income/Net interest income and non-interest income .....	56.90	51.06	49.84	49.38	40.60
General and administrative expenses/ Net interest income and non-interest income .....	54.34	56.66	60.70	58.81	67.79
Gross operating profit/total assets .....	1.05	0.98	1.57	1.71	1.22
Net income/total assets .....	0.29	0.26	0.46	0.50	0.31
Net income/shareholders' equity .....	6.24	12.33	12.67	11.74	7.57
<b>Risk Indicators</b>					
Net overdue loans/loans and advances to customers .....	2.95	3.59	3.22	3.71	4.51
Net doubtful loans(1)/loans and advances to customers .....	4.86	6.47	5.52	6.97	8.09
<b>Productivity Indicators</b>					
Due to customers and debts represented by securities/average number of employees(2) .....	4.89	4.37	4.68	4.39	4.21
Loans and advances to customers/ average number of employees (2) .....	4.20	3.73	3.94	3.65	3.36
Capital (Tier 1) ratios(3) .....	6.44	6.36	6.68	8.14	8.81

(1) Doubtful loans include overdue loans, non-performing loans and loans to high-risk countries.

(2) Based on number of employees as of December 31, 1999.

(3) Risk weighted capital ratios for 1998 are not comparable to those for 1997, as risk weighted assets in 1998 have been calculated to adjust for market risk as now required by applicable regulations while they were not adjusted for market risk in 1997.

## Recent Developments

On November 11, 2000, the board of directors of BMPS approved the quarterly report on consolidated operations as contemplated by CONSOB and announced certain results of the Group as of and for the first nine months of 2000, including the reclassified consolidated income statement provided below. The nine-month financial information has been derived from the Quarterly Reports on Consolidated Operations (Unaudited) of the Group which, in the opinion of the management of the Bank, contain all adjustments and accruals that are necessary for a fair presentation of the interim financial information.

### Reclassified Consolidated Income Statement

	As of September 30,			
	2000 <i>euro(1)</i>	2000 <i>lire(2)</i>	1999 <i>euro(1)</i>	1999 <i>lire(2)</i>
<b>Net Interest Income</b> .....	1,517	2,937	1,478	2,862
Profit (loss) from financial transactions .....	125	241	34	65
Net commissions and other operating income .....	1,440	2,789	1,182	2,288
Dividends and tax credit on dividends .....	197	382	136	264
<b>Non Interest Income</b> .....	1,762	3,412	1,352	2,617
<b>Total Income</b> .....	3,279	6,349	2,830	5,479
– personnel expenses .....	(1,168)	(2,262)	(1,150)	(2,226)
– other administrative expenses .....	(677)	(1,310)	(648)	(1,254)
<b>Total Operating Costs</b> .....	(1,845)	(3,572)	(1,798)	(3,480)
<b>Gross Operating Income</b> .....	1,434	2,777	1,032	1,999
Adjustments to the value of tangible and intangible fixed assets .....	(189)	(366)	(172)	(333)
Provisions for risks and charges .....	(128)	(248)	(20)	(38)
Net write downs of loans and provisions for guarantees and commitments .....	(152)	(295)	(228)	(442)
Net adjustments to the value of financial fixed assets ....	6	12	(19)	(37)
Profit (loss) on investments valued with the net equity method .....	18	35	12	23
Net extraordinary income .....	(33)	(64)	28	54
Change in reserve for general banking risks .....	(5)	(10)	0	0
Income taxes .....	(494)	(957)	(342)	(662)
<b>Total Net Income</b> .....	457	884	291	564
Minorities .....	(74)	(143)	(25)	(48)
<b>Net income</b> .....	383	741	266	516

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- (2) Presented in billions of lire, except for statistical ratios and per share data.

**Reclassified Consolidated Balance Sheet**
**As of and for the nine-months  
ended September 30,**

	<b>2000</b> <i>euro(1)</i>	<b>2000</b> <i>lire(2)</i>	<b>1999</b> <i>euro(1)</i>	<b>1999</b> <i>lire(2)</i>
<b>Assets</b>				
Cash on hand and deposits with central bank and post office .....	298	577	271	525
<b>Loans and advances:</b>				
a) to customers.....	58,702	113,663	50,646	98,065
b) to banks .....	14,336	27,759	14,151	27,400
<b>Dealing securities</b> .....	7,799	15,102	12,418	24,044
<b>Fixed assets</b>				
a) investment securities .....	5,040	9,759	5,453	10,559
b) holdings .....	1,452	2,811	952	1,843
c) tangible and intangible .....	1,761	3,409	1,514	2,932
<b>Good will and differences from equity method</b> .....	837	1,620	891	1,725
<b>Own shares</b> .....	19	37	40	78
<b>Other assets</b> .....	8,571	16,595	6,976	13,508
<b>Total assets</b> .....	98,815	191,332	93,313	180,679
<b>Liabilities</b>				
<b>Deposits:</b>				
a) due to customers and securities issued .....	64,082	124,081	58,912	114,069
b) due to banks .....	18,597	36,009	18,820	36,441
<b>Specific reserves for:</b> .....				
a) pensions and similar obligations .....	452	875	488	945
b) termination indemnities.....	396	766	320	620
c) risks and charges .....	547	1,059	360	697
d) taxation .....	688	1,332	570	1,103
<b>Other liabilities</b> .....	6,865	13,292	7,561	14,641
<b>Reserve for loan losses</b> .....	272	526	259	502
<b>Subordinated liabilities</b> .....	1,413	2,737	1,148	2,222
<b>Minority interests</b> .....	785	1,520	765	1,482
<b>Shareholder's equity:</b>				
a) share capital.....	1,188	2,301	1,116	2,160
b) share premium.....	484	937	505	978
c) reserve for general banking risks .....	463	896	295	571
d) negative consolidation differences .....	379	734	380	735
e) reserves .....	1,821	3,526	1,548	2,997
f) net income for period.....	383	741	266	516
<b>Total liabilities</b> .....	98,815	191,332	93,313	180,679

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## MANAGEMENT OF THE BANK

The management of the Bank is divided among three governing bodies: the board of directors, the Executive Committee, which acts under the delegated authority of the Board of Directors, and the Chief Executive Officer, who manages the day-to-day operations of the Bank. The Board of Directors consists of eleven members. The Executive Committee is appointed for a period of one year by the Board of Directors pursuant to the by-laws of the Bank. The Chief Executive Officer is also appointed by the Board of Directors but is not a member of the Board of Directors. Under the Italian Civil Code, the Bank is required to have a board of statutory auditors.

### Board of Directors

Pursuant to banking regulations and the by-laws of the Bank, the selection of the Directors of the Bank must be approved by the Bank of Italy.

The Board of Directors of the Bank is composed of the following persons:

<i>Name</i>	<i>Year of Birth</i>	<i>Position</i>	<i>Year Appointed</i>
Pier Luigi Fabrizio	1948	Chairman	2000
Mauro Faneschi	1940	Deputy Chairman	2000
Antonio Silvano Andriani	1933	Director	2000
Stefano Bellaveglia	1958	Director	2000
Francesco Saverio Carpinelli	1948	Director	2000
Giuseppe Catturi	1942	Director	2000
Divo Gronchi	1939	Director	2000
Carlo Querci	1928	Director	2000
Antonio Sclavi	1940	Director	2000
Giovanni Semeraro	1937	Director	2000
Alessandro Vercelli	1945	Director	2000

The directors currently in office have all been confirmed by the annual general shareholders' meeting held on April 20, 2000; the general shareholders' meeting of June 7, 2000 elected Mr. Divo Gronchi and Mr. Giovanni Semeraro, increasing the number of the directors to eleven. The present board of directors will remain in charge for the years 2000, 2001 and 2002. The Foundation continues to hold shares of capital stock sufficient to elect the Board of Directors of the Bank. On April 8, 1999, the Foundation resolved to allow minority shareholders to propose for nomination to the Board of Directors of the Bank two out of the twelve directors which is the maximum number of directors that, according to the Charter, can be elected by the board of directors. In this respect, the election of Mr. Giovanni Semeraro reflected the preferences of the minority shareholders of the Bank. However, the Foundation will retain the ability to select the nominees from among those proposed by any of the other shareholders.

The limit on the number of Bank Ordinary Shares that may be voted directly or indirectly by a single shareholder or group of affiliated shareholders may limit the ability of such single shareholder or group acting alone to elect directors. Shareholders' meetings may be called by the board of directors and generally must be called upon request of holders of at least 10% of the ordinary shares in issue.

Directors hold office for a period of three years and are elected by a majority of the voting shareholders who also nominate the Chairman and Deputy Chairman from among the elected board of directors. Directors may be re-elected for consecutive terms and their office may be revoked at any time by the voting shareholders in general meeting.

The board of directors meets regularly, usually 30 to 40 times a year, and must do so any time the Chairman is requested to convene a meeting by at least three members of the board of directors or the Board of Statutory Auditors. Meetings may be held in person or through video-conference. The quorum for meetings of the board is a majority of the directors in office. Resolutions are adopted by the vote of a majority of Directors in office.

### Executive Committee

The Executive Committee consists of the Chairman, the Deputy Chairman and three other directors elected annually by the board of directors. Executive Committee meetings are convened by the Chairman at two-weekly

intervals. The Executive Committee exercises the powers that are delegated to it by the board of directors and, in the case of emergency, may adopt resolutions concerning any transaction or operation within the power of the board of directors, other than transactions or operations expressly reserved for consideration by the full board of directors and must inform the board of directors of such resolutions at its next meeting.

The Executive Committee of the Bank is composed of the following persons:

<i>Name</i>	<i>Position</i>
Pier Luigi Fabrizi	Chairman
Mauro Faneschi	Deputy Chairman
Carlo Querci	Director
Antonio Sclavi	Director
Alessandro Vercelli	Director

### **Chief Executive Officer**

Pursuant to banking regulations and the by-laws of the Bank, the selection of the Chief Executive Officer (*Direttore Generale*) of the Bank must be approved by the Bank of Italy.

The current Chief Executive Officer is Vincenzo Figarola De Bustis who was appointed on May 25, 2000.

The Chief Executive Officer is appointed by the board of directors which may also remove or suspend the Managing Director from his office. He attends the meeting of the board of directors but has no right to vote on resolutions passed at such meetings.

The Chief Executive Officer undertakes all operations and acts which are not expressly reserved for the board of directors or the Executive Committee. He oversees and is responsible for the overall administration and structure of the Bank and implements resolutions of the board of directors. He participates in meetings of the board of directors and proposes matters to the board of directors for approval, including matters relating to loans, the coordination of activities of the Group, and the recruitment of officers and employees.

### **Senior Management**

The table below sets forth the names of the current senior management of the Bank, together with their positions.

<i>Name</i>	<i>Position</i>
Vicenzo Figarola De Bustis	Chief Executive Officer
Pier Giorgio Primavera	Deputy Chief Executive Officer
Antonio Vigni	Vice Chief Executive Officer
Antonio Acampa	Head of Lending
Graziano Barnini	Head of Group Internal Audit
Alberto Cavalieri	Head of Human Resources and Head of Organisation
Francesco di Bello	Head of Equity Investments
Mauro Gennari	Head of Planning and Control
Roberto Martinelli	Head of Legal Department
Marco Mazzucchelli	Head of Finance and International Operations
Angelo Musco	Head of Tax Collection Activities
Giorgio Olivato	Head of Marketing and Communications

### **Board of Statutory Auditors**

The Bank, like all Italian joint-stock companies, is required to have a board of statutory auditors, who have a duty to shareholders, to whom they report, to the Bank and to the Bank's creditors. The Board of Statutory Auditors will be required to verify that the Bank (i) complies with applicable law and its by-laws, (ii) respects the principles of correct administration, (iii) maintains adequate organizational structure, internal controls and administrative and accounting systems and (iv) adequately instructs its subsidiaries to transmit to the Bank information relevant to the disclosure obligations of the Bank. The members of the Board of Statutory Auditors

are required to meet at least once each quarter and may be present at meetings of the Board of Directors and shareholders' meetings and of the Executive Committee. The Board of Statutory Auditors of the Bank is composed of three standing members and two alternate members. Statutory Auditors are appointed by the shareholders at a general meeting for a three year term and may be re-elected for consecutive terms. The general meeting of shareholders also sets their remuneration for their entire term.

The Board of Statutory Auditors of the Bank, who will remain in office until the shareholders' meetings approving the financial statements for the 1999 fiscal year, is as follows:

<i>Name</i>	<i>Year of Birth</i>	<i>Title</i>
Giuseppe Vittimberga	1932	President
Pietro Fabretti	1943	Auditor
Luciana Granai De Robertis	1945	Auditor
Duccio Neri	1964	Alternate Auditor
Angiola Lippi	1934	Alternate Auditor

### **External Auditors**

Companies the shares of which are listed on Telematico are required to appoint a firm of external auditors that are to verify (i) that during the fiscal year, the company's accounting records are correctly kept and accurately reflect the company's activities, and (ii) that the financial statements correspond to the accounting records and the verifications conducted by the external auditors and comply with applicable rules. The external auditors express their opinions on the financial statements in a report that may be consulted by the shareholders prior to the annual shareholders' meeting.

The external auditors are appointed by the ordinary shareholders' meeting for a three-year term and may be re-appointed for up to three consecutive terms.

On May 13, 1999, KPMG S.p.A. was re-appointed as the Bank's external auditors for a three-year period.

## DESCRIPTION OF THE GUARANTEE

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

### General

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

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

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

Under the Guarantee, the Bank will agree that it will contribute (or cause to be contributed) to the Guarantee Trustee on behalf of the Company and will ensure payment to the holders of the Company Preferred Securities, without duplication, such additional funds as are necessary (after payment of all Company expenses and taxes) (i) to pay any accrued but unpaid dividend whether declared or deemed declared on any Dividend Payment Date, (ii) to pay the Redemption Price on the Company Preferred Securities on the redemption date specified in a properly given notice of redemption, (iii) to pay upon the dissolution of the Company the Liquidation Claim Amount (as described below) and (iv) to pay Additional Amounts (required to be paid as discussed under “*Description of the Company Preferred Securities – Dividends – Additional Amounts*”), if any, on any of the foregoing.

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

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

### Claim in Liquidation of the Bank

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

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

## **Additional Amounts**

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

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

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

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

## **Enforcement and Third Party Beneficiaries**

The Guarantee will be enforced by the Company at the direction of a majority of the Independent Directors (or of the Independent Director if there is only one Independent Director). Notwithstanding the foregoing, holders of the Company Preferred Securities (and the Trust Preferred Securities corresponding to such Company Preferred Securities) will be third party beneficiaries of the Guarantee, having the right, to directly institute a proceeding in such holder's own name to enforce the Guarantee against the Bank, or against the Company to compel enforcement of the Guarantee.

## **Covenants of the Bank**

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



**Governing Law**

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

## DESCRIPTION OF THE TRUST PREFERRED SECURITIES

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

### General

The Trust Preferred Securities will be issued by the Trust pursuant to the Trust Agreement. The aggregate liquidation preference of the Trust Preferred Securities will be €350,000,000. Each Trust Preferred Security will represent a Corresponding Amount of the Company Preferred Securities. The Trust will be a statutory business trust created under the Delaware Business Trust Act. The Trust will hold the Company Preferred Securities deposited in the Trust for the benefit of the holders of the Trust Preferred Securities. The Trust Agreement provides that, to the fullest extent permitted by law, without the need for any other action of any person, including the Property and Delaware Trustees or the Independent Directors and any other holder of Trust Preferred Securities, each holder of Trust Preferred Securities shall be entitled to enforce in the name of the Trust the Trust's rights under the Corresponding Amount of Company Preferred Securities represented by the Trust Preferred Securities held by such holder. Trust Preferred Securities may be exchanged for the underlying Company Preferred Securities at the option of holders as described under *"– Withdrawal of Company Preferred Securities."* The funds of the Trust available for distribution to the holders of the Trust Preferred Securities will be limited solely to payments received by the Trust from the Company as dividends or distributions on, or redemption of, the Company Preferred Securities, including amounts paid by the Bank under the Guarantee, if any, which payments will be passed through upon receipt by the Trust to the holders of the Trust Preferred Securities. Consequently, if the Company does not pay any dividend or redemption payment on the Company Preferred Securities, including any amounts paid by the Bank under the Guarantee, the Trust will not have sufficient funds to make the related distribution or redemption payment on the Trust Preferred Securities.

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

### Distributions

Dividends on the Company Preferred Securities will be passed through by the Trust as distributions on the Trust Preferred Securities upon (and subject to) their receipt by the Trust. Amounts available to the Trust for such distributions on the Trust Preferred Securities will be limited to dividends received by the Trust as holder of the Company Preferred Securities. See *"Description of the Company Preferred Securities – Dividends."* Accordingly, when, as and if dividends are paid on the Company Preferred Securities, including amounts paid by the Bank under the Guarantee, if any, distributions on the Trust Preferred Securities will be payable on a noncumulative basis (i) from the Issue Date to and including the First Call Date, annually in arrears on February 7 of each year, commencing February 7, 2002 (or if any such date is not a Business Day, the next succeeding Business Day) at a fixed rate per annum on the liquidation preference equal to 7.990% (calculated on an Actual/Actual (Bond) Basis), and (ii) thereafter, quarterly on each May 7, August 7, November 7 and February 7 (or if any such date is not a Business Day, the next succeeding Business Day) at a variable rate per annum on the liquidation preference equal to 3.90% above three-month EURIBOR (calculated on an Actual/360 Basis) determined on the Determination Date for such Dividend Period. Dividends on the Company Preferred Securities (to be passed through as distributions on the Trust Preferred Securities) will be mandatorily due and payable on a Dividend Payment Date and with respect to the related Dividend Period in the circumstances described under *"– Required Dividends"* below.

All distributions, redemption amounts and other payments on the Trust Preferred Securities will be paid out of funds legally available therefor, including any amounts required to be paid under the Guarantee.

So long as the Trust Preferred Securities are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, the Calculation Agent will give notice to the Luxembourg Stock Exchange, the Paying Agents and the holders of the Trust Preferred Securities of the rate applicable to each Dividend Period, the Dividend Payment Date for such Dividend Period and the interest that will accrue during such Dividend Period

per €1,000 (by liquidation preference) of Trust Preferred Securities issued, and will arrange for publication of such information in a leading daily newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

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

EURIBOR, with respect to a Determination Date, means the rate (expressed as a percentage per annum) for deposits in euro for a three-month period commencing on the second TARGET Settlement Date immediately following such Determination Date that appears on Telerate Page 248 as of 11:00 a.m. (Brussels time) on such Determination Date. If such rate does not appear on Telerate Page 248, EURIBOR will be determined by the Calculation Agent on the basis of the rates at which deposits in euro are offered to prime banks in the Euro-zone interbank market for a three-month period commencing on the second TARGET Settlement Date immediately following that Determination Date and in a principal amount equal to an amount of not less than €1,000,000 that is representative for a single transaction in the Euro-zone interbank market at such time by four major banks in the Euro-zone interbank market selected by the Calculation Agent at approximately 11:00 a.m. (Brussels time), on such Determination Date.

The Calculation Agent will request the principal Euro-zone office of each of such banks to provide a quotation of its rate. If at least two such quotations are provided EURIBOR in respect of that Determination Date will be the arithmetic mean of such quotations. If fewer than two quotations are provided, EURIBOR in respect of that Determination Date will be the arithmetic mean of the rates quoted by three major lending banks in the Euro-zone selected by the Calculation Agent at approximately 11:00 a.m. (Brussels time), on that Determination Date for loans in euro to leading European banks for a three-month period commencing on the date immediately following that Determination Date and in a principal amount equal to an amount of not less than €1,000,000 that is representative for a single transaction in 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 as determined on the previous Determination Date.

All percentages resulting from any calculations on the Company Preferred Securities will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upward (e.g., 9.876545% (or .09876545) being rounded to 9.87655% (or .0987655)), and all euro amounts used in or resulting from such calculation will be rounded to the nearest .001 euro (with 0.005 being rounded upward).

#### *Required Dividends*

The Company will be required to pay dividends on the Company Preferred Securities (to be passed through by the Trust as distributions on the Trust Preferred Securities) in an amount calculated as set forth below on each Dividend Payment Date unless (i) the Bank does not have Distributable Profits that would be available for the payment of a dividend or the making of a distribution on any class of its equity share capital and/or the Bank has not actually declared or paid dividends on any class of its equity share capital based on the unconsolidated annual accounts used for the determination of the Distributable Profits, (ii) a Capital Deficiency Event has occurred and is continuing or (iii) 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 equity share capital.

Notwithstanding the foregoing, the Company will be required to declare and pay dividends on the Company Preferred Securities (to be passed through by the Trust as distributions on the Trust Preferred Securities) on each Dividend Payment Date occurring during the one-year period beginning on and including the date on which (i) the Bank declares or pays dividends on the Bank Ordinary Shares (other than dividends consisting solely of additional Bank Ordinary Shares) or (ii) the Bank or any subsidiary of the Bank declares or pays Discretionary Dividends or makes other discretionary distributions on any Bank Parity Securities. Dividends required to be paid pursuant to this paragraph and the preceding paragraph are referred to herein as "Required Dividends" and the Dividend Payment Dates on which such Required Dividends are due are referred to herein as "Required Dividend Payment Dates." Required Dividends will be paid out of funds legally available therefor, including any amounts

required to be paid under the Guarantee. See “*Description of the Guarantee — Guaranteed Support of Dividends, Additional and Redemption Amounts.*”

Subject to the foregoing, the amount of dividends to be paid on the Company Preferred Securities (to be passed through by the Trust as distributions on the Trust Preferred Securities) on each Dividend Payment Date (the “Required Dividend Payment Amount”) will be determined as follows: (i) if dividends or other distributions are made on Bank Ordinary Shares, full dividends shall be paid; and (ii) if dividends or other distributions are made on Bank Parity Securities but not Bank Ordinary Shares, dividends shall be paid on a *pro rata* basis with such Bank Parity Securities, to be determined by (a) calculating the Notional Dividend Amount with respect to each payment of a Discretionary Dividend on an Underlying Security during the one-year period ending on and including the relevant dividend payment date and (b) aggregating the Notional Dividend Amounts so determined.

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

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

If (and to the extent) the Trust receives any payments representing a dividend payment or other distribution on the Company Preferred Securities, the Trust, acting through the Principal Paying Agent, will distribute such amounts to the holders of the Trust Preferred Securities in proportion to their liquidation preferences (subject to the provisions described below under “– *Redemption of Trust Preferred Securities*” in the case of a partial redemption of Company Preferred Securities and Trust Preferred Securities). Each periodic distribution on the Trust Preferred Securities will be payable to the holders of record as they appear on the securities register of the Trust on the corresponding record date. The record dates for the Trust Preferred Securities will be the fifteenth calendar day (whether or not a Business Day) prior to the relevant periodic distribution date. However, the Trust is not obligated to make any dividend distribution to the extent that it does not receive any dividend payments on the Company Preferred Securities.

#### **Additional Amounts**

If at any time the Trust, the Company or the relevant Paying Agent is required to withhold any Relevant Tax imposed or levied by, or on behalf of, a Relevant Jurisdiction that has the power to tax, the Trust will be required to pay Additional Amounts included in the distributions otherwise then due and payable as shall be required so that the net amount received by each holder of Trust Preferred Securities, after the withholding of any such Relevant Tax, will not be less than the amount of dividends or distributions then otherwise due and payable. However, the Trust will not be required to pay Additional Amounts (a) to the extent that the Relevant Tax is imposed or levied because the holder or beneficial owner of the Trust Preferred Securities or Company Preferred Securities, other than the Trust, fails to comply with any requirements imposed by the laws of the Relevant Jurisdiction, as applicable from time to time, in order to benefit from an exemption available either pursuant to the domestic laws of such Relevant Jurisdiction or pursuant to any applicable double taxation convention or (b) if the Relevant Jurisdiction is Italy or the United States or any state or division thereof (x) to the extent that the Relevant Tax is imposed or levied because the holder or beneficial owner of the Trust Preferred Securities or Company Preferred Securities, other than the Trust, has some connection with the Relevant Jurisdiction, other than being a holder (or beneficial owner) of the Trust Preferred Securities or Company Preferred Securities, or (y) to the extent that the Relevant Tax is imposed or levied because that holder (or beneficial owner), other than the Trust, has not made a declaration of non-residence in, or other lack of connection with, the Relevant Jurisdiction or any similar claim for exemption, if the Trust, the Company or their agents have given the beneficial owner or its nominee at least 60 days’ prior written notice of and opportunity to make the declaration or claim or (c) to the extent the holder could have received the payment in question free and clear of, and without withholding or deduction for or on account of, tax by presenting the Trust Preferred Securities or Company Preferred Securities to a Paying Agent duly appointed by the Bank in an E.U. Member State, if the Bank has given reasonable notice of the appointment of such a Paying Agent and of the procedures for receiving payments free of tax through that Paying Agent.

## **Redemption of Trust Preferred Securities**

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

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

Pursuant to the Company Agreement, so long as the Company Preferred Securities are outstanding, neither the Bank nor any of its consolidated subsidiaries will repurchase, redeem or otherwise acquire, or set apart funds for the repurchase, redemption or other acquisition of, any Bank Parity Securities or Bank Ordinary Shares, through a sinking fund or otherwise, unless and until (i) full dividends on all Company Preferred Securities for the most recent preceding dividend period are paid or a sum sufficient for payment has been paid over to the Principal Paying Agent for payment of such dividends and (ii) the Company has paid a dividend on the Company Preferred Securities at the dividend rate for the then current dividend period or sufficient funds have been paid over to the Principal Paying Agent for the payment of such dividend. It is an obligation of the Bank to ensure that its consolidated subsidiaries observe the foregoing limitations.

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

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

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

## Withdrawal of Company Preferred Securities

After the exchange of the Temporary Global Certificate for the Permanent Global Certificate, beneficial owners of Trust Preferred Securities may withdraw all, but not less than all, of the Company Preferred Securities represented by such Trust Preferred Securities by providing (i) a written notice to the Property Trustee, with evidence of beneficial ownership in form satisfactory to the Property Trustee and (ii) certification as to the beneficial ownership by non-U.S. persons (as defined in Regulation S). This notice shall also be deemed to be the beneficial owner's agreement to be subject to the terms of the Company Agreement applicable to the rights of holders of Company Preferred Securities.

Within a reasonable period after such request has been properly made, the Registrar and Transfer Agent shall (i) on behalf of the Company, cancel the certificate representing Company Preferred Securities held by the Trust; (ii) issue, on behalf of the Company, a new certificate representing the new amount of Company Preferred Securities held by the Trust, as reduced by the amount (by aggregate liquidation preference) of Company Preferred Securities to be so withdrawn by the withdrawing holder of Company Preferred Securities; (iii) on behalf of the Company, issue to the withdrawing holder of Company Preferred Securities a certificate (bearing the appropriate legend as set forth in the Company Agreement), representing the amount (by aggregate liquidation preference) of Company Preferred Securities so withdrawn and cause the registration of such transfer in the securities register; and (iv) on behalf of the Trust, instruct the Common Depositary to reduce the number of Trust Preferred Securities represented by the permanent global certificate held by the Common Depositary accordingly. It is expected that withdrawn Company Preferred Securities (i) will only be issued in definitive fully-registered form, (ii) will not be listed on any stock exchange and (iii) will not be eligible to be held through Euroclear or Clearstream. Payments on any Company Preferred Securities so withdrawn are expected to be made through the offices of the Principal Paying Agent. Holders of withdrawn Company Preferred Securities will thereafter receive an annual Form K-1 instead of the Form 1099 that is received by holders of Trust Preferred Securities. See "*Taxation – U.S. Taxation.*"

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

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

## Voting Rights

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

Upon receipt of written notice of any meeting at which the holders of Company Preferred Securities are entitled to vote, the Property Trustee shall, as soon as practicable thereafter, mail to the holders of Trust Preferred Securities a notice, and publish a notice to such effect in one English language daily newspaper of general circulation in Europe and, so long as the Trust Preferred Securities are listed on the Luxembourg Stock Exchange and the rules of such Exchange so require, in a daily newspaper of general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) which notice shall be provided by the Company and shall contain (i) such information as is contained in such notice of meeting, (ii) a statement that the holders of Trust Preferred Securities

will be entitled, subject to any applicable provision of law or of the Trust Agreement, to direct the Property Trustee as to the exercise of the voting rights pertaining to the number of Company Preferred Securities represented by their respective Trust Preferred Securities, and (iii) a brief statement as to the manner in which such specific directions may be given. Upon the written direction of a holder of a Trust Preferred Security, the Trustee shall vote or cause to be voted a number of Company Preferred Securities represented by such Trust Preferred Security in accordance with the instructions set forth in such direction. In the absence of specific instructions from the holder of a Trust Preferred Security, the Property Trustee will abstain from voting to the extent of the Company Preferred Securities represented by such Trust Preferred Security. Neither the Bank nor any person known by the Trustees to be an affiliate of the Bank will be entitled to vote any Company Preferred Securities that it holds or beneficially owns.

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

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

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

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

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

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

Definitive Trust Preferred Securities may be transferred upon the surrender of such definitive Trust Preferred Securities, together with the form of transfer endorsed thereon duly completed and executed, at the specified office of the Transfer Agent or at the offices of the Paying Agent in Luxembourg. The initial Transfer Agent is The Bank of New York and the initial Paying Agent in Luxembourg is Banque Internationale à Luxembourg S.A. In the case of a transfer of part only of a definitive Trust Preferred Security, a new definitive Trust Preferred Security in respect of the balance not transferred will be issued to the transferor within seven business days of receipt of such form of transfer, by uninsured post at the risk of the holder to the address of the holder appearing in the Register. Each new definitive Trust Preferred Security to be issued upon a transfer of a definitive Trust Preferred Security will, within seven business days of receipt of such form of transfer, be sent by uninsured post at the risk of the holder entitled to the definitive Trust Preferred Security to such address as may be specified in such form of transfer.

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

No holder of a definitive Trust Preferred Security may require the transfer of a definitive Trust Preferred Security to be registered during the period of 15 days ending on the due date for any payment on the Trust Preferred Securities.

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

### **Payments and Paying Agents**

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

### **Registrar and Transfer Agent**

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

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

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

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



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

The Trustee shall notify the Paying Agents and the holders of the Trust Preferred Securities of any such amendment of the Trust Agreement within a reasonable period of time.

### **Expenses of the Trust**

All charges or expenses of the Trust other than payments required under the terms of the Trust Preferred Securities, including the fees, charges and expenses of the Trustees, any agent of the Trustees acting under the Trust Agreement, the Registrar, the Transfer Agent or any Paying Agent, will be paid by the Bank; *provided* that, if the Trustees incur fees, charges or expenses, for which they are not otherwise liable under the Trust Agreement, at the request of a holder of Trust Preferred Securities or other person, such holder or other person will be liable for such fees, charges and expenses.

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

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

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

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

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

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

### **Notices**

Notices to the holders of the Trust Preferred Securities will be given by delivery of the relevant notice to Euroclear, Clearstream and any other relevant securities clearing system identified in writing by the parties to the Trust Agreement for communication by each of them to entitled participants, and so long as the Trust Preferred

Securities are listed on one or more stock exchanges and the rules of such stock exchange(s) so require, notices shall also be published in such manner as the rules of such stock exchange(s) may require. In addition, notices will be published in one English language daily newspaper of general circulation in Europe and, so long as the Trust Preferred Securities are listed on the Luxembourg Stock Exchange and the rules of such Exchange so require, in a daily newspaper of general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

#### **Listing**

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

#### **Governing Law**

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

## DESCRIPTION OF THE COMPANY PREFERRED SECURITIES

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

### General

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

The Company Preferred Securities will be issued in definitive form only in denominations of €1,000 and integral multiples thereof. The aggregate liquidation preference of the Company Preferred Securities is €350,000,000. The Company will be precluded by the Company Agreement from issuing any equity interests in the Company of any class or series except for the Company Common Securities and the Company Preferred Securities. Accordingly, the Company may not issue any equity securities that rank senior to the Company Preferred Securities.

### Dividends

Dividends on the Company Preferred Securities will be payable, when, as and if declared or deemed declared by the Company's Board of Directors, on a noncumulative basis (i) from the Issue Date to and including the First Call Date, annually in arrears on February 7 of each year, commencing February 7, 2002 (or if any such date is not a Business Day, the next succeeding Business Day) at a fixed rate per annum on the liquidation preference equal to 7.990% (calculated on an Actual/Actual (Bond) Basis), and (ii) thereafter, quarterly on each May 7, August 7, November 7 and February 7 (or if any such date is not a Business Day, the next succeeding Business Day) at a variable rate per annum on the liquidation preference equal to 3.90% above three-month EURIBOR (calculated on an Actual/360 Basis) determined on the Determination Date for such Dividend Period. Dividends on the Company Preferred Securities will be mandatorily due and payable on a Dividend Payment Date with respect to the related Dividend Period in the circumstances described under "*Required Dividends*" below. All dividends, redemption amounts and other payments on the Company Preferred Securities will be paid out of funds legally available therefor, including any amounts required to be paid under the Guarantee. See "*Description of the Guarantee – Guaranteed Support of Dividends, Additional and Redemption Amounts.*"

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

All percentages resulting from any calculations on the Company Preferred Securities will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upward (e.g., 9.876545% (or .09876545) being rounded to 9.87655% (or .0987655)), and all euro amounts used in or resulting from such calculation will be rounded to the nearest .001 euro (with 0.005 being rounded upward).

### *Required Dividends*

The Company will be required to pay dividends in an amount calculated as set forth below on the Company Preferred Securities on each Dividend Payment Date unless (i) the Bank does not have Distributable Profits that

would be available for the payment of a dividend or the making of a distribution on any class of its equity share capital and/or the Bank has not actually declared or paid dividends on any class of its equity share capital based on the unconsolidated annual accounts used for the determination of the Distributable Profits, (ii) a Capital Deficiency Event has occurred and is continuing or (iii) 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 equity share capital.

Notwithstanding the foregoing, the Company will be required to declare and pay dividends on the Company Preferred Securities on each Dividend Payment Date occurring during the one-year period beginning on and including the date on which (i) the Bank declares or pays dividends on the Bank Ordinary Shares (other than dividends consisting solely of additional Bank Ordinary Shares) or (ii) the Bank or any subsidiary of the Bank declares or pays Discretionary Dividends or makes other discretionary distributions on any Bank Parity Securities. Dividends required to be paid pursuant to this paragraph and the preceding paragraph are referred to herein as "Required Dividends" and the Dividend Payment Dates on which such Required Dividends are due are referred to herein as "Required Dividend Payment Dates." Required Dividends will be paid out of funds legally available therefor, including any amounts required to be paid under the Guarantee.

Subject to the foregoing, the Required Dividend Payment Amount will be determined as follows: (i) if dividends or other distributions are made on Bank Ordinary Shares, full dividends shall be paid; and (ii) if dividends or other distributions are made on Bank Parity Securities but not Bank Ordinary Shares, dividends shall be paid on a *pro rata* basis with such Bank Parity Securities, to be determined by (a) calculating the Notional Dividend Amount with respect to each payment of a Discretionary Dividend on an Underlying Security during the one-year period ending on and including the relevant dividend payment date and (b) aggregating the Notional Dividend Amounts so determined.

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

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

#### *Additional Amounts*

If at any time the Trust, the Company or the relevant Paying Agent is required to withhold any Relevant Tax imposed or levied by or on behalf of a Relevant Jurisdiction that has the power to tax, the Company will be required to pay Additional Amounts included in the dividends or other distributions otherwise then due and payable as shall be required so that the net amount received by each holder of Trust Preferred Securities or Company Preferred Securities, as applicable, after the withholding of any such Relevant Tax, will not be less than the amount of dividends or other distributions then otherwise due and payable. However, the Company and the Trust will not be required to pay Additional Amounts (a) to the extent that the Relevant Tax is imposed or levied because the holder or beneficial owner of the Trust Preferred Securities or the Company Preferred Securities, other than the Trust, fails to comply with any requirements imposed by the laws of the Relevant Jurisdiction, as applicable from time to time, in order to benefit from an exemption available either pursuant to the domestic laws of such Relevant Jurisdiction or pursuant to any applicable double taxation convention or (b) if the Relevant Jurisdiction is Italy or the United States or any state or division thereof (x) to the extent that the Relevant Tax is imposed or levied because the holder or beneficial owner of the Trust Preferred Securities or the Company Preferred Securities, other than the Trust, has some connection with the Relevant Jurisdiction, other than being a holder (or beneficial owner) of the Trust Preferred Securities or the Company Preferred Securities, or (y) to the extent that the Relevant Tax is imposed or levied because that holder (or beneficial owner), other than the Trust, has not made a declaration of non-residence in, or other lack of connection with, the Relevant Jurisdiction or any similar claim for exemption, if the Trust, the Company or their agents have given the beneficial owner or its nominee at least 60 days' prior written notice of and opportunity to make the declaration or claim or (c) to the extent the holder could have received the payment in question free and clear of, and without withholding or deduction for or on account of, tax by presenting the Trust Preferred Securities or Company Preferred Securities to a Paying Agent duly appointed by the Bank in an E.U. Member State, if the Bank has given reasonable notice

of the appointment of such a Paying Agent and of the procedures for receiving payments free of tax through that Paying Agent.

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

## **Ranking**

### *Dividends*

The Company Preferred Securities ordinarily will rank senior to the Company Common Securities as to payment of dividends. The Company will have discretion as to whether full dividends, partial dividends or no dividends are paid on the Company Preferred Securities on any Dividend Payment Date that is not a Required Dividend Payment Date. See “– *Dividends – Required Dividends.*”

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

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

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

### *Liquidation Preference*

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

In a dissolution of the Company that is concurrent with a liquidation of the Bank, it is anticipated that the Company’s only assets available for making liquidating distributions on the Company Preferred Securities will be amounts realised by the Company pursuant to the undertakings and covenants of the Bank in the Guarantee. As a consequence of the foregoing and of the subordinated status of the obligations of the Bank under the Guarantee, it is acknowledged and agreed that, in a dissolution of the Company that is concurrent with a liquidation of the Bank, holders of Company Preferred Securities will receive, after the satisfaction of claims of creditors, if any, an amount equal to but not exceeding the amount to which such holders would have been entitled had they instead

owned Bank Parity Securities having the same liquidation preference and dividend rights as the Company Preferred Securities.

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

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

### **Voting Rights**

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

If full dividends are not paid on any Dividend Payment Date, the holders of the Company Preferred Securities shall have the right to elect two persons of their choosing as additional directors (up to a maximum total of two additional Independent Directors). Each person so elected shall be deemed to be an Independent Director. Such right may be exercised by the holders of a majority (by liquidation preference) of the Company Preferred Securities, and shall continue until full dividends have been paid on the Company Preferred Securities for a one-year period. Any vacancy in the office of an Independent Director during such period may be filled only by a vote of the holders of the Company Preferred Securities voting as set forth above.

### **Director Approval**

The Company Agreement will provide that, for so long as any Company Preferred Securities are outstanding, certain actions by the Company must be approved by both a majority of the Board of Directors as a whole and by a majority of the Independent Directors (or by the Independent Director if there is only one Independent Director). See “*The Company – Management of the Company – Independent Directors*.”

### **Redemption**

The Company Preferred Securities are not redeemable at the option of the holders of Company Preferred Securities at any time and are not redeemable at the option of the Company prior to the First Call Date, except in whole upon the occurrence of a Tax Event, an Investment Company Act Event or a Tier 1 Disqualification Event. On the First Call Date or any subsequent Dividend Payment Date, the Company Preferred Securities may be redeemed at the option of the Company, in whole or in part, at the Company Preferred Securities Base Redemption Price; *provided* that such redemption shall be subject to compliance with the applicable regulatory requirements, including the approval of the Bank of Italy, if then required.

The Company will also have the right upon the occurrence of a Tax Event, an Investment Company Act Event or a Tier 1 Disqualification Event prior to the First Call Date, to redeem Company Preferred Securities, in whole (but not in part) at a Redemption Price per security equal to the greater of (i) the Company Preferred Securities Base Redemption Price and (ii) the Company Preferred Securities Make Whole Amount.

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

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

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

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

So long as the Company Preferred Securities are outstanding, neither the Bank nor any of its consolidated subsidiaries will repurchase, redeem or otherwise acquire, or set apart funds for the repurchase, redemption or other acquisition of, any Bank Parity Securities or Bank Ordinary Shares, through a sinking fund or otherwise, unless and until (i) full dividends on all Company Preferred Securities for the most recent preceding Dividend Period are paid or a sum sufficient for payment has been paid over to the Principal Paying Agent for payment of such dividends and (ii) the Company has paid a dividend on the Company Preferred Securities at the dividend rate for the then current Dividend Period or sufficient funds have been paid over to the Principal Paying Agent for the payment of such dividend. It is an obligation of the Bank to ensure that its consolidated subsidiaries observe the foregoing limitations.

### **Registrar and Transfer Agent**

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

Registration of transfers of Company Preferred Securities will be effected without charge by or on behalf of the Company, but upon payment of any tax or other governmental charges that may be imposed in connection with any transfer or exchange. The Company will not be required to register the transfer or exchange of Company Preferred Securities after such Company Preferred Securities have been called for redemption, except, in the case of any Company Preferred Securities to be redeemed in part, any portion thereof not to be redeemed.

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

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

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

The Company Agreement will terminate upon the termination of the Company under the Delaware Limited Liability Company Act.

### **Expenses of the Company**

All charges or expenses of the Company, other than payments required under the terms of the Company Preferred Securities and the Company Common Securities, will be paid by the New York branch of the Bank; *provided* that, if the Company incurs fees, charges or expenses, for which it is not otherwise liable under the

Company Agreement, at the request of a holder of Company Preferred Securities or other person, such holder or other person will be liable for such fees, charges and expenses.

### **Notices**

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

### **Governing Law**

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



## DESCRIPTION OF THE SUBSIDIARY SUBORDINATED INSTRUMENT

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

### General

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

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

Interest on the Subsidiary Subordinated Instrument will be payable on a cumulative basis (i) from the Issue Date to and including the First Call Date, annually in arrears on February 7 of each year, commencing February 7, 2002 (or, if any such date is not a Business Day, the next succeeding Business Day) at a fixed rate per annum on the principal amount from time to time outstanding equal to 7.790% (calculated on an Actual/Actual (Bond) Basis), and (ii) thereafter, quarterly on each May 7, August 7, November 7 and February 7 (or, if any such date is not a Business Day, the next succeeding Business Day) at a variable rate per annum on the principal amount equal to 2.40% above three-month EURIBOR (calculated on an Actual/360 Basis) determined on the Determination Date for such Interest Period.

The Subsidiary Subordinated Instrument will mature on February 7, 2031 (*provided, however, that such date may be extended by the mutual consent of the Company and the Subsidiary*).

Upon the occurrence of a Capital Deficiency Event, the obligations of the Subsidiary in respect of principal and cumulative interest from prior periods under the Subsidiary Subordinated Instrument will be reduced by an amount equal to the lesser of the Bank Loss and the amount necessary to reinstate the consolidated risk-based capital ratio of the Bank above 5%. Any such reduction shall (a) be made on a *pro rata* basis with any *Strumenti Innovativi di Capitale* issued by the Bank, or issued by any subsidiary of the Bank with the benefit of a Bank Parity Guarantee, which are subject to loss absorption provisions on a consolidated basis similar to those described herein and outstanding upon occurrence of a Capital Deficiency Event, and (b) apply first to any unpaid cumulative interest from prior periods, and subsequently to principal. The obligations of the Subsidiary in respect of principal and interest under the Subsidiary Subordinated Instrument will be reinstated in the event of any voluntary or involuntary dissolution, liquidation or winding up of the Bank.

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

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

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

on any class of shares of the Bank, or interest or dividends are paid on any Bank Parity Securities, (B) the date of repayment of the Subsidiary Subordinated Instrument and (C) the date on which the Bank is subject to liquidation.

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

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

### **Redemption**

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

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

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

### **Additional Amounts**

If at any time the Trust, the Company, the Subsidiary or the relevant Paying Agent is required to withhold any Relevant Tax imposed or levied by or on behalf of a Relevant Jurisdiction that has the power to tax, the Subsidiary will be required to make such additional payment to the Company so that the net amount received by each holder of Trust Preferred Securities or Company Preferred Securities, as applicable, after the withholding of any such Relevant Tax, will not be less than the amount of dividends or distributions then otherwise due and payable. However, the Subsidiary will not be required to pay Additional Amounts (a) to the extent that the Relevant Tax is imposed or levied because the holder or beneficial owner of the Trust Preferred Securities or the Company Preferred Securities, other than the Trust, fails to comply with any requirements imposed by the laws of the Relevant Jurisdiction, as applicable from time to time, in order to benefit from an exemption available either pursuant to the domestic laws of such Relevant Jurisdiction or pursuant to any applicable double taxation convention or (b) if the Relevant Jurisdiction is Italy or the United States or any state or division thereof (x) to the extent that the Relevant Tax is imposed or levied because the holder or beneficial owner of the Trust Preferred Securities or the Company Preferred Securities, other than the Trust, has some connection with the Relevant Jurisdiction, other than being a holder (or beneficial owner) of the Trust Preferred Securities or the Company Preferred Securities, or (y) to the extent that the Relevant Tax is imposed or levied because that holder (or beneficial owner), other than the Trust, has not made a declaration of non-residence in, or other lack of connection with, the Relevant Jurisdiction or any similar claim for exemption, if the Trust, the Company or their agents have given the beneficial owner or its nominee at least 60 days' prior written notice of and opportunity to make the declaration or claim or (c) to the extent the holder could have received the payment in question free and clear of, and without withholding or deduction for or on account of, tax by presenting the Trust Preferred Securities or Company Preferred Securities to a Paying Agent duly appointed by the Bank in an E.U. Member State, if the Bank has given reasonable notice of the appointment of such a Paying Agent and of the procedures for receiving payments free of tax through that Paying Agent.

### **Subordination**

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

**Failure of Payment**

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

**Liquidation**

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

**Transfer of the Subsidiary Subordinated Instrument**

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

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

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

**Governing Law**

The Subsidiary Subordinated Instrument will be governed by, and construed in accordance with, the law of the State of New York, United States of America, without regard to conflict of laws principles thereof.

## DESCRIPTION OF THE BANK SUBORDINATED BONDS

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

### General

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

Interest on the Bank Subordinated Bonds will be payable on a cumulative basis (i) from the Issue Date to and including the First Call Date, annually in arrears on February 7 of each year, commencing February 7, 2002 (or, if any such date is not a Business Day, the next succeeding Business Day) at a fixed rate per annum on the principal amount from time to time outstanding equal to 7.590% (calculated on an Actual/Actual (Bond) Basis), and (ii) thereafter, quarterly on each May 7, August 7, November 7 and February 7 (or, if any such date is not a Business Day, the next succeeding Business Day) at a variable rate per annum on the principal amount equal to 2.20% above three-month EURIBOR (calculated on an Actual/360 Basis) determined on the Determination Date for such Interest Period. The Bank Subordinated Bonds will mature on February 7, 2031, provided, however, that such date may be extended by the mutual consent of the Bank and the Subsidiary.

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

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

### Redemption

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

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

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

### Additional Amounts

If at any time the Trust, the Company, the Subsidiary, the Bank or the relevant Paying Agent is required to withhold any Relevant Tax imposed or levied by or on behalf of a Relevant Jurisdiction that has the power to tax, the Bank will be required to make such additional payment on the Bank Subordinated Bonds (and any affiliate of the Bank that issues related securities will be required to make such additional payments) as shall be necessary to enable the Subsidiary to pay the Company such Additional Amounts so that the net amount received by each

holder of Trust Preferred Securities or Company Preferred Securities, as applicable, after the withholding of any such Relevant Tax, will not be less than the amount of dividends or distributions then otherwise due and payable. However, the Bank will not be required to pay Additional Amounts (a) to the extent that the Relevant Tax is imposed or levied because the holder or beneficial owner of the Trust Preferred Securities or the Company Preferred Securities, other than the Trust, fails to comply with any requirements imposed by the laws of the Relevant Jurisdiction, as applicable from time to time, in order to benefit from an exemption available either pursuant to the domestic laws of such Relevant Jurisdiction or pursuant to any applicable double taxation convention or (b) if the Relevant Jurisdiction is Italy or the United States or any state or division thereof (x) to the extent that the Relevant Tax is imposed or levied because the holder or beneficial owner of the Trust Preferred Securities or the Company Preferred Securities, other than the Trust, has some connection with the Relevant Jurisdiction, other than being a holder (or beneficial owner) of the Trust Preferred Securities or the Company Preferred Securities, or (y) to the extent that the Relevant Tax is imposed or levied because that holder (or beneficial owner), other than the Trust, has not made a declaration of non-residence in, or other lack of connection with, the Relevant Jurisdiction or any similar claim for exemption, if the Trust, the Company or their agents have given the beneficial owner or its nominee at least 60 days' prior written notice of and opportunity to make the declaration or claim or (c) to the extent the holder could have received the payment in question free and clear of, and without withholding or deduction for or on account of, tax by presenting the Trust Preferred Securities or Company Preferred Securities to a Paying Agent duly appointed by the Bank in an E.U. Member State, if the Bank has given reasonable notice of the appointment of such a Paying Agent and of the procedures for receiving payments free of tax through that Paying Agent.

### **Subordination**

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

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

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

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

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

During a deferral period, interest will continue to accrue on the Bank Subordinated Bonds at the Bank Subordinated Bonds Coupon Rate. Also, the deferred interest will itself accrue interest at the Bank Subordinated

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

#### **Governing Law**

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

## DESCRIPTION OF THE COMPANY COMMON SECURITIES

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

### General

Upon consummation of the Offering, the Company will have outstanding 1,000 Company Common Securities, all of which will be held by the Bank. The Bank has agreed with the Company in the Guarantee that, so long as any Company Preferred Securities are outstanding, it will maintain direct or indirect ownership of 100% of the outstanding Company Common Securities.

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

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

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

### Dividends

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

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

### Voting Rights

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

### Rights Upon Liquidation

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

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



## THE BANKING SECTOR IN ITALY

### Structure of the Italian Banking System

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

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

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

### Background

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

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

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

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

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

Furthermore, in Italy, non-Italian EU banks may carry out banking business and business activities that are described as integral to banking in the EC Second Banking Directive and that they are authorized to carry out in

their home country, provided the Bank of Italy is informed by the entity supervising the relevant non-Italian EU bank. Such supervising entity retains primary control over the relevant non-Italian EU bank (the principle of "home-country control").

### *Consolidated Banking Act*

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

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

### *The Amato Law*

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

The Amato Law contained two principal provisions:

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

### *The Dini Directive*

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

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

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

### *The Ciampi Law*

In order to promote the consolidation of the Italian banking system and to cause Italian banking foundations to further reduce their shareholdings in *società conferitarie*, Law No. 461 of December 23, 1998 (the

“Ciampi Law”) was enacted setting forth the basic principles of the reform of the banking foundations to be incorporated in the legislative decree which the Italian Government finally approved on May 14, 1999. The new legislative decree provides for the transformation of the banking foundations into non-profit private institutions through, *inter alia*, the final dismissal of any controlling participation in banks or financial institutions, upon full implementation of the principles contained in the Amato Law. The main provisions of such legislative decree may be summarized as follows:

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

### Italian Banking Regulatory Bodies

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

#### *The CICR*

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

#### *The Treasury Ministry*

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

## *The Bank of Italy*

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

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

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

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

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

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

## *CONSOB*

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

## *ISVAP*

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

- oversight of technical, financial and asset management;
- review of financial statements;
- supervision of the activities of insurance brokers and agencies;
- advising the Ministry of Industry of its views regarding business plans submitted by companies seeking authorization to conduct insurance activities;
- proposing disciplinary measures, including revocation of authorizations; (vi) approving restructuring plans;

- advising the Ministry of Industry with respect to admission to the forced liquidation procedure for financially troubled concerns; and
- communicating and collaborating with other EU insurance oversight bodies. In order to implement its purposes, ISVAP has the power to request information from insurance companies, conduct audits of their activities and question their legal representatives, managing directors and statutory auditors and to convene shareholders', directors' and statutory auditors' meetings in order to propose measures necessary to conform the management of the insurance company to the requirements of law.

## Italian Banking Regulation

### *Reserve Requirements*

In the context of the European System of Central Banks (the "ESCB"), the European Central Bank (the "ECB") is responsible, *inter alia*, for identifying and implementing monetary policy objectives, which are to be met with the co-operation of national central banks. Among the instruments employed by ECB to reach its goals is the compulsory reserve, permitting ESCB to stabilize interest rates in EU currency markets and to monitor the system's needs of liquidity. Pursuant to article 19 of the by-laws of ESCB/ECB and EU Council Regulation No. 2531/98, each Italian bank must deposit with the Bank of Italy an interest bearing reserve equal to 2% of an aggregate of overnight deposits, certificates of deposits with original maturities up to two years or redeemable on demand, debt securities with original maturities up to two years and money market paper (all of the above liabilities being denominated either in Italian lira or in foreign currencies and due both to residents and non-residents). A fixed deduction of €100,000 is applied on the amount so determined. The compulsory reserve is to be maintained for a period of 30 days from the 24th day of each month to the 23rd day of the succeeding month; the first period started on January 1, 1999 and ended on January 23, 1999, relating to the aggregate subject to reserve calculated on December 31, 1998. Obligations relating to the reserve are deemed complied with if, in the period of maintenance, the average amount of the daily balances of the reserve accounts is not lower than the reserve to be due (average reserve obligation). Upon formal request to the Bank of Italy for authorization, the banks may also fulfil their obligations indirectly through another bank acting as intermediary, although ECB and the Bank of Italy may revoke such authorization for certain reasons. Failure to comply, in full or in part, with the reserve obligations, may cause ECB to apply sanctions on the bank or its intermediary in accordance with article 7.1 of the above mentioned EU Council Regulation.

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

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

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

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

### *Loan Exposure Limitations*

The EC Directive No. 92/121 on the monitoring and control of large exposures of credit institutions (the "Large Exposure Directive") is intended to spread credit risks through the banking system and to limit a bank's exposure to any single borrower. In compliance with the criteria specified by the Treasury, the Bank of Italy issued supervisory regulations on the concentration of risk, which implement the provisions of the Large Exposures Directive. These regulations require banks to limit the aggregate loans to any single customer or group of related customers to 25% of a bank's total capital, and the aggregate of their large exposures (loans exceeding 10% of their total capital) to no more than 800% of the bank's total capital, as defined pursuant to the Bank of Italy's regulations. A lower limit (20% of total capital) applies to the aggregate exposure to persons or entities affiliated with the bank, which is defined to include (i) shareholders which control, directly or indirectly, the bank or own at least 15% of the share capital of the bank or of its parent company and (ii) companies controlled by the bank or of which the bank owns at least 20% of the share capital, excluding consolidated subsidiaries of the same banking group. The Bank of Italy adopted certain transitional provisions permitted under the Large Exposures Directive in implementing its provisions. Until December 31, 1998 large exposures were defined as those loans exceeding 15% (rather than 10%) of a bank's total capital and the limit for any single customer (or group of related customers) was 40% (and not 25% as stated above).

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

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

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

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

### *Equity Participations by Banks*

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

Prior approval of the Bank of Italy is required for any equity investment by a bank in other banks or financial or insurance companies (i) exceeding 10% of consolidated total capital of the acquiring bank, (ii) exceeding 10% or 20% of the share capital of the bank or financial or insurance company, respectively, being acquired or (iii) resulting in the control of the share capital of the bank or financial or insurance company being acquired. The aggregate of investments by banks in insurance companies cannot exceed 40% of the acquiring bank's consolidated total capital. In relation to banks belonging to banking groups, the aggregate investments in insurance companies may not exceed 60% of the total capital of the acquiring bank or 40% of the acquiring bank group's consolidated total capital. As a general limit, equity investments by a bank may not in the aggregate exceed, together with real estate investments, 100% of a bank's total capital. Equity investments in industrial or

commercial companies (other than banks or financial or insurance companies) by banks authorised by the Bank of Italy which have at least Lit. 2,000 billion in total capital and satisfy the solvency ratios ("*banca abilitata*"), such as the Bank, are permitted within the following limits:

- the aggregate amount of a bank's equity participations may not exceed 50% (on a consolidated and unconsolidated basis) of the bank's total capital (25% as to investments in unlisted companies);
- equity investments in a single non-financial company or in a group of non-financial companies may not exceed 6% of the bank's total capital; and
- generally banks may not acquire more than 15% of the voting shares of any non-financial company. Such 15% limit may be exceeded, however provided that:
- the amount of the equity investment does not exceed 2% of the acquiring bank's total capital; and
- the aggregate amount of the part of the equity investments made by the bank in excess of the above limit of 15% does not exceed 2% of the acquiring bank's total capital. The Bank of Italy has established lower limits for banks with total capital lower than Lit. 2,000 billion ("*banca ordinaria*") and higher limits for banks which, besides meeting the above-mentioned requirements, collect medium- and long-term funds and take no demand deposits ("*banca specializzata*").

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

#### *Restrictions on Foreign Investment*

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

#### **Recent Developments**

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

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

## **Insurance on Deposits**

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

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

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

## **Mutual Fund Regulation**

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



## TAXATION

### U.S. Taxation

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

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

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

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

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

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

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

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

#### *Income and Withholding Tax*

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

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

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

#### *Information Reporting and Backup Withholding*

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

U.S. information reporting and backup withholding requirements (including providing forms W-8BEN or successor form) generally will not apply to Non-U.S. Holders with respect to payments made outside the United States of dividends on Trust Preferred Securities or Company Preferred Securities, or to a payment made outside the United States of the proceeds of a sale of Trust Preferred Securities or Company Preferred Securities through an office outside the United States of a non-U.S. broker. However, U.S. information reporting requirements (but not backup withholding) will apply to payments of dividends on Trust Preferred Securities or Company Preferred Securities that an investor holds through a broker, custodian, nominee or other agent (a) that is a U.S. Person; (b) that derives 50% or more of its gross income for a specified three-year period from the conduct of a trade or business in the United States; (c) that is a "controlled foreign corporation" as to the United States; or (d) that is a foreign partnership, but in the case of a foreign partnership, only with respect to payments made after December 31, 2000 and only (i) if at any time during its tax year, one or more of the partners are U.S. Persons who in the aggregate hold more than 50% of the income or capital interest in such foreign partnership; or (ii) if at any time during its tax year, such foreign partnership is engaged in a U.S. trade or business; or (iii) if the payment is made outside the United States and such foreign partnership does not have documentary evidence in its files that the holder or beneficial owner is a non-U.S. Person or the holder or beneficial owner otherwise establishes an exemption.

#### **Italian Taxation**

The following is a summary of the material Italian tax consequences of the purchase, ownership and disposition of the Trust Preferred Securities. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Trust Preferred Securities and addresses only beneficial owners who will hold non-qualified interest in the Trust. Prospective investors in the Trust Preferred Securities should consult with their professional advisers as to the tax consequences of purchasing, holding and disposing of the Trust Preferred Securities, including, in particular, the effect of tax laws of any other jurisdiction. The following summary is based upon the law and published practice of the Italian tax authorities as in effect on the date of this offering memorandum and is subject to any change in law and practice that may take effect after such date. The following disclosure is based on the advice of Studio Tremonti e Associati.

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

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

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

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

### **Income From Capital**

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

- (i) in case of Italian resident beneficial owners who are real estate investment funds and pension funds (but in case of pension funds, only for interest accrued up to December 31, 2000), such payments will be subject to a 12.5% final substitute tax. This substitute tax is required to be applied by Italian resident qualified financial intermediaries that will intervene, in any way, in the collection of payments on the Trust Preferred Securities or in the transfer of the Trust Preferred Securities.

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

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

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

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

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

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

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

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

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

- (i) in case of Italian resident beneficial owners who are real estate investment funds and pension funds (but in case of pension funds, only for dividends which becomes payable up to December 31, 2000), if such payments are received through an account maintained with an Italian bank or an Italian financial intermediary, the payments will be subject to a 12.5% Italian final "entrance" withholding tax.

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

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

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

- (iv) in case of Italian resident beneficial owners who are corporate entities, payments on the Trust Preferred Securities will not be subject to any Italian "entrance" withholding tax and will form part of their aggregate taxable business income subject to tax in Italy according to the

ordinary tax provisions. A tax credit for withholding taxes applied outside Italy, if any, on beneficial owners should be generally available;

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

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

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

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

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

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

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

bank or financial intermediary will levy a final Italian "entrance" withholding tax at a rate of 27% on payments on the Trust Preferred Securities.

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

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

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

- E. At a meeting held November 26 and 27, 2000, the ECOFIN Council expressed its approval of the essential content of a proposed E.U. Directive on the taxation of savings income, which may be adopted effective as of 2003. Under the current proposal, certain payments of interest income made through a paying agent resident in an E.U. Member State to individuals resident in a different E.U. Member State would be subject to "information exchange," a requirement that the tax authorities of the paying agent's Member State report such payments to the tax authorities of the investor's Member State. In addition, during a transitional period, a withholding tax would be imposed if the paying agent is resident in a Member State whose bank secrecy laws do not satisfy certain standards necessary for the use of the information exchange mechanism (such as Luxembourg, Belgium and Austria). It is expected that, by 2011, all E.U. Member States will be subject only to the information exchange regime. Because the described proposal may be modified prior to its adoption, however, the information reporting and withholding tax consequences to individuals resident in an E.U. Member State (as well as other E.U. residents) could differ from those described above.

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

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

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

In accordance with another interpretation, payments under the guarantee agreement should be treated in certain circumstances as payments by the Trust and subject to the tax treatment described under the caption “*Capital Gains*.”

## **Capital Gains**

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

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

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

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

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

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

## **Early Redemption**

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

## **Transfer Tax**

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

- (i) contracts concluded in regulated markets regarding the transfer of securities, shares, quotas and participation in corporations of any kind, including contracts between a qualified intermediary and his principal and between qualified intermediaries;
- (ii) off-market contracts regarding securities listed on a regulated market, provided that such contracts occurred:
  - (a) between banks or other investment companies regulated by Legislative Decree 23 July 1996, No. 415, as superseded by Legislative Decree No. 58 of February 24, 1998, or stock brokers;
  - (b) between the subjects mentioned above under a), on the one hand, and non-Italian residents, on the other hand;

- (c) between the subjects mentioned above under a), also non-resident in Italy, on the one hand, and undertakings for collective investment in transferable securities, on the other hand;
- (iii) contracts related to public sale offering ordered to the listing on regulated markets or involving financial instruments already listed on regulated markets;
- (iv) contracts regarding securities not listed on a regulated market entered into between the subjects mentioned above under (ii), letter a), on the one hand, and non-Italian residents, on the other hand.

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

### **Inheritance and Gift Tax**

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

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

### **Tax Monitoring Obligations**

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

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

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



## NOTICE TO PURCHASERS

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

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

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

Any employee benefit plan subject to the fiduciary responsibility provisions of ERISA may not purchase either the Trust Preferred Securities or the Company Preferred Securities.

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

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

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

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

## PLAN OF DISTRIBUTION

Subject to the terms and conditions stated in the Purchase Agreement dated February 5, 2001, each of the Managers below (collectively, the “Managers”) jointly and severally agreed to purchase, and the Trust has agreed to sell to the Managers all of the Trust Preferred Securities. The initial commitments of the Managers are set forth below. A copy of the Purchase Agreement is available to prospective investors upon request to the Bank and free of charge at the specified office of the Paying Agent in Luxembourg.

Managers	Amount of Trust Preferred Securities (by liquidation amount)
Salomon Brothers International Limited .....	€131,250,000
J. P. Morgan Securities Ltd. ....	€131,250,000
MPS Finance Banca Mobiliare S.p.A.....	€87,500,000
Total .....	<u>€350,000,000</u>

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

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

The Company has not been registered under the 1940 Act. The Trust Preferred Securities and the Company Preferred Securities have not been and will not be registered under the Securities Act, and may not be offered, sold, pledged or otherwise transferred except in a transaction pursuant to Regulation S, as described under “*Notice to Investors.*”

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

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

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

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

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

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

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

The Trust Preferred Securities are a new issue of securities with no established trading market. Application has been made to list the Trust Preferred Securities on the Luxembourg Stock Exchange. However, no assurance can be given that an active trading market will develop or as to the liquidity of the Trust Preferred Securities. The Bank and the Company have been advised by Salomon Brothers International Limited that it currently intends to make a market in Trust Preferred Securities. However, Salomon Brothers International Limited are not obligated to do so and any such market making activity will be subject to the limits imposed by applicable law and may be interrupted or discontinued at any time without notice. Accordingly, no assurance can be given as to the liquidity of or the trading market for the Trust Preferred Securities. See “*Investment Considerations – No Prior Market for Trust Preferred Securities; Resale Restrictions.*”

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

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

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

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

## **VALIDITY OF SECURITIES**

Richards, Layton & Finger, P.A. will pass upon the validity of the Guarantee, the Company Preferred Securities and the Trust Preferred Securities and certain matters of Delaware law related to the Offering, Grimaldi Clifford Chance will pass upon the validity of the Bank Subordinated Bonds and certain matters of Italian law related to the Offering, and Clifford Chance Rogers & Wells LLP will pass upon the validity of the Subsidiary Subordinated Instrument and certain matters of New York and U.S. law related to the Offering for the Bank, the Subsidiary, the Company and the Trust. Studio Tremonti e Associati will pass upon certain matters of Italian taxation for the Bank. Cleary, Gottlieb, Steen & Hamilton will pass upon the validity of the Company Preferred Securities, the Trust Preferred Securities, the Subsidiary Subordinated Instrument and the Guarantee and certain matters of New York and U.S. law related to the Offering for the Managers. Clifford Chance Rogers & Wells LLP will rely upon the opinions of Richards, Layton & Finger, P.A. as to certain matters of Delaware law, of Grimaldi Clifford Chance as to certain matters of Italian law and of Kremer Associés & Clifford Chance as to certain matters of Luxembourg law.

## GENERAL INFORMATION

### Listing

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

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

### Clearing Systems

The Trust Preferred Securities have been accepted for clearance by Clearstream and Euroclear. The Common Code for the Trust Preferred Securities is 012134282 and the International Security Identification Number (ISIN) for the Trust Preferred Securities is XS0121342827.

### Authorisation

The issue of the Trust Preferred Securities will be authorised by the Trustee of the Trust on February 7, 2001. The issue of the Company Preferred Securities will be authorised by the Board of Directors of the Company on February 7, 2001.

### Documents

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

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

For so long as the Trust Preferred Securities are listed on the Luxembourg Stock Exchange, copies of the audited Consolidated Financial Statements and the Interim Financial Statements of the Group will be available in the English language, free of charge, at the specified office of the Paying Agent in Luxembourg. The Company and the Trust do not publish financial statements and the Subsidiary does not publish statutory financial statements.

### No Material Adverse Change

Except as disclosed in this Offering Circular, there has been no adverse change in the financial position of the Trust, the Company, the Subsidiary or the Bank since December 31, 1999 or their respective dates of establishment (being January 25, 2001, in the case of the Trust and the Company and January 26, 2001 in the case of the Subsidiary), which is material in the context of the issue of the Trust Preferred Securities.

### Litigation

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

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

### **ERISA Considerations**

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

### **Governing Law**

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



## GLOSSARY

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

“Bank Ordinary Shares”	means (i) the ordinary shares ( <i>azioni ordinarie</i> ), (ii) saving shares ( <i>azioni di risparmio</i> ), (iii) preferred or preference shares ( <i>azioni privilegiate</i> ) or (iv) any other shares of the capital stock of the Bank, where such other shares qualify as Tier 1 capital of the Bank on a consolidated basis under Applicable Banking Regulations.
“Bank Parity Guarantees”	means the Bank’s guarantees (whether through an agreement or instrument labelled as a guarantee, as a support agreement, or with some other name but with an effect similar to a guarantee or support agreement) of preferred securities or preferred or preference shares issued by any of its subsidiaries, if such guarantees or support agreements rank <i>pari passu</i> with or junior to the Bank’s obligations under the Guarantee.
“Bank Parity Securities”	means (i) the Bank Parity Guarantees, (ii) any securities issued by a subsidiary of the Bank that are guaranteed by the Bank under a Bank Parity Guarantee, (iii) any securities issued by the Bank that rank <i>pari passu</i> with the Bank’s obligations under the Guarantee and qualify as Tier 1 capital of the Bank under Applicable Banking Regulations and (iv) any other preferred or preference securities or shares issued by the Bank with preferences as to dividends and upon redemption and liquidation equivalent to the Trust Preferred Securities and the Company Preferred Securities.
“Bank Subordinated Bonds”	means the subordinated debt instrument to be issued by the Bank in connection with the Offering.
“Bank Subordinated Bonds Base Redemption Price”	means (i) the principal amount of the Bank Subordinated Bonds, plus (ii) an amount equal to unpaid interest thereon accrued on a daily basis through the date fixed for redemption.
“Bank Subordinated Bonds Coupon Rate”	means the prevailing rate applicable to the coupons due with respect to the principal amount of the Bank Subordinated Bonds.
“Bank Subordinated Bonds Make Whole Amount”	means an amount, as determined by a Quotation Agent, equal to the sum of (a) the present value of the aggregate outstanding principal balance of the Bank Subordinated Bonds discounted from the First Call Date, (b) the present values of scheduled annual interest payments from the Special Event Redemption Date to the First Call Date, and (c) any unpaid definitive interest with respect to prior Dividend Periods without interest and without accumulation of unpaid non-definitive interest for any prior Dividend Period. The present values calculated in (a) and (b) above shall be calculated as set out in the Bank Subordinated Bonds.
“Bankruptcy Event”	means the occurrence of either of the following events: (i) the entering of a judgment initiating bankruptcy proceedings in respect of the Bank under Italian law, or (ii) the notification by the Bank of Italy, in its sole discretion, to the Bank and the Company that it has determined, in view of the deteriorating financial condition of the Bank, that the foregoing clause (i) would apply in the near term.
“Bond Yield”	means the rate per annum equal to the annual yield to maturity of the Comparable Bond Issue, assuming a price equal to the Comparable Bond Price for the Calculation Date.
“Business Day”	means a day (i) which is a TARGET Settlement Date and (ii) on which banks are open for business in New York, New York, U.S.A., Wilmington, Delaware, U.S.A., London, England and in the case of payments by the Paying Agent in Luxembourg, Luxembourg.

<i>“Calculation Agent”</i>	the calculation agent appointed by the Bank, the Subsidiary, the Company and the Trust, which initially shall be The Bank of New York.
<i>“Calculation Date”</i>	means the third TARGET Settlement Date prior to the Special Event Redemption Date.
<i>“Calculation Period”</i>	means a Dividend Period or Interest Period, as applicable.
<i>“Capital Deficiency Event”</i>	means an event that will be deemed to occur if, as a result of losses incurred the Bank’s total risk-based capital ratio, as determined on a consolidated basis, declines below the minimum amount required by the regulations governing Strumenti Innovativi di Capitale, as amended (currently, the <i>Istruzioni di Vigilanza per le banche</i> issued by the Bank of Italy, as amended in February 2000, which require a ratio of total capital to risk-weighted assets of 5.00%).
<i>“Clearstream”</i>	means Clearstream Bank, S.A. or its successor.
<i>“Code”</i>	means the U.S. Internal Revenue Code of 1986, as amended.
<i>“Common Depositary”</i>	means the common depositary for Euroclear and Clearstream.
<i>“Common Nominee”</i>	means the common nominee for Euroclear and Clearstream.
<i>“Company”</i>	means MPS Preferred Capital I, L.L.C., a Delaware limited liability company.
<i>“Company Agreement”</i>	means the Limited Liability Company Agreement of MPS Preferred Capital I, L.L.C., as amended and restated as of the Issue Date.
<i>“Company Common Securities”</i>	means the common limited liability company interests in the Company.
<i>“Company Preferred Securities”</i>	means the 7.990% Noncumulative Company Preferred Securities, liquidation preference €1,000 per security and aggregate liquidation preference €350,000,000, offered by the Company.
<i>“Company Preferred Securities Adjusted Yield”</i>	means the Bond Yield plus 0.50%.
<i>“Company Preferred Securities Base Redemption Price”</i>	means (i) the liquidation preference of the Company Preferred Securities, plus (ii) an amount equal to unpaid dividends, if any, thereon with respect to the current Dividend Period accrued on a daily basis through the date fixed for redemption, plus (iii) an amount equal to unpaid definitive dividends for any prior Dividend Period, without interest and without accumulation of unpaid nondefinitive dividends for any prior Dividend Period.
<i>“Company Preferred Securities Make Whole Amount”</i>	means an amount, as determined by a Quotation Agent, equal to the sum of (a) the present value of the aggregate liquidation preference of the Company Preferred Securities discounted from the First Call Date, (b) the present values of scheduled annual non-cumulative dividend payments from the Special Event Redemption Date to the First Call Date, and (c) any unpaid definitive dividends with respect to prior Dividend Periods without interest and without accumulation of unpaid non-definitive dividends for any prior Dividend Period. The present values calculated in (a) and (b) above shall be calculated by discounting the relevant amounts to the Special Event Redemption Date on an annual basis at the Company Preferred Securities Adjusted Yield.

<i>“Comparable Bond Issue”</i>	means, with respect to any Special Event Redemption Date, the benchmark bond selected by the Quotation Agent that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Company Preferred Securities from the Special Event Redemption Date to the First Call Date.
<i>“Comparable Bond Price”</i>	means (a) the average of five Reference Bond Dealer Quotations, after excluding the highest and lowest such Reference Bond Dealer Quotations, or (b) if the Quotation Agent obtains fewer than five such Reference Bond Dealer Quotations, the average of all such Reference Bond Dealer Quotations.
<i>“Corresponding Amount”</i>	means (i) for each €1,000 liquidation preference of Trust Preferred Securities, €1,000 liquidation preference of Company Preferred Securities and (ii) for each €1,000 liquidation preference of Company Preferred Securities, €1,000 liquidation preference of Trust Preferred Securities.
<i>“Delaware Business Trust Act”</i>	means the Delaware Business Trust Act, 12 Del. C. § 3801, et seq., as amended from time to time.
<i>“Delaware Limited Liability Company Act”</i>	means the Delaware Limited Liability Company Act, 6 Del. C. § 18-101, et seq., as amended from time to time.
<i>“Delaware Trustee”</i>	means The Bank of New York (Delaware) as Delaware trustee under the Trust Agreement, or its successors in such capacity.
<i>“Determination Date”</i>	for a Dividend Period or Interest Period, as applicable, means the date that is two TARGET Settlement Days preceding the first day of such Dividend Period or Interest Period, as applicable.
<i>“Discretionary Dividend”</i>	means any dividend paid on any class of Bank Parity Securities (other than a dividend consisting solely of additional Bank Ordinary Shares) that was not required to be paid solely as a result of a dividend or other payment having been made on the Company Preferred Securities or any other class of Bank Parity Securities or Bank Ordinary Shares. Dividends paid on Company Preferred Securities or other Bank Parity Securities may be partially Discretionary Dividends and partially non-discretionary dividends if a portion of such dividends were required to be paid. In such an event, the dividends in question would be considered “Discretionary Dividends” only to the extent they were not required to be paid. To the extent that a payment that would otherwise be a Discretionary Dividend on any class of Bank Parity Securities is less than or equal to the amount that would be the Required Dividend Payment Amount if the Bank Parity Securities were Company Preferred Securities, such amount will not constitute a Discretionary Dividend.
<i>“Distributable Profits”</i>	means net profits determined according to the unconsolidated annual accounts relating to the financial year immediately preceding the year in which the relevant Dividend Payment Date falls or, where such accounts are not available, the last set of unconsolidated financial accounts approved by the Bank.
<i>“dividend(s)”</i>	means, when used with respect to Company Preferred Securities, any distribution on the Company Preferred Securities described under <i>“Description of the Company Preferred Securities — Dividends”</i> and includes, as to any Dividend Payment Date, Additional Amounts

calculated as though full distributions were paid on the Company Preferred Securities.

<i>“Dividend Payment Date”</i>	means (i) from the Issue Date to and including the First Call Date, February 7 of each year, commencing February 7, 2002 (or, if any such day is not a Business Day, the next succeeding Business Day) and (ii) after the First Call Date, each May 7, August 7, November 7 and February 7 (or, if any such day is not a Business Day, the next succeeding Business Day).
<i>“Dividend Period”</i>	means each period from and including a Dividend Payment Date or the Issue Date, as applicable, to but not including the next Dividend Payment Date.
<i>“Eligible Investments”</i>	means the Subsidiary Subordinated Instrument and other instruments of the Bank or one or more subsidiaries of the Bank, each of which is deemed to be a “company controlled” by the Bank within the meaning of Rule 3a-5 of the 1940 Act.
<i>“ERISA”</i>	means the U.S. Employee Retirement Income Security Act of 1974, as amended.
<i>“EURIBOR”</i>	has the meaning set forth under <i>“Description of Trust Preferred Securities — Distributions.”</i>
<i>“Euro” and “€”</i>	mean the single currency introduced at the start of the third stage of the European Economic and Monetary Union on January 1, 1999.
<i>“Euroclear”</i>	means the Euroclear Bank S.A./N.V., as operator of the Euroclear System.
<i>“Euro-zone”</i>	means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended from time to time.
<i>“Exchange Date”</i>	has the meaning set forth under <i>“Description of the Trust Preferred Securities — Denomination, Form and Exchange.”</i>
<i>“First Call Date”</i>	means the Dividend Payment Date occurring on February 7, 2011 or, if such date is not a Business Day, the next succeeding Business Day.
<i>“Glossary”</i>	means this list of definitions of certain terms used in this Offering Circular.
<i>“Group”</i>	means the Bank and its consolidated subsidiaries and affiliates.
<i>“Guarantee”</i>	means the Guarantee Agreement among the Bank, the Company and the Guarantee Trustee, executed on the Issue Date in connection with the Offering.
<i>“Guarantee Payments”</i>	means any payments by the Bank under the Guarantee as described in <i>“Description of the Guarantee – Support of Dividends, Additional and Redemption Amounts.”</i>
<i>“Guarantee Trustee”</i>	means The Bank of New York, as guarantee trustee under the Guarantee, or its successors in such capacity.
<i>“Independent Director”</i>	means (i) an individual who is not, and has not been during the preceding three years, an officer or employee of the Bank or any affiliate of the Bank and who does not own Bank Ordinary Shares having a fair value of €500,000 or more, or (ii) any individual elected by holders of the Company Preferred Securities under the

	<p>circumstances described in “<i>Description of the Company Preferred Securities- Voting Rights</i>,” regardless of whether such individual meets the financial test set forth in part (i) hereof.</p>
“ <i>Interest Payment Date</i> ”	<p>Means (i) from the Issue Date to and including the First Call Date, February 7 of each year (or, if any such date is not a Business Day, the next succeeding Business Day) and (ii) after the First Call Date, each May 7, August 7, November 7 and February 7 (or, if any such date is not a Business Day, the next succeeding Business Day).</p>
“ <i>Interest Period</i> ”	<p>means each period from and including an Interest Payment Date or the Issue Date, as applicable, to but not including the next Interest Payment Date.</p>
“ <i>Investment Company Act Event</i> ”	<p>means that the Bank shall have requested and received an opinion of a nationally recognised U.S. law firm experienced in such matters to the effect that there is more than an insubstantial risk that the Trust or the Company is or will be considered an “investment company” within the meaning of the 1940 Act as a result of any judicial decision, any pronouncement or interpretation (irrespective of the manner made known), the adoption or amendment of any law, rule or regulation, any notice or announcement (including any notice or announcement of intent to adopt such rule or regulation) by any U.S. legislative body, court, governmental agency or regulatory authority.</p>
“ <i>Investment Policies</i> ”	<p>means the Company’s initial investment policies established pursuant to the Company Agreement.</p>
“ <i>IRS</i> ”	<p>means the U.S. Internal Revenue Service.</p>
“ <i>Issue Date</i> ”	<p>means the date of initial issuance of the Company Preferred Securities and the Trust Preferred Securities, expected to be on or about February 7, 2001.</p>
“ <i>Liquidation Claim Amount</i> ”	<p>means (i) the €1,000 liquidation preference per Company Preferred Security, plus (ii) unpaid dividends, if any, thereon with respect to the current Dividend Period accrued on a daily basis to the date of dissolution, plus (iii) unpaid definitive dividends for any prior Dividend Period, but without interest and without accumulation of unpaid nondefinitive dividends for any prior Dividend Period, and including any Additional Amounts required to be paid.</p>
“ <i>Managers</i> ”	<p>has the meaning set forth under “<i>Plan of Distribution</i>.”</p>
“ <i>Minimum Capital</i> ”	<p>means the minimum regulatory Capital required for Italian banks under the Applicable Banking Regulations (currently €6.3 million).</p>
“ <i>Non-U.S. Holder</i> ” or “ <i>Non-United States Holder</i> ”	<p>means an individual who is not a citizen or resident of the United States, a foreign corporation, an estate that is not subject to United States federal income tax on its income without regard to the source thereof, or a trust if no court within the United States is able to exercise primary supervision over the administration of the trust and no United States Person has the authority to control all substantial decisions of the trust and the trust does not have a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. Person.</p>
“ <i>Notional Dividend Amount</i> ”	<p>means an amount of dividends relating to a current Dividend Payment Date representing the same proportion of full dividends as is represented by the Discretionary Dividend paid on the related Underlying Security as a proportion of full dividends thereon on the</p>

related dividend date for such Underlying Security; *provided that* if a Discretionary Dividend is paid on more than one Underlying Security on the same date, then the proportion described above will be calculated with reference to the Underlying Security as to which the discretionary dividend represented the higher or highest, as applicable, proportion of full dividends thereon.

“Offering”	means the offering by the Trust of the Trust Preferred Securities and the related issuance to the Trust by the Company of its Company Preferred Securities.
“Offering Circular”	means this Offering Circular, as the same may be supplemented or amended.
“Offering Price”	means the initial purchase price of the Trust Preferred Securities as set forth on the cover page of this Offering Circular.
“Paying Agent”	means the Principal Paying Agent and any co-paying agent, including the Paying Agent in Luxembourg.
“Paying Agent in Luxembourg”	means the co-paying agent with respect to the Trust Preferred Securities that is located in the Grand Duchy of Luxembourg, which initially shall be Banque Internationale à Luxembourg S.A.
“Primary Bond Dealer”	means any credit institution or financial services institution that regularly deals in bonds and other debt securities.
“Principal Paying Agent”	means the principal paying agent with respect to the Trust Preferred Securities and the Company Preferred Securities, as applicable, which initially shall be The Bank of New York.
“Professional Investors”	include persons (other than natural persons) defined as professional investors in Section 31, paragraph 2, of CONSOB Regulation No. 11522 of July 1, 1998, as amended and adopted pursuant to the “Unified Financial Act”.
“Property Trustee”	means The Bank of New York, in its capacity as property trustee under the Trust Agreement, or its successors in such capacity.
“Purchase Agreement”	means the purchase agreement dated as of February 5, 2001 by and among the Company, the Trust, the Bank, the Subsidiary, Banca Monte Paschi Belgio S.A. and Salomon Brothers International Limited, as representative of the Managers, as described under “ <i>Plan of Distribution</i> .”
“Quotation Agent”	means Salomon Brothers International Limited and its successors, provided, however, that if the foregoing shall cease to be a Primary Bond Dealer in London, the Company will be entitled to appoint another Quotation Agent that is a Primary Bond Dealer in London.
“Redemption Price”	means (a) with respect to Company Preferred Securities, Subsidiary Subordinated Instruments or Bank Subordinated Bonds redeemed on any redemption date that is not a Special Event Redemption Date, the Company Preferred Securities Base Redemption Price, the Subsidiary Subordinated Instrument Base Redemption Price or the Bank Subordinated Bonds Base Redemption Price, as applicable, and (b) with respect to Company Preferred Securities, Subsidiary Subordinated Instruments or Bank Subordinated Bonds redeemed on a Special Event Redemption Date, the greater of (i) the Company Preferred Securities Make Whole Amount, the Subsidiary Subordinated Instrument Make Whole Amount or the Bank Subordinated Bonds Make Whole Amount, as applicable, and (ii) the Company Preferred Securities Base

	Redemption Price, the Subsidiary Subordinated Instrument Base Redemption Price or the Bank Subordinated Bonds Base Redemption Price, as applicable.
<i>"Reference Bond Dealer"</i>	means (a) the Quotation Agent or (b) any other Primary Bond Dealer selected by the Quotation Agent after consultation with the Bank.
<i>"Reference Bond Dealer Quotations"</i>	means the average, as determined by the Quotation Agent, of the bid and asked prices for the Comparable Bond Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Quotation Agent by such Reference Bond Dealer at 11:00 a.m. (London time) on the Calculation Date.
<i>"Registrar"</i>	means the registrar with respect to the Trust Preferred Securities and the Company Preferred Securities, which will initially be The Bank of New York.
<i>"Regulation S"</i>	means Regulation S under the Securities Act, as such rule may be amended from time to time.
<i>"Relevant Jurisdiction"</i>	means (i) Italy, (ii) Luxembourg, (iii) any jurisdiction in which a branch, other office or subsidiary of the Bank issuing Eligible Investments held by the Company or the Subsidiary is located, (iv) the United States, (v) any jurisdiction in which a relevant Paying Agent is located or (vi) any authority of or in any of the jurisdictions referred to in (i) – (vi) above that has the power to tax.
<i>"Relevant Tax"</i>	means any present or future taxes, duties or other governmental charges imposed or levied by or on behalf of a Relevant Jurisdiction.
<i>"Required Dividend"</i>	has the meaning set forth in <i>"Description of the Company Preferred Securities – Dividends – Required Dividends."</i>
<i>"Required Dividend Payment Amount"</i>	means, as to a Required Dividend Payment Date, the amount of dividends required to be paid on such Required Dividend Payment Date.
<i>"Required Dividend Payment Date(s)"</i>	means each Dividend Payment Date on which some amount of dividends on the Company Preferred Securities is required to be paid as set forth in <i>"Description of the Company Preferred Securities – Dividends—Required Dividends."</i>
<i>"Securities"</i>	means the Trust Preferred Securities, the Company Preferred Securities and the Subsidiary Subordinated Instrument.
<i>"Securities Act"</i>	means the U.S. Securities Act of 1933, as amended.
<i>"Senior Indebtedness of the Bank"</i>	means all deposits and other liabilities of the Bank (including those in respect of bonds, notes and debentures, whether senior or subordinated or instruments constituting Upper Tier 2 capital of the Bank on a solo basis under Applicable Banking Regulations) other than other <i>pari passu</i> claims. For purposes of the foregoing, "other <i>pari passu</i> claims" means claims of creditors of the Bank which are subordinated so as to rank <i>pari passu</i> with the claims of the Company in respect of the Guarantee.
<i>"Special Event"</i>	means the occurrence of a Tax Event, an Investment Company Act Event or a Tier 1 Disqualification Event.
<i>"Special Event Redemption Date"</i>	means a date that occurs on or before the First Call Date on which Company Preferred Securities are redeemed in connection with the occurrence of a Special Event.



<i>“Subsidiary”</i>	means Montepaschi Luxembourg S.A. a directly controlled subsidiary of the Bank organised under the laws of the Grand Duchy of Luxembourg.
<i>“Subsidiary Subordinated Instrument”</i>	means the subordinated debt instrument to be issued by the Subsidiary in connection with the Offering, as described under <i>“Description of the Subsidiary Subordinated Instrument.”</i>
<i>“Subsidiary Subordinated Instrument Base Redemption Price”</i>	means (i) the principal amount of the Subsidiary Subordinated Instrument, plus (ii) an amount equal to unpaid interest thereon accrued on a daily basis through the date fixed for redemption.
<i>“Subsidiary Subordinated Instrument Coupon Rate”</i>	means the prevailing rate applicable to the coupons due with respect to the principal amount of the Subsidiary Subordinated Instrument.
<i>“Subsidiary Subordinated Instrument Make Whole Amount”</i>	means an amount, as determined by a Quotation Agent, equal to the sum of (a) the present value of the aggregate principal of the Subsidiary Subordinated Instrument discounted from the First Call Date, (b) the present values of scheduled annual interest payments from the Special Event Redemption Date to and including the First Call Date, and (c) any unpaid definitive interest with respect to prior Dividend Periods without interest and without accumulation of unpaid non-definitive interest for any prior Interest Period. The present values calculated in (a) and (b) above shall be calculated as set out in the Subsidiary Subordinated Instrument.
<i>“TARGET Settlement Date”</i>	means a day on which the Trans-European Automated Real Time Gross Settlement Express Transfer System (“TARGET”) is operating.
<i>“Tax Event”</i>	means the receipt by the Bank of an opinion of a nationally recognised law firm or other tax adviser in any Relevant Jurisdiction, experienced in such matters, to the effect that, as a result of (i) any amendment to, or clarification of, or change (including any announced prospective change) in, the laws or treaties (or any regulations promulgated thereunder) of the Relevant Jurisdiction or any political subdivision or taxing authority thereof or therein affecting taxation, (ii) any Administrative Action or (iii) any amendment to, clarification of, or change in the official position or the interpretation of such Administrative Action or any interpretation or pronouncement that provides for a position with respect to such Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification or change is made known, which amendment, clarification or change is effective, or which pronouncement or decision is announced, on or after the Issue Date, there is more than an insubstantial risk that (a) Additional Amounts will be required to be paid by the Trust, with respect to payments on the Trust Preferred Securities, the Company, with respect to payments on the Company Preferred Securities, the Subsidiary, with respect to payments on the Subsidiary Subordinated Instrument, or the Bank, with respect to payments on the Bank Subordinated Bonds, (b) the Trust or the Company is or will be subject to more than a <i>de minimis</i> amount of taxes, duties or other governmental charges, or (c) any interest deduction or other similar direct or indirect tax benefit available to the Bank in respect of the issuance of the Bank Subordinated Bonds, to the Subsidiary in respect of the issuance of the Subsidiary Subordinated Instrument, to the Company in respect of the issuance of the Company Preferred Securities or to the Trust in respect of the issuance of the Trust Preferred Securities (and transactions related thereto) is or will be

	eliminated, reduced or otherwise adversely affected in any material respect.
<i>“Telerate Page 248”</i>	means the display designated as “Page 248” on the Bridge/Telerate Service (or such other page as may replace Page 248 on that service or such other service or services as may be nominated by the European Banking Federation as the information vendor for the purpose of displaying Euro-zone interbank offered rates for euro deposits).
<i>“Tier 1 Disqualification Event”</i>	means that the Bank shall be notified by the Bank of Italy to the effect that the Company Preferred Securities may not be included in the Tier 1 capital of the Bank on a consolidated basis.
<i>“Transfer Agent”</i>	means the transfer agent with respect to the Trust Preferred Securities and the Company Preferred Securities, which will initially be The Bank of New York (with Banque Internationale à Luxembourg S.A. acting as additional Transfer Agent in Luxembourg).
<i>“Treasury Regulations”</i>	means the income tax regulations promulgated under the Code.
<i>“Trust”</i>	means MPS Capital Trust I, a Delaware statutory business trust.
<i>“Trust Agreement”</i>	means the Trust Agreement to be entered into between the Company, as grantor, the Delaware Trustee and the Property Trustee, as amended and restated as of the Issue Date.
<i>“Trust Preferred Securities”</i>	means the 7.990% Noncumulative Trust Preferred Securities, liquidation preference €1,000 per security and aggregate liquidation preference €350,000,000 offered by the Trust, representing an equal amount of Company Preferred Securities.
<i>“Trustees”</i>	means the Property Trustee and the Delaware Trustee, collectively.
<i>“Underlying Security”</i>	means, in connection with the calculation of the Notional Dividend Amount to be taken into account in determining the amount of dividends required to be paid on the Company Preferred Securities on a Dividend Payment Date because Discretionary Dividends have been paid on Bank Parity Securities, such series or class of Bank Parity Securities as to which such Discretionary Dividends were paid.
<i>“Unified Financial Act”</i>	means Legislative Decree No. 58 of February 24, 1998.
<i>“U.S. Holder”</i>	means (i) an individual citizen or resident of the United States, (ii) a corporation, company or partnership organised in or under the laws of the United States or any state thereof or the District of Columbia, (iii) an estate or trust the income of which is subject to United States federal income tax regardless of source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.
<i>“U.S. Person”</i>	means, unless otherwise specified, (i) any natural person resident in the United States, (ii) any company or corporation organised or incorporated under the laws of the United States, (iii) any estate of which any executor or administrator is a U.S. person, (iv) any trust of which any trustee is a U.S. person, (v) any agency or branch of a foreign entity located in the United States, (vi) any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a U.S. person, (vii) any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organised, incorporated, or (if an individual) resident in the United States and (viii) any company

or corporation if: (A) organised or incorporated under the laws of any foreign jurisdiction; and (B) formed by a U.S. Person principally for the purpose of investing in securities not registered under the Securities Act, unless it is organised or incorporated, and owned, by accredited investors (as defined in Rule 501(a) under the Securities Act) who are not natural persons, estates or trusts.

*“Upper Tier 2”*

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

*“United States”*

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

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DEI PASCHI  
DI SIENA**  
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