

OFFERING MEMORANDUM

BANCA POPOLARE DI BERGAMO **CREDITO VARESINO**

300,000 Trust Preferred Securities **Banca Popolare di Bergamo Capital Trust**

**Noncumulative Fixed/Floating Rate Guaranteed
Trust Preferred Securities**
(Liquidation Preference €1,000 per Trust Preferred Security)
guaranteed to the extent described herein by

Banca Popolare di Bergamo-Credito Varesino S.c.r.l.

The Noncumulative Fixed/Floating Rate Guaranteed Trust Preferred Securities (the “Trust Preferred Securities”) offered hereby represent undivided beneficial ownership interests in the assets of Banca Popolare di Bergamo Capital Trust, a statutory business trust created under the laws of the State of Delaware (the “Trust”). The sole assets of the Trust will be the Noncumulative Fixed/Floating Rate Guaranteed Preferred Securities (the “LLC Preferred Securities”) issued by Banca Popolare di Bergamo Funding LLC, a limited liability company created under the laws of the State of Delaware (the “LLC”). The Trust Preferred Securities will be perpetual, will be denominated in euro and will have a fixed rate of cash distributions of 8.364 per cent. per annum of the liquidation preference of €1,000 per Trust Preferred Security to but excluding 15th February 2011 and thereafter will have a floating rate of cash distributions of 4.60 per cent. per annum above the Euro Inter-bank Offered Rate for three-month euro deposits (“EURIBOR”). Banca Popolare di Bergamo-Credito Varesino S.c.r.l. (the “Bank”), a bank incorporated with limited liability in Italy, will guarantee the Trust Preferred Securities and the LLC Preferred Securities on a subordinated basis (the “Subordinated Guarantees”) to the extent described in this offering memorandum. The LLC will directly own all the common securities of the Trust and the Bank will directly own all of the common securities of the LLC.

Investing in the Trust Preferred Securities and the Subordinated Guarantees involves risks. Please review the section entitled “Investment Considerations” beginning on page 28 of this offering memorandum.

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

The Trust Preferred Securities and the Subordinated Guarantees have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), or any state securities laws in the United States, are being offered and sold only outside the United States to non-US persons in reliance on Regulation S under the Securities Act and may not be offered or sold except in accordance with the restrictions described herein. See “Subscription and Sale.”

	Per Trust Preferred Security	Total
Price to investors.....	€1,000	€300,000,000
Proceeds, before expenses, to the Trust.....	€1,000	€300,000,000

The Trust Preferred Securities are offered by the Managers, as specified herein, subject to prior sale, when, as and if issued to and accepted by the Managers, and subject to the approval of certain legal matters by counsel for the Managers and to certain other conditions. It is expected that delivery of the Trust Preferred Securities will be through the facilities of the Euroclear System (“Euroclear”) and Clearstream Banking, société anonyme (formerly Cedelbank) (“Clearstream Luxembourg”) on or about 15th February 2001 against payment therefor in immediately available funds.

Merrill Lynch International

UniCredit Banca Mobiliare

Banca Popolare di Bergamo–Credito Varesino

The date of this offering memorandum is 9th February 2001.

TABLE OF CONTENTS

	<u>Page</u>
EXCHANGE RATE INFORMATION AND CURRENCY TRANSLATION	4
INCORPORATION BY REFERENCE	5
OFFERING MEMORANDUM SUMMARY	6
INVESTMENT CONSIDERATIONS	28
USE OF PROCEEDS	30
CAPITALISATION.....	31
BUSINESS	33
MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE AND CONDITION	50
MANAGEMENT AND EMPLOYEES	59
REGULATION	62
BANCA POPOLARE DI BERGAMO CAPITAL TRUST	73
BANCA POPOLARE DI BERGAMO FUNDING LLC	75
DESCRIPTION OF THE TRUST SECURITIES	77
DESCRIPTION OF THE LLC SECURITIES	94
DESCRIPTION OF THE INITIAL DERIVATIVE CONTRACT	103
DESCRIPTION OF THE SUBORDINATED GUARANTEES	105
DESCRIPTION OF THE ELIGIBLE INVESTMENTS	110
TAXATION	112
SUBSCRIPTION AND SALE	120
GENERAL LISTING INFORMATION	122
INDEX TO FINANCIAL STATEMENTS	F-1

The Bank, the Trust and the LLC, having made all reasonable inquiries, confirm that this offering memorandum contains all information with regard to the Bank, the Trust, the LLC and the Trust Preferred Securities that is material in the context of the issue and offering of the Trust Preferred Securities, that the information contained in this offering memorandum is true and accurate and is not misleading, 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 memorandum or any of such information or the expression of any such opinions or intentions materially misleading. The Bank, the Trust and the LLC accept responsibility accordingly.

This offering memorandum has been prepared solely for use in connection with the placement of the Trust Preferred Securities and for the listing of the Trust Preferred Securities on the Luxembourg Stock Exchange.

The information contained in this offering memorandum relating to the Bank, the Trust and the LLC was obtained from the Bank and other sources, but no assurance can be given by the Managers as to the accuracy or completeness of such information. The Managers assume no responsibility for the accuracy or completeness of the information contained herein (financial, legal or otherwise). In making an investment decision, investors must rely on their own examinations of the Bank, the Trust and the LLC and the terms of this offering, including the merits and risks involved. Moreover, the contents of this offering memorandum are not to be construed as legal, business or tax advice. Each prospective investor is urged to consult its own attorney, business or tax adviser for legal, business or tax advice.

No dealer, salesperson or other individual has been authorised to give any information or to make any representations other than those contained in this offering memorandum and, if given or made, such information or representations must not be relied upon as having been authorised. Neither the delivery of this offering memorandum nor any sale hereunder shall create, under any circumstances, any implication that there has been no change in the affairs of the Bank, the Trust or the LLC since the date hereof or that the information contained herein is correct as of any time after its date.

This offering memorandum does not constitute an offer of, or an invitation by or on behalf of, the Bank, the Trust, the LLC, the Managers or any of their respective directors, officers and affiliates to subscribe for or purchase any Trust Preferred Securities in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction. Each purchaser of the Trust Preferred Securities must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells the securities or possesses or distributes this offering memorandum and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the 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. The distribution of this offering memorandum and the offering of the Trust Preferred Securities in certain jurisdictions may be restricted by law. Persons into whose possession this offering memorandum comes are required by the Bank, the Trust, the LLC and the Managers and their respective directors, officers and affiliates to inform themselves about and to observe any such restrictions. Neither the Bank, the Trust, the LLC, the Managers nor any of their respective directors, officers or affiliates has any responsibility therefor. There is no undertaking to register the Trust Preferred Securities under any state or federal securities laws of the United States. The Trust Preferred Securities must not be resold in the United States unless they are subsequently registered or an exemption from registration is available.

For a further description of certain restrictions on the offering, sale and resale of the Trust Preferred Securities and on the distribution of this offering memorandum, see “Description of the Trust Securities—Form, Denomination and Transfer” and “Subscription and Sale.”

The Trust Preferred Securities have not been approved or disapproved by the US Securities and Exchange Commission (the “SEC”), any state securities commission in the United States or any other regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary may be unlawful.

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

Each subsequent purchaser of the Trust Preferred Securities will be deemed by its acceptance of those Trust Preferred Securities to have made certain acknowledgments, representations and agreements intended to restrict the resale or other transfer of those securities as set forth in the Trust Preferred Securities or described in this offering memorandum.

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

The Trust reserves the right to reject any offer to purchase, in whole or in part, for any reason, or to sell less than the full amount of the Trust Preferred Securities offered hereby.

In connection with this offering, Merrill Lynch International may over-allot or effect transactions which stabilise or maintain the market price of the Trust Preferred Securities at a level which might not otherwise prevail. Such transactions, if commenced, may be discontinued at any time.

EXCHANGE RATE INFORMATION AND CURRENCY TRANSLATION

This offering memorandum contains translations of certain Italian lira amounts into euro at the rate of ITL 1,936.27 = €1.00. This translation is based on the exchange rate at which the Italian lira was fixed against the euro at the commencement of the third stage of the European Economic and Monetary Union on 31st December 1998 pursuant to the treaty establishing the European Communities (signed in Rome on 25th March 1957), as amended by the Treaty on European Union (signed in Maastricht on 7th February 1992) (the “Maastricht Treaty”).

The Bank publishes its consolidated financial statements in Italian lire and euro. In this offering memorandum, unless the context otherwise requires, references to “€” and “euro” are to the euro and references to “ITL” are to Italian lire.

INCORPORATION BY REFERENCE

The consolidated audited annual and unaudited interim financial statements of the Group for the years ended 31st December 1998 and 1999 and for the six months ended 30th June 2000, and the unaudited reclassified consolidated balance sheet and the unaudited reclassified consolidated profit and loss account of the Group for the nine months ended 30th September 2000, are attached hereto and form part of this offering memorandum. In addition, the following documents are incorporated by reference in, and form part of, this offering memorandum:

- (a) the non-consolidated audited annual and unaudited interim financial statements of the Bank for the years ended 31st December 1998 and 1999 and for the six months ended 30th June 2000;
- (b) the unaudited non-consolidated reclassified balance sheet and unaudited non-consolidated reclassified profit and loss account of the Bank for the nine months ended 30th September 2000; and
- (c) the non-consolidated audited annual and unaudited interim financial statements for Banca Popolare di Ancona S.p.A. (“BPA”) for the years ended 31st December 1998 and 1999 and for the six months ended 30th June. See “Management’s Discussion and Analysis of Financial Performance and Condition – Offer to acquire Banca Popolare di Ancona S.p.A.”,

except that any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this offering memorandum to the extent that a statement contained herein or in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this offering memorandum.

A copy of any or all of the documents deemed to be incorporated herein by reference will be available free of charge from the principal office in Luxembourg of Deutsche Bank Luxembourg S.A. (the “Luxembourg Listing Agent”) so long as the Trust Preferred Securities are listed on the Luxembourg Stock Exchange.

OFFERING MEMORANDUM SUMMARY

The following summary is qualified in its entirety by, and is subject to, the more detailed information and the financial statements (including the notes thereto) contained elsewhere in this offering memorandum.

The Bank

The Bank was established in 1869 as a co-operative bank and is a medium-sized Italian commercial bank whose activities are mainly concentrated in the region of Lombardy in Northern Italy. The Bank currently has 340 branches, approximately 90 per cent. of which are based in Lombardy.

The Bank provides a full range of banking facilities primarily to retail lenders and small and medium-sized companies, traditionally focusing on its commercial lending activities.

In August 1992, the Bank became the first “*banca popolare*” to list on the main market of the Milan Stock Exchange.

The Group

The Group is made up of the Bank and its consolidated subsidiaries (the “Group”), and has a network of 590 branches, all but five of which are in Italy. In 1996, the Group increased in size as a result of the Bank’s acquisition of an interest in BPA. In late 2000, the Bank increased its interest in BPA to 94.6 per cent.

In addition, the Bank has conducted certain other acquisitions (see “Business—History and Overview”) which confirm the overall strategy of the Group to place an increasing emphasis on its corporate banking activities, together with its medium-term and long-term credit activities, merchant banking operations, mergers and acquisitions advisory services and corporate finance activities.

As at 30th June 2000, the Bank had consolidated total assets of ITL 53,894,387 million, of which loans and advances to customers accounted for ITL 37,000,461 million (68.7 per cent.). As at 30th June 2000, customer deposits accounted for approximately 72.5 per cent. of total liabilities.

Capital Treatment

The Bank intends to treat the LLC Preferred Securities as Tier 1 capital on a consolidated and stand-alone basis under relevant Italian regulatory capital guidelines.

This Offering

For a more complete description of the terms of the Trust Preferred Securities, the LLC Preferred Securities, the Derivative Contracts, the Subordinated Guarantees and the Subordinated Deposits referred to in the following summary, see “Description of the Trust Securities,” “Description of the LLC Securities,” “Description of the Initial Derivative Contract,” “Description of the Subordinated Guarantees” and “Description of the Eligible Investments” and the documents described therein. Capitalised terms used and not otherwise defined below have the respective meanings given to those terms under those headings.

The Trust	Banca Popolare di Bergamo Capital Trust, a Delaware statutory business trust, is an indirect wholly-owned subsidiary of the Bank. The Trust will issue its common securities (the “Trust Common Securities”) and the Trust Preferred Securities (collectively, the “Trust Securities”). The sole assets of the Trust will be the LLC Preferred Securities.
The LLC	Banca Popolare di Bergamo Funding LLC, a Delaware limited liability company, is a direct wholly-owned subsidiary of the Bank. The LLC will issue its common securities (the “LLC Common Securities”) and the LLC Preferred Securities (collectively, the “LLC Securities”) and enter into a credit derivative contract with the Bank (the “Initial Derivative Contract” and, together with renewals and replacements thereof, “Derivative Contracts”). The sole assets of the LLC will be the Trust Common Securities, a subordinated deposit (the initial subordinated deposit is referred to as the “Initial Subordinated Deposit” and, together with renewals and replacements thereof, “Subordinated Deposits”) with the Bank and other Eligible Investments. “Eligible Investments” means cash or book-entry securities, negotiable instruments, bank deposits (including Subordinated Deposits) or other investments which are identified as a permitted investment of a finance subsidiary pursuant to Rule 3a-5 under the US Investment Company Act of 1940 (the “1940 Act”) at the time it is acquired by the LLC.
Offered Securities	300,000 Trust Preferred Securities issued by the Trust having an aggregate liquidation preference of €300,000,000, and a liquidation preference of €1,000 per Trust Preferred Security. The Trust Preferred Securities represent undivided beneficial ownership interests in the assets of the Trust. The Trust Preferred Securities will have terms substantially identical to the terms of the LLC Preferred Securities.
Issue Date	On or about 15th February 2001.
Derivative Contracts	Upon entering into the Initial Derivative Contract, the Bank will pay an up-front fee to the LLC in the amount of €5,000,000 which the LLC will invest in Eligible Investments. If the Initial Derivative Contract is terminated before 15th February 2021 and not renewed or replaced, the LLC will refund the Bank’s up-front fee <i>pro rata</i> based on the remaining term of such contract. Under the Derivative Contracts, the LLC will agree to make a Shift

Payment (as defined below) to the Bank upon the occurrence of a Shift Event (as defined below). Neither the Bank nor the LLC is obligated to make any other payments under the Derivative Contracts. The Subordinated Deposits will support the LLC's obligations under the Derivative Contracts. The Initial Derivative Contract will expire on 15th February 2021, although the Bank and the LLC will undertake that, prior to the expiration of the Initial Derivative Contract, they will negotiate in good faith a renewal or replacement of such contract and the related collateral arrangements. The Derivative Contracts may be terminated at any time, in whole or in part, by mutual consent of the Bank and the LLC, with the prior approval, if then required, of the Bank of Italy.

The Derivative Contracts will be automatically terminated upon the liquidation, dissolution or winding-up of (or similar proceedings with respect to) the Bank.

Shift Event A "Shift Event" will be deemed to have occurred if: (1) as a result of losses incurred by the Bank, on a consolidated or stand-alone basis, the total risk-based capital ratio of the Bank, on a consolidated or stand-alone basis, as calculated in accordance with applicable Italian banking laws and regulations, and either (A) reported in the Bank's annual or semiannual consolidated or stand-alone accounts or (B) determined by the Bank of Italy and communicated to the Bank, falls below the then minimum requirements of the Bank of Italy specified in its February 2000 regulations governing *Strumenti Innovativi di Capitale*, as amended (currently 5.0 per cent.); or (2) the Bank of Italy, in its sole discretion, notifies the Bank that it has determined that the Bank's financial condition is deteriorating such that an event specified in clause (1) will occur in the near term.

Upon the occurrence of a Shift Event, under the Derivative Contracts the LLC will be obligated to pay to the Bank an amount equal to the lesser of (1) the amount that is sufficient to cure the Shift Event and (2) the outstanding amount payable by the LLC under the Derivative Contracts (the "Shift Payment"). Unless the LLC pays a Shift Payment in cash, under set-off arrangements between the Bank and the LLC under the Subordinated Deposits, the obligation of the LLC to pay the Bank a Shift Payment under the Derivative Contracts will be satisfied by the Bank reducing the amount outstanding under the Subordinated Deposits then held by the LLC by the amount of such Shift Payment.

The occurrence of a Shift Event will not cause a corresponding redemption of the LLC Preferred Securities.

Dividends Periodic cash distributions ("Dividends") on the Trust Preferred Securities with respect to each Dividend Period (as defined below) will be paid to the extent that Dividends on the LLC Preferred Securities have been declared or deemed declared and in each case

paid by the LLC to the Trust or paid by the Bank under the Subordinated Guarantees or otherwise with respect to the corresponding Dividend Period. Amounts paid to holders of the Trust Preferred Securities in respect of Dividends and other distributions will be limited to payments received by the Trust from the LLC with respect to the LLC Preferred Securities or from the Bank under the Trust Subordinated Guarantee or otherwise.

Dividends on the LLC Preferred Securities will accrue on a noncumulative basis at a fixed rate per annum (the "Fixed Dividend Rate") of 8.364 per cent. of the liquidation preference of €1,000 per LLC Preferred Security during each Dividend Period until the Dividend Period that begins on 15th February 2011 (the "Dividend Reset Date"), and during each Dividend Period thereafter at a floating rate per annum (each a "Floating Dividend Rate") of 4.60 per cent. above the EURIBOR for three-month deposits.

Dividends at the Fixed Dividend Rate will be payable, if declared or deemed declared by the LLC's Board of Directors (the "Board"), annually in arrear on 15th February of each year commencing 15th February 2002 to and including 15th February 2011, and thereafter quarterly in arrear on each 15th February, 15th May, 15th August and 15th November, commencing 15th May 2011 (each a "Dividend Payment Date").

Prior to the Dividend Period that begins on 15th February 2011, Dividends on the Trust Preferred Securities and the LLC Preferred Securities for any period shorter than a year will be calculated on the basis of the actual number of days in the relevant calendar year and the actual number of days elapsed during the relevant Dividend Period. Dividends that are payable on each Dividend Payment Date or date fixed for redemption ("Redemption Date") will be calculated as described below from and including the immediately preceding Dividend Payment Date (or from and including 15th February 2001, with respect to the Dividend payable on 15th February 2002) to but excluding the relevant Dividend Payment Date or Redemption Date, as the case may be (each such period, a "Dividend Period").

With respect to each Dividend Period commencing with the Dividend Period that begins on 15th February 2011, Dividends will be calculated on a quarterly basis for each such Dividend Period from and including the EURIBOR Reset Date (as defined herein) falling in such Dividend Period to but excluding the EURIBOR Reset Date falling in the next succeeding Dividend Period at the Floating Dividend Rate determined on the related EURIBOR Determination Date (as defined herein) for such Dividend Period. Dividends in respect of each Dividend Period commencing on or after 15th February 2011 for any period shorter than a year will be calculated on the basis of a 360-day year and the actual number of

days elapsed during such Dividend Period. Each Dividend Payment Date commencing on or after 15th February 2011 will also be a EURIBOR Reset Date.

The LLC is required to pay Dividends in full (“Required Dividends”) on the LLC Preferred Securities on each Dividend Payment Date unless: (1) the Bank does not have, according to the unconsolidated annual accounts of the Bank relating to the financial year immediately preceding the financial year in which a Dividend Payment Date falls or, where such accounts are not available, the last set of annual unconsolidated accounts approved by the Bank, net profits (“Distributable Profits”) that would be available for the payment of a dividend or the making of a distribution on any class of its share capital and/or the Bank has not declared or paid dividends on any class of its share capital based on the accounts used to calculate the relevant Distributable Profits; (2) the Bank is otherwise prohibited under applicable Italian banking laws or regulations from declaring a dividend or making a distribution on any class of its share capital; or (3) a Shift Event has occurred and is continuing or would result from the payment thereof; *provided, that*, the LLC will be prohibited from paying Dividends for any Dividend Period upon the occurrence and during the continuation of a Shift Event; *provided, however*, that notwithstanding the foregoing, if (A) dividends or other distributions have been declared or paid or (B) certain redemptions, repurchases or other acquisitions have been made by the Bank or any Subsidiary (as defined below), as the case may be, on or in respect of any Parity Securities (as defined below) or by the Bank on or in respect of any Junior Securities (as defined below), the LLC will be required to declare and pay Dividends on the LLC Preferred Securities in the manner and in the amounts described herein under “Description of the LLC Securities—LLC Preferred Securities—Dividends.”

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

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

even if Dividends or other distributions are declared (or deemed declared) or paid for any future Dividend Period.

“Parity Securities” means (1) any preferred share, guarantee or similar instrument (other than the Subordinated Guarantees) issued by the Bank which ranks equally with the Subordinated Guarantees (including any such guarantee or similar instrument of preferred securities or preferred or preference shares issued by any Subsidiary) and (2) the preferred securities or preferred or preference shares issued by a Subsidiary with the benefits of a guarantee or similar instrument from the Bank, which guarantee or similar instrument ranks equally with the Subordinated Guarantees, but does not include any such securities or shares issued to the Bank by any such Subsidiary.

“Subsidiary” means any person or entity which is required to be consolidated with the Bank for financial reporting purposes under applicable Italian banking laws and regulations.

“Junior Securities” means all share capital of the Bank, including its preferred shares (“*Azioni Privilegiate*”), ordinary shares and savings shares (“*Azioni di Risparmio*”), now or hereafter issued, other than any share capital of the Bank that expressly or effectively ranks equally with the Subordinated Guarantees or any Parity Security.

LLC Common Securities Any net income of the LLC not required to pay Dividends or make other payments on the LLC Preferred Securities or to pay expenses of the LLC shall be distributed as soon as practicable to the Bank, as holder of the LLC Common Securities. The LLC may also use any of its assets or proceeds therefrom, other than the Subordinated Deposits and proceeds therefrom, to pay its expenses or dividends to the holders of the LLC Common Securities at any time, provided that the minimum aggregate principal amount of such assets or proceeds owned by the LLC after such payment shall at all times be not less the €1,000,000.

As the holder of the LLC Common Securities, the Bank will provide the LLC with the funds necessary for payment by the LLC of all the fees and expenses of the LLC that are not covered by the income from the Eligible Investments. As the holder of the Trust Common Securities, the LLC will pay all fees and expenses of the Trust.

The Subordinated Guarantees The Bank will guarantee, on a subordinated basis, certain payments on the LLC Preferred Securities (the “LLC Subordinated Guarantee”) and the Trust Preferred Securities (the “Trust Subordinated Guarantee” and, collectively with the LLC Subordinated Guarantee, the “Subordinated Guarantees”). The Subordinated Guarantees are intended to provide holders of the Trust Preferred Securities with rights to Dividends and Additional

Amounts (as defined below) and holders of the LLC Preferred Securities with rights to Dividends and LLC Additional Amounts (as defined below) and, in each case, rights upon redemption and liquidation that are equivalent to those to which the holders would have been entitled if the Trust Preferred Securities or the LLC Preferred Securities, as the case may be, were issued directly by the Bank.

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

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

Any such payment by the Bank under the Subordinated Guarantees is referred to herein as a “Subordinated Guarantee Payment.”

Notwithstanding the restrictions on the declaration and payment of Dividends by the LLC, the Bank will be permitted to make payments to the Trust, as holder of the LLC Preferred Securities, or to holders of the Trust Preferred Securities, in each case under the Subordinated Guarantees or otherwise in its discretion; *provided, that*, the Bank will be prohibited from making any Subordinated Guarantee Payment so long as a Shift Event has occurred and is continuing; *provided further, that*, notwithstanding the foregoing, if (A) dividends or other distributions have been declared or paid or (B) certain redemptions, repurchases or other acquisitions have

been made by the Bank or any Subsidiary, as the case may be, on or in respect of any Parity Securities or by the Bank on or in respect of any Junior Securities, the Bank will be required to make a Subordinated Guarantee Payment in respect of Required Dividends on the LLC Preferred Securities in the manner and amount described herein under “Description of the LLC Securities—LLC Preferred Securities—Dividends” and “Description of the Subordinated Guarantees—General.”

Unless the LLC pays a Shift Payment to the Bank in cash upon the occurrence of a Shift Event, under the Derivative Contracts and the Subordinated Deposits, all or a portion of the Subordinated Deposits will be reduced as a result of a set-off in the amount of such Shift Payment. Consequently, it is anticipated that a substantial portion of any claim of the holders of the LLC Preferred Securities after the occurrence of a Shift Event will be required to be satisfied under the LLC Subordinated Guarantee.

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

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

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

Payment of Additional Amounts All payments in respect of the Trust Securities made by or on behalf of the Trust will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature, imposed or levied by or on behalf of the Republic of Italy, the United States or any jurisdiction of residence of an Eligible Borrower (as defined below), (each, a “Relevant Jurisdiction”) or any authority therein or thereof having power to tax (collectively, “Relevant Tax”) payable by or on behalf of the Trust, unless the withholding or

deduction of such Relevant Tax is required by law. In that event, the Trust will pay, as further Dividends, such additional amounts (“Additional Amounts”) as may be necessary in order that the net amounts received by the holders of the Trust Securities (or a third party on the holder’s behalf), after such withholding or deduction, will equal the amount which would have been received in respect of the Trust Securities in the absence of such withholding or deduction, except that no such Additional Amounts will be payable to a holder of Trust Securities (or a third party on any such holder’s behalf) with respect to any Trust Securities to the extent that such Relevant Tax is imposed or levied by virtue of such holder (or the beneficial owner of such Trust Securities) (1) having some connection with the Relevant Jurisdiction, other than being a holder (or beneficial owner) of such Trust Securities or (2) not having made a declaration of non-residence in, or other lack of connection with, the Relevant Jurisdiction or any similar claim for exemption, if the Bank or its agent has provided the beneficial owner of such Trust Securities or its nominee with at least 60 days’ prior written notice of an opportunity to make such a declaration or claim.

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

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

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

Redemption and Repurchases The LLC Preferred Securities may be redeemed by the LLC, at its option, in whole or in part, at the Regular Redemption Price (as defined below) on any Dividend Payment Date occurring on or after 15th February 2011, with the prior approval, if then required, of the Bank of Italy. Upon the occurrence of an LLC Special Event (as defined below) (other than a Change in Law Tax Event (as defined below) with respect to the LLC), the LLC Preferred Securities may be redeemed by the LLC, at its option, in whole but

not in part, at the Regular Redemption Price on any Dividend Payment Date if such redemption occurs on or after 15th February 2011 (a “Regular Redemption Date”), or at the Special Redemption Price (as defined below) on any Dividend Payment Date if such redemption occurs prior to 15th February 2011 (the “Special Redemption Date” and, together with a Regular Redemption Date, a “Redemption Date”), in each case, with the prior approval, if then required, of the Bank of Italy. Upon the occurrence of a Change in Law Tax Event with respect to the LLC, the LLC Preferred Securities may be redeemed by the LLC, at its option, in whole but not in part, at the Regular Redemption Price on any Dividend Payment Date, with the prior approval, if then required, of the Bank of Italy.

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

The “Regular Redemption Price” means the liquidation preference of €1,000 per LLC Preferred Security, plus any accumulated and unpaid Dividends for the Dividend Period ending on the day immediately preceding the Regular Redemption Date, plus (without duplication) any unpaid Required Dividends, plus any LLC Additional Amounts thereon.

The “Special Redemption Price” means the greater of (1) the liquidation preference of €1,000 per LLC Preferred Security and (2) the Make-Whole Amount (as defined below), plus, in the case of either (1) or (2), any accumulated and unpaid Dividends for the Dividend Period ending on the day immediately preceding the Special Redemption Date, plus (without duplication) any unpaid Required Dividends, plus any LLC Additional Amounts thereon.

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

“Make-Whole Amount” means the amount equal to the sum of the present value of the liquidation preference of €1,000 per LLC Preferred Security, together with the present values of the scheduled noncumulative Dividend payments per LLC Preferred Security from the Special Redemption Date to the Dividend Payment Date on 15th February 2011, in each case, discounted to the Special Redemption Date on an annual basis, calculated on the basis of the actual number of days in the relevant calendar year and

the actual number of days in such period, at the German Bund Rate (as defined herein) plus .50 per cent.

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

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

A “Capital Event” means the Bank is notified by the Bank of Italy to the effect that the LLC Preferred Securities may not be included in the consolidated or stand-alone Tier 1 capital of the Bank.

An “Investment Company Event” means that the Bank shall have requested and received an opinion of a nationally recognised United States law firm experienced in such matters to the effect that there is more than an insubstantial risk that the Trust or the LLC is or will be considered an “investment company” within the meaning of the 1940 Act, as a result of any judicial decision, any pronouncement or interpretation (irrespective of the manner made known), any adoption or amendment of any law, rule or regulation or any notice or announcement (including any notice or announcement of intent to adopt such rule or regulation) by any United States legislative body, court, governmental agency or regulatory authority after the date hereof.

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

A “Change in Law Tax Event” means the receipt by the Bank of an opinion of a nationally recognised law firm or other tax adviser in the Relevant Jurisdiction, as appropriate, experienced in such matters, to the effect that, as a result of: (1) any amendment to, or clarification of, or change (including any announced prospective change) in, the laws or treaties (or any regulations promulgated thereunder) of such Relevant Jurisdiction or any political subdivision or taxing authority thereof or therein affecting taxation; (2) any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) (for purposes of this definition, an “Administrative Action”); or (3) any amendment to, clarification of, or change in the official position or the interpretation of such Administrative Action or any interpretation or pronouncement that provides for a position with respect to such Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental, administrative or regulatory authority or body, irrespective of the manner in which such amendment, clarification

or change is made known, which amendment, clarification or change is effective, or which pronouncement or decision is announced, on or after the date of original issuance of the Trust Preferred Securities and the LLC Preferred Securities as a result of which, there is more than an insubstantial risk that: (A) the Trust or the LLC is or will be subject to more than a *de minimis* amount of taxes, duties or other governmental charges; (B) if a payment in respect of the Trust Securities or the LLC Preferred Securities were to be due (whether or not the same is in fact then due) on or before the next Dividend Payment Date, the Trust or the LLC, as the case may be, would be unable to make such payment without having to pay Additional Amounts or LLC Additional Amounts, as the case may be; or (C) if a payment in respect of a Subordinated Deposit were to be due (whether or not the same is in fact then due) on or before the next interest payment date in respect of such Subordinated Deposit, the related Eligible Borrower would be unable to make such payment without having to pay Subordinated Deposit Additional Amounts; *provided, however*, that none of the foregoing events shall constitute a Change in Law Tax Event if such event or events may be avoided by the related Eligible Borrower, the Trust or the LLC taking reasonable measures which (x) do not require the Eligible Borrower, the LLC or the Trust to incur material out-of-pocket expenses and (y) would not otherwise be disadvantageous to the Bank or the related Eligible Borrower, as determined in the Bank's discretion.

An "Interpretation Tax Event" means, to the extent not covered in the definition of "Change of Law Tax Event," the receipt by the Bank of an opinion of a nationally recognised law firm or other tax adviser experienced in such matters, to the effect that, as a result of a change in the official interpretation of Italian tax laws as currently in force contained in a public release by non-governmental or governmental tax or other authorities, generally accepted practice in Italy would require the Eligible Borrower under a Subordinated Deposit to pay Subordinated Deposit Additional Amounts in connection with a payment thereunder (whether or not the same is in fact due); *provided, however*, that none of the foregoing events shall constitute an Interpretation Tax Event if such event or events may be avoided by the related Eligible Borrower, the Trust or the LLC taking reasonable measures which (x) do not require the Eligible Borrower, the LLC or the Trust to incur material out-of-pocket expenses and (y) would not otherwise be disadvantageous to the Bank or the related Eligible Borrower, as determined in the Bank's discretion.

A "Tax Deductibility Event" means the receipt by the Bank of an opinion of a nationally recognised law firm or other tax adviser, as appropriate, in the Relevant Jurisdiction in which an Eligible Borrower is located and experienced in such matters, to the effect that, as a result of (1) any amendment to, or clarification of, or

change (including any announced prospective change) in, the laws or treaties (or any regulations promulgated thereunder) of such Relevant Jurisdiction or any political subdivision or taxing authority thereof or therein affecting taxation, (2) 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) in such Relevant Jurisdiction (for purposes of this definition, an “Administrative Action”) or (3) any amendment to, clarification of, or change in the official position or the interpretation of such Administrative Action or any interpretation or pronouncement that provides for a position with respect to such Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental, administrative or regulatory authority or body in such Relevant Jurisdiction, 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, in each case, after the date of the making of such Subordinated Deposit as a result of which there is more than an insubstantial risk that such Eligible Borrower will be subject to more than a *de minimis* additional amount of national income taxes due to a change or modification of the deductibility of the interest payments on such Subordinated Deposit, *provided, however*, that none of the foregoing events shall constitute a Tax Deductibility Event unless the Bank, such Eligible Borrower, the LLC and the Trust have used their respective best efforts to achieve comparable tax benefits for the Bank, including without limitation replacing such Subordinated Deposit or such Eligible Borrower.

Subject to certain exceptions described herein under “Description of the Trust Securities—Redemption” and in the LLC Agreement, so long as any LLC Preferred Securities are outstanding, neither the Bank nor any of its affiliates will be entitled to redeem, repurchase or otherwise acquire, or set apart funds for the redemption, repurchase or other acquisition of, any Parity Securities or Junior Securities, through a sinking fund or otherwise, unless and until (A) full Dividends on all LLC Preferred Securities for the prior financial year (or such lesser period during which the LLC Preferred Securities have been outstanding) and any Dividend Periods that have occurred during the current financial year have been paid or a sum sufficient for payment has been paid over to the paying agent for payment of such Dividends and (B) the LLC has declared Dividends on the LLC Preferred Securities in full at the Dividend Rate for the then current Dividend Period and sufficient funds have been paid to the paying agent for the payment of such Dividends. It is an obligation of the Bank to ensure that its affiliates observe the foregoing limitations.

Liquidation Preference	Trust Preferred Securities: liquidation preference of €1,000 per Trust Preferred Security.
	LLC Preferred Securities: liquidation preference of €1,000 per LLC Preferred Security.
	<p>The Trust will only be dissolved, liquidated, wound-up or terminated in the limited circumstances described under “Description of the Trust Securities—Liquidation Distribution Upon Dissolution.” In the event of any such voluntary or involuntary dissolution, liquidation, winding-up or termination of the Trust, holders of the Trust Securities will be entitled to receive a corresponding number of the LLC Preferred Securities with an equivalent aggregate liquidation preference.</p>
	<p>So long as the LLC Preferred Securities are outstanding, the LLC will only be liquidated, dissolved or wound up upon the liquidation, dissolution or winding-up of the Bank and with the prior approval, if then required, of the Bank of Italy. In the event of any such voluntary or involuntary dissolution, liquidation or winding-up of the LLC, holders of the LLC Preferred Securities will, subject to certain limitations, be entitled to receive out of assets of the LLC available for distribution to security holders after satisfaction of liabilities of creditors in accordance with applicable law and distribution of the Subordinated Deposits and Eligible Investments to the holders of the LLC Common Securities, the liquidation preference of €1,000 per LLC Preferred Security, plus declared or deemed declared and unpaid Dividends thereon, if any, to the date of such liquidation, without any interest.</p>
	<p>So long as any LLC Preferred Securities are outstanding, if the Bank is dissolved, liquidated or wound up, the LLC must be dissolved, liquidated or wound up. So long as any Trust Preferred Securities are outstanding, if the Bank or the LLC is dissolved, liquidated or wound up, the Trust must be dissolved, liquidated or wound up.</p>
	<p>Upon liquidation, dissolution or winding-up of the LLC, the Property Trustee (as defined herein) shall enforce the LLC Subordinated Guarantee solely for the benefit of the Trust as sole holder of the LLC Preferred Securities.</p>
	<p>Under the terms of the LLC Agreement, and to the fullest extent permitted by law, the LLC shall not be dissolved until all claims under the LLC Subordinated Guarantee shall have been paid to the fullest extent pursuant to the terms thereof.</p>
Regular Independent Director	The LLC Agreement will provide that, for as long as any LLC Preferred Securities are outstanding, there will at all times be a member of the Board that is not an employee, non-independent director or affiliate of the Bank or any of its affiliates and who shall act, to the fullest extent permitted by law, exclusively on behalf of

the holders of the LLC Preferred Securities (the “Regular Independent Director”).

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

So long as any LLC Preferred Securities are outstanding, certain actions (the “Designated Actions”) by the LLC must be approved by the Regular Independent Director as well as by a majority of the entire Board. The Designated Actions include (1) the payment of Dividends or the making of distributions on the LLC Common Securities other than in accordance with the LLC Agreement, (2) the conversion of the LLC into another type of entity or the consolidation or merger of the LLC into any other entity, the consolidation or merger of any other entity with or into the LLC or the sale of all or substantially all of the assets of the LLC other than in accordance with the LLC Agreement, (3) to the fullest extent permitted by law, any dissolution, liquidation or winding-up of the LLC that is not concurrent with the dissolution, liquidation or winding-up of the Bank, (4) any amendment, modification, renewal or replacement of the LLC Preferred Securities, the LLC Subordinated Guarantee, the Subordinated Deposits or the Derivative Contracts (or any other security, contract obligation, agreement or instrument that is an asset of the LLC) which adversely affects the powers, preferences or special rights of the LLC Preferred Securities in any material respect, (5) the approval of the direct or indirect sale, transfer or other disposition by the Bank of the LLC Common Securities other than to a branch of the Bank or a subsidiary of the Bank that is deemed to be a “company controlled by the parent company” within the meaning of Rule 3a-5 of the 1940 Act, (6) the approval of the direct or indirect sale, transfer or other disposition by the LLC of the Trust Common Securities other than to a subsidiary of the Bank incorporated in any State in the United States that is deemed to be a “company controlled by the parent company” within the meaning of Rule 3a-5 of the 1940 Act and (7) any other action by the LLC or the Bank that could reasonably be expected to adversely affect the interests of the holders of the LLC Preferred Securities or the Trust Securities in any material respect.

The Regular Independent Director, acting alone and without the vote or consent of the other members of the Board (other than any Special Independent Director) will be entitled to take any and all such actions on behalf of the LLC in respect of the Subordinated

Deposits, the LLC Subordinated Guarantee, the Derivative Contracts or any other right or remedy or course of action available to the LLC against the Bank or any other party; *provided, however, that*, unless otherwise required by law, the Regular Independent Director shall not take any action if otherwise directed by the Property Trustee as the holder of the LLC Preferred Securities.

Voting Rights

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

The LLC Preferred Securities will also be non-voting, except that holders of the LLC Preferred Securities (and consequently, holders of the Trust Preferred Securities) are entitled to elect one additional member to the Board that is not an employee, non-independent director or affiliate of the Bank or any of its affiliates (a “Special Independent Director” and together with the Regular Independent Director, the “Independent Directors”) upon the occurrence of a Shift Event or if Required Dividends and any LLC Additional Amounts have not been paid in full by the LLC or by the Bank under the Subordinated Guarantees, together with any Guarantor Additional Amounts that may be payable thereon, for any Dividend Payment Date. In addition, a majority in liquidation preference of the outstanding LLC Preferred Securities will have the right to replace the Special Independent Director so long as such Shift Event or non-payment is continuing. Any Special Independent Director of the Board so elected will vacate office if Dividend payments are paid on the LLC Preferred Securities, either by the LLC or by the Bank under the LLC Subordinated Guarantee, on each Dividend Payment Date for 12 consecutive months.

If the Property Trustee fails to enforce (1) the rights of the Trust under the LLC Preferred Securities against the LLC or (2) the rights of the Trust under the LLC Subordinated Guarantee against the Bank after a holder of the Trust Preferred Securities has made a written request, such holder may directly institute a legal proceeding against the LLC to enforce the Trust’s rights under the LLC Preferred Securities or against the Bank to enforce the Trust’s

rights under the LLC Subordinated Guarantee, without first instituting any legal proceeding against the Property Trustee, the Trust, the LLC or the Independent Directors.

If the Independent Directors fail to enforce the rights of the LLC under the Subordinated Deposit against the applicable Eligible Borrower after a holder of the LLC Preferred Securities has made a written request, such holder may directly institute a legal proceeding against such Eligible Borrower to enforce the LLC's rights under such Subordinated Deposit without first instituting any legal proceeding against the Property Trustee, the LLC or the Independent Directors.

With certain exceptions, the Subordinated Guarantees may not be modified, except with the prior approval of the holders of not less than 66⅔ per cent. of the aggregate liquidation preference of the outstanding Trust Preferred Securities or LLC Preferred Securities, as the case may be (excluding any Trust Preferred Securities or LLC Preferred Securities, as the case may be, held by the Bank or any of its affiliates, with certain exceptions).

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

Each Subordinated Deposit will constitute an unsecured obligation of the Bank that will be the most subordinated instrument of the Bank and will be junior in right of payment to all present and future senior indebtedness of the Bank.

Interest on the Initial Subordinated Deposit will accrue and be payable as follows: (1) interest will accrue to but excluding 15th February 2011 at the annual rate of 8.364 per cent. of the principal amount thereof and will be payable annually in arrear on the same dates as the Dividend Payment Dates of the Trust Preferred Securities and the LLC Preferred Securities and (2) thereafter, interest will accrue at the annual rate of 4.60 per cent. above EURIBOR of the principal amount thereof and will be payable quarterly in arrear on the same dates as the Dividend Payment Dates of the Trust Preferred Securities and the LLC Preferred Securities. Interest on the Initial Subordinated Deposit shall be determined, shall accrue and shall be payable in conformity with the conventions for Dividend determination, accrual and payment under the LLC Agreement.

The Initial Subordinated Deposit will mature on 15th February 2021 *provided, however*, that if the Initial Derivative Contract is renewed or replaced, the LLC will, to the extent necessary, make one or more other Subordinated Deposits with one or more

branches of the Bank (together with the Bank, the “Eligible Borrowers”) from the proceeds of the Subordinated Deposits then outstanding in connection with its obligations under such renewed or replaced Derivative Contract, subject to the matters described below.

The Initial Subordinated Deposit will be subject to redemption by the Bank at any time, with prior approval, if then required, of the Bank of Italy.

The LLC may reinvest the proceeds from the repayment of the Initial Subordinated Deposit or any other Subordinated Deposit only if: (1) there would be no adverse tax consequences to the Bank as a consequence of such reinvestment; (2) there would be no adverse withholding tax consequences to holders of the Trust Preferred Securities or the LLC Preferred Securities; (3) the Bank receives prior written confirmation from the Bank of Italy approving such reinvestment and that the LLC Preferred Securities would continue to qualify as Tier 1 capital of the Bank on a consolidated and stand-alone basis; (4) neither the Trust nor the LLC would be required to register as an investment company under the 1940 Act; (5) the LLC would continue to be treated as a partnership and the Trust would continue to be classified as a grantor trust, in each case, for US federal income tax purposes; and (6) the Bank delivers to the Regular Independent Director an officers’ certificate and an opinion of counsel stating that all conditions precedent to such reinvestment have been complied with.

Services Agreement The LLC and the Trust will enter into a Services Agreement with Lord Securities Corporation. Under the Services Agreement, Lord Securities Corporation will be obligated, among other things, to provide legal, accounting, tax and other general support services, to maintain compliance with all pertinent US and Italian local, state and federal laws, and to provide necessary administrative, record-keeping and secretarial services for the LLC and the Trust. So long as any of the LLC Securities or the Trust Securities remain outstanding the Services Agreement may only be terminated on or following 15th February 2003 and on condition that a successor services provider is appointed.

Governing Law The LLC Agreement, including the terms of the LLC Securities, and the Trust Agreement, including the terms of the Trust Securities, will be governed by the laws of the State of Delaware. The Subordinated Guarantees, the Derivative Contracts, the Subordinated Deposits and the Services Agreement will be governed by the laws of the State of New York.

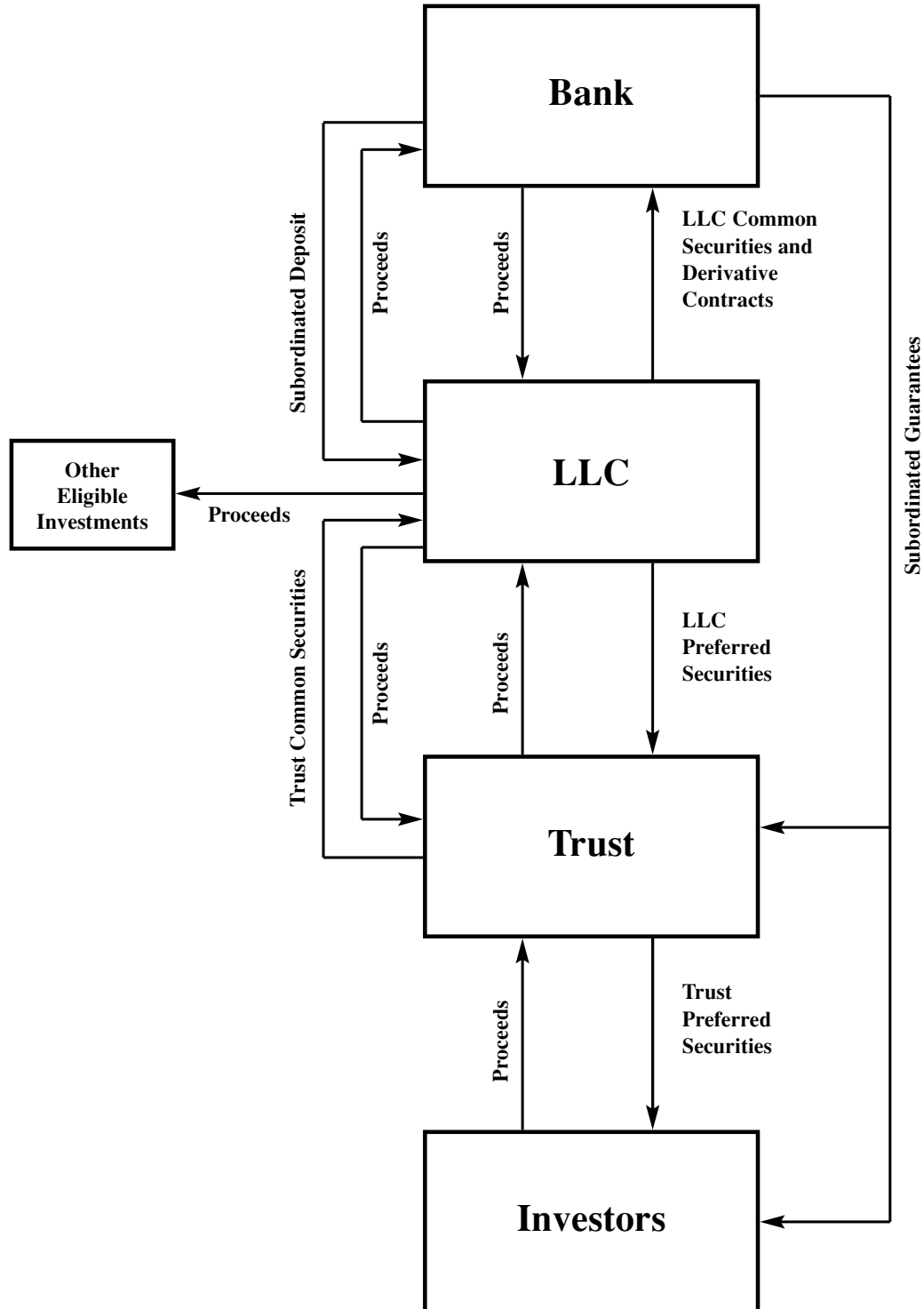
Listing Application has been made to list the Trust Preferred Securities on the Luxembourg Stock Exchange.

Form and Denomination	<p>The Trust Preferred Securities will be issued in denominations of €1,000 per Trust Preferred Security. The Trust Preferred Securities will initially be represented by a temporary global certificate (the “Temporary Global Certificate”) which will be deposited on or about the Issue Date with The Bank of New York, as common depositary for Euroclear and Clearstream Luxembourg (the “Common Depositary”). The Temporary Global Certificate will be exchanged, not earlier than 40 days after the Issue Date (the “Exchange Date”), for beneficial interests in a registered permanent global certificate (the “Permanent Global Certificate” and, together with the Temporary Global Certificate, the “Global Securities”). Under certain limited circumstances described under “Description of the Trust Securities–Form, Denomination and Transfer,” the Permanent Global Certificate may be exchanged for definitive Trust Preferred Securities, in each case, upon certification of non-US beneficial ownership in the manner required by applicable United States Treasury Department regulations. No payment will be made in respect of any beneficial interest in the Temporary Global Security after the Exchange Date. Beneficial interests in any Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream Luxembourg and their respective participants. See “Description of the Trust Securities–Form, Denomination and Transfer.”</p>
Certain Covenants of the Bank	<p>The Bank will agree, <i>inter alia</i>, that, for so long as any of the Trust Preferred Securities or the LLC Preferred Securities are outstanding, it will procure that each of its subsidiaries and affiliates observe the restrictions imposed on it by virtue of the Trust Agreement and/or the LLC Agreement. Each of the Bank and the LLC will agree, <i>inter alia</i>, that, for so long as any of the Trust Preferred Securities or the LLC Preferred Securities are outstanding: (1) it will not issue any preferred securities or preferred or preference shares ranking senior to its obligations under the Subordinated Guarantees; (2) it will cause the LLC Common Securities to be held by the Bank, a branch of the Bank or, with the prior approval of the Bank of Italy, if then required, by one or more subsidiaries of the Bank each of which is deemed to be a “company controlled by the parent company” within the meaning of Rule 3a-5 of the 1940 Act; (3) it will cause the Trust Common Securities to be held by the LLC or, with the prior approval of the Bank of Italy, if then required, by one or more subsidiaries of the Bank incorporated under the laws of any State of the United States each of which is deemed to be a “company controlled by the parent company” within the meaning of Rule 3a-5 of the 1940 Act; (4) it will not permit, or take any action to cause, the Trust to issue securities other than the Trust Securities; (5) it will not permit, or take any action to cause, the liquidation, dissolution or winding-up of the LLC or the Trust (other than in the case of a Trust Special Event), unless the Bank (or in the case of</p>

	<p>the Trust, the LLC or the Bank) is itself in liquidation and, if then required, the approval of the Bank of Italy for such action has been received and all claims under the Subordinated Guarantees shall have been paid in full; (6) it will not assign its obligations under the Subordinated Guarantees except in the case of the merger, demerger (“<i>scissione</i>”) under Italian law, or consolidation of the Bank or the sale of substantially all of the Bank’s assets where the Bank is not the surviving entity; (7) if the Bank or the LLC is in liquidation other than as contemplated by clause (5), it will cause the Trust to liquidate; (8) it will cause the Trust to irrevocably assign its rights under the LLC Subordinated Guarantee only to the Property Trustee; and (9) it will not cause the LLC to incur indebtedness for borrowed money or take any action that could reasonably be expected to cause an LLC Special Event to occur.</p>	
Use of Proceeds	<p>All of the proceeds from the sale of the Trust Securities will be invested by the Trust in the LLC Preferred Securities. The LLC will use the proceeds from the sale of the LLC Securities and the up-front fee payable by the Bank under the Initial Derivative Contract to invest in Eligible Investments, including the Initial Subordinated Deposit. The Bank will use the proceeds from the Initial Subordinated Deposit for general corporate purposes.</p>	
US Transfer Restrictions	<p>The Trust Preferred Securities have not been and will not be registered under the Securities Act and may not at any time be offered, sold or otherwise transferred in the United States or to any US person, except as described under “Subscription and Sale.”</p>	
Ratings	<p>Each of the Trust Preferred Securities and the LLC Preferred Securities are expected to be assigned a rating of “a3” by Moody’s Investors Service Inc. and “BBB+” by Standard & Poor’s Ratings Group.</p> <p>A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency without notice. Each rating should be evaluated independently of any other rating.</p>	
Clearing Systems and Settlement	<p>The Trust Preferred Securities have been accepted for clearance through the facilities of Euroclear and Clearstream Luxembourg.</p>	
Securities Identification Numbers	Common Code:	012399839
	ISIN:	XS0123998394

EXPLANATORY DIAGRAM

The following diagram outlines the relationship between the Bank, the LLC, the Trust and the investors following the completion of the offering:



Structure

- The Bank establishes the LLC in Delaware to issue Tier 1 capital in the form of the LLC Preferred Securities and to enter into the Initial Derivative Contract with the Bank.
- The LLC issues LLC Common Securities to the Bank and LLC Preferred Securities to the Trust.
- The LLC uses the proceeds from the LLC Common Securities and the LLC Preferred Securities to (i) make the Subordinated Deposit with the Bank to secure its obligations to the Bank under the Initial Derivative Contract and (ii) invest in a portfolio of other Eligible Investments.
- The Trust issues the Trust Common Securities to the LLC and the Trust Preferred Securities to the investors.
- The Bank enters into Subordinated Guarantees with respect to dividends, redemption and liquidation payments on the LLC Preferred Securities and the Trust Securities.

Regulatory

- The Bank intends to treat LLC Preferred Securities as Tier 1 capital for the Bank on a consolidated and stand-alone basis under relevant Italian regulatory capital guidelines.

INVESTMENT CONSIDERATIONS

Prospective investors should carefully consider the following investment considerations with the other information contained in this offering memorandum before purchasing Trust Preferred Securities.

The Group's Financial Condition

If the Group's financial condition were to deteriorate, the LLC and the holders of the Trust Preferred Securities and the LLC Preferred Securities could suffer direct and materially adverse consequences, including suspension of the payment of noncumulative Dividends on the Trust Preferred Securities and the LLC Preferred Securities and, if a liquidation, dissolution or winding-up of the Bank were to occur, loss by holders of the Trust Preferred Securities and the LLC Preferred Securities of all or part of their investment. See “—Rights Under the Subordinated Guarantees; Ranking of the Subordinated Guarantees,” “Description of the Trust Securities,” “Description of the LLC Securities” and “Description of the Subordinated Guarantees.”

Risks Associated with the Integration of Recent Acquisitions

During the second half of 2000, the Bank concluded a number of important acquisition transactions, including the acquisition of additional interests in Centrobanca S.p.A. (“Centrobanca”) and BPA. See “Business—History and Overview” and “Management's Discussion and Analysis of Financial Performance and Condition.” While management views the acquisition of Centrobanca as being strategically important to the continued development of the Group's business, Centrobanca has had significantly greater asset quality problems in the past when compared to the Group as a whole, and the continued improvement of its loan portfolio will be a challenge for management. The Bank has had an interest in BPA since 1996 and has actively participated in its management.

Different Methods Used to Classify Risk Elements in Loan Portfolio; Related Considerations

The Group classifies the risk elements in its domestic loan portfolio in accordance with appropriate requirements of the Bank of Italy and Italian law. Although not as strict as the corresponding requirements in certain other countries, the Bank believes its criteria in this respect are as conservative as those adopted by most major Italian banking groups.

Rights Under the Subordinated Guarantees; Ranking of the Subordinated Guarantees

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

No Obligation to Pay Dividends; Dividends Not Cumulative

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

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

Optional Redemption Upon the Occurrence of an LLC Special Event or Trust Special Event

Redemption upon Occurrence of an LLC Special Event.

If an LLC Special Event (other than a Change In Law Tax Event with respect to the LLC) shall have occurred, then the LLC Preferred Securities (and, consequently, the Trust Preferred Securities) will be redeemable at the option of the LLC, with the prior approval, if then required, of the Bank of Italy, in whole but not in part, at the Regular Redemption Price on any Dividend Payment Date if such redemption occurs on or after 15th February 2011, or at the Special Redemption Price on any Dividend Payment Date if such redemption occurs prior to 15th February 2011. In addition, upon the occurrence of a Change In Law Tax Event with respect to the LLC, the LLC Preferred Securities may be redeemed by the LLC, at its option, in whole but not in part, at the Regular Redemption Price on any Dividend Payment Date, with prior approval, if then required, of the Bank of Italy. See “Description of the Trust Securities—Redemption” and “Description of the LLC Securities—Redemption and Repurchase of LLC Preferred Securities.”

Liquidation of the Trust Upon Occurrence of a Trust Special Event.

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

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

No Voting Rights

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

The LLC Preferred Securities will also be non-voting, except that, upon the occurrence of a Shift Event or the failure of the LLC to pay Required Dividends and LLC Additional Amounts, or of the Bank to pay amounts in respect thereof under the LLC Subordinated Guarantee, for any Dividend Period, the holders of the LLC

Preferred Securities will have the right to elect one Special Independent Director of the Board. Any Special Independent Director of the Board so elected will vacate office if Dividend payments are paid on the LLC Preferred Securities, either by the LLC or by the Bank under the LLC Subordinated Guarantee, on each Dividend Payment Date for 12 consecutive months.

Absence of Prior Public Market

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

USE OF PROCEEDS

The net proceeds of the offering (after deducting the management and underwriting commissions) are estimated to be approximately €297,000,000. All of the proceeds from the sale of the Trust Securities will be invested by the Trust in the LLC Preferred Securities. The LLC will use the proceeds from the sale of the LLC Securities and the up-front fee payable by the Bank under the Initial Derivative Contract to invest in Eligible Investments, including the Initial Subordinated Deposit. The Bank intends to use the proceeds from the Initial Subordinated Deposit for general corporate purposes, which may include the refinancing of a portion of the indebtedness incurred in connection with the BPA acquisition. See “Management’s Discussion and Analysis of Financial Performance and Condition.”

CAPITALISATION

The information in Italian Lire in the following table is (except as indicated below) extracted from the unaudited consolidated interim accounts of the Group prepared in accordance with Italian generally accepted accounting principles (“Italian GAAP”) as at 30th June 2000.

The following table shows the consolidated capitalisation and indebtedness of the Group (unadjusted for the issue of the Trust Preferred Securities) as at 30th June 2000:

	As at:	
	30th June 2000	
	(unaudited)	
	<i>(billions of Lire)</i>	<i>(millions of euro⁽²⁾)</i>
Short-Term debt⁽¹⁾		
Sums owed to credit institutions.....	6,727	3,474
Sums owed to customers	24,782	12,799
Liabilities represented by securities	5,362	2,769
Subordinated note issues.....	85	44
Off balance sheet items ⁽³⁾	3,983	2,057
Total short-term debt	40,939	21,143
Medium-term debt⁽¹⁾		
Sums owed to credit institutions.....	35	18
Sums owed to customers	26	13
Liabilities represented by securities	8,124	4,196
Subordinated note issues.....	343	177
Off balance sheet items ⁽³⁾	3,235	1,671
Total medium-term debt	11,763	6,075
Long-term debt⁽¹⁾		
Sums owed to credit institutions.....	65	34
Sums owed to customers	58	30
Liabilities represented by securities	710	367
Subordinated note issues.....	290	150
Off balance sheet ⁽³⁾	877	453
Total long-term debt	2,000	1,033

	As at:	
	30th June 2000	
	(unaudited)	
	(billions of Lire)	(millions of euro ⁽²⁾)
Net worth		
Share Capital (Authorised, issued and fully paid shares (Par value of ordinary shares: ITL 5,000))	601	310
Fund for general banking risks	238	123
Provision for bad and doubtful debts	19	10
Negative differences in net worth.....	2	1
Profit brought forward	—	—
Share premium.....	1,376	711
Reserves	842	435
Revaluation reserves	106	55
Negative consolidation differences.....	1	0.5
Profit for the financial year.....	183	95
Total net worth.....	3,368	1,739
Total capitalisation	58,070	29,991

Notes:

- (1) Short-term debt is defined as amounts due within one year, medium-term debt as amounts due between one and five years and long-term debt as amounts due after five years. Although none of the debt of the Group is guaranteed, approximately ITL 2.7 billion of assets were pledged to secure the Group's borrowings.
- (2) The euro figures shown in the above table have been translated from Italian Lire at the rate of ITL 1936.27=€1.00.
- (3) Off-balance sheet items include guarantees amounting to ITL 3,036 billion as at 30th June 2000.
- (4) Save as set out above, the Group has no material outstanding contingent liabilities or guarantees.
- (5) In November 2000, the Bank issued €300,000,000 Subordinated Callable Floating Rate Notes due 2010.
- (6) In December 2000, the Bank issued in the domestic market €200,000,000 Domestic Subordinated Callable Floating Rate Notes due 2008.
- (7) In January 2001, the Bank launched a domestic Tier III issue in aggregate principal amount of up to €100,000,000 4.3% Notes due 2003.
- (8) In the second half of 2000, ITL 83 billion in aggregate principal amount of the Bank's Convertible Subordinated Variable Rate Bonds with Warrants due 2000 were converted into ITL 83 billion ordinary shares of the Bank. A further ITL 2 billion in aggregate principal amount of such bonds matured in the second half of 2000. In the second half of 2000, the warrants initially attaching to the Bank's Convertible Subordinated Variable Rate Bonds with Warrants due 2000 were exercised, resulting in an increase in the Bank's share capital of ITL 201 billion.
- (9) Save as disclosed above, there has been no material change since 30th June 2000 in respect of the Group's consolidated capitalisation and indebtedness or contingent liabilities or guarantees.

In connection with the offering, the Trust will issue 300,000 Trust Preferred Securities having an aggregate liquidation preference equal to €300,000,000. Upon the consummation of the offering, the Bank will indirectly own 100 per cent. of the Trust Common Securities which will have an aggregate liquidation preference of €1,000. Under the Trust Agreement, the Trust is prohibited from issuing additional securities and incurring any indebtedness for borrowed money.

In connection with the offering, the LLC will issue 300,001 LLC Preferred Securities having an aggregate liquidation preference equal to €300,001,000. Upon the consummation of the offering, the Bank will directly own 100 per cent. of the LLC Common Securities, which will have an aggregate liquidation preference of €1,000,000. Under the LLC Agreement, the LLC is prohibited from issuing other securities and incurring any indebtedness for borrowed money.

BUSINESS

History and Overview

Established in 1869 as a co-operative bank, the Bank is a medium-sized Italian commercial bank, whose activities are mainly concentrated in the region of Lombardy in Northern Italy. The registered office of the Bank is located at Piazza Vittorio Veneto, 8, 24122 Bergamo, Italy. The Bank provides a full range of banking services primarily to retail customers and small and medium-sized companies, traditionally focusing on its commercial lending activities. As at 30th June 2000, the Bank had consolidated total assets of ITL 53,894,387 million, of which loans and advances to customers accounted for ITL 37,000,461 million (68.7 per cent.). As at 30th June 2000, customer deposits accounted for approximately 72.5 per cent. of total liabilities.

Traditionally, the Bank has maintained a strong market position in its local provinces of Bergamo and Varese, where it serves principally private and small- to medium-sized corporate customers. During the 1980s, the Bank widened its coverage within the Lombardy region, extending its network into the provinces of Lecco, Como, Cremona, Mantua and Varese, as well as establishing branches in Piedmont, Veneto, Emilia Romagna, Liguria and Latium. The most significant acquisition took place in 1984, with the purchase of Credito Varesino S.p.A. (“Credito Varesino”), a bank with a strong presence in the province of Varese, in the north western part of Lombardy. In 1992, the operations of Credito Varesino and the Bank were merged, and the merged entity became “Banca Popolare di Bergamo – Credito Varesino S.c.r.l.”.

The Bank itself currently has 340 branches, approximately 90 per cent. of which are based in Lombardy. In total, the Group currently has a network of 590 branches of which all but five are in Italy. The Bank’s head office is located at Piazza Vittorio Veneto, 8, Bergamo, Italy. The Bank opened a branch in Lyon in 1991 and in Munich in 1992 in order to assist Italian customers in their overseas expansion efforts. In 1994, the Bank further expanded its international activities with the acquisition of a Swiss bank (Banque de Dépôts et de Gestion), which specialises in asset management and has branches in Lausanne, Lugano and Neuchatel. In addition, the Bank has representative offices in Singapore, Hong Kong and São Paulo in Brazil. In 1999, the Bank established BPB International Finance Plc in Dublin with the aim of operating in international banking and supporting the Group’s corporate activities throughout Europe.

In January 1996, the Bank acquired approximately 43 per cent. of the shares of BPA and in August 1997 exercised an option to acquire an additional 10 per cent. (approximately) of the shares of BPA. The Bank further increased its interest in 2000 to 94.6 per cent. (See “Management’s Discussion and Analysis of Financial Performance and Condition”). The acquisition was in part designed to gain control of other small- to medium-sized local banks: Cassa di Risparmio di Fano S.p.A. (operating, like BPA, principally in the Marches region); Banca Popolare di Todi S.p.A. (operating principally in the region of Umbria); Banca Popolare di Napoli S.p.A. and Banca Popolare Campana S.p.A. (operating in the region of Campania); Banca Popolare Campana S.p.A. was subsequently acquired by Banca Popolare di Napoli S.p.A. (“BPN”) and BPN was acquired by BPA in November 1999. In 1996, the Bank also acquired control of Banca Brignone S.p.A. (operating in private banking, principally in Piedmont and Milan). The Bank’s strategy has been to employ a “multi-brand, multi-functional concept” whereby these banks retain their local identities and retail appeal whilst benefiting from the inherent financial and organisational advantages of being a member of the wider Group.

In September 2000, the Group acquired a controlling interest of 66.3 per cent. in Centrobanca S.p.A., a Milan-based “medium-term bank”, specialising in medium-and long-term corporate banking. The acquisition affirms the overall strategy of the Group to place an increasing emphasis on its corporate banking activities, by expanding its operations in this area, together with its medium and long-term credit activities, merchant banking operations, mergers and acquisitions advisory services and corporate finance activities. In addition, in August 2000, the Bank established FinanzAttiva SIM S.p.A. (“FinanzAttiva SIM”), in order to perform conventional stockbroking activities initially in Italy and subsequently internationally, and FinanzAttiva Gestioni SGR S.p.A.

("FinanzAttiva SGR") to manage assets (see also "–Banking Strategy–Strengthening key business products" below). As a result of the Group's expansion of its product lines and distribution channels, the Group is now active in a wide range of financial services from traditional retail banking to fund management (private banking, portfolio management, mutual funds, fund-based asset management and open ended pension funds), from the development of financial instruments to insurance products (unit-linked policies, life and casualty policies and insurance broking) from leasing services to medium- and long-term corporate lending from corporate finance services (financial and tax planning, mergers and acquisitions and stock exchange listings) to private equity, from advice on subsidised loans under national and European union legislation to telephone banking, together with remote banking for corporate customers and home banking for retail customers.

As at 30th June 2000, the Bank's authorised share capital consisted of 120,265,847 ordinary shares, all of which were issued and outstanding on such date. The Bank does not have any outstanding preference shares. In August 1992, the Bank became the first "*banca popolare*" to list on the main market of the Milan Stock Exchange. In December 1993, the Commissione Nazionale per le Società e la Borsa ("CONSOB") admitted the Bank's shares to screen-based trading. As at 31st December 2000, the Bank had a market capitalisation of ITL 5,410 million.

Banking Strategy

In a competitive domestic banking market, the Bank has identified certain strategic aims including the streamlining of its organisational structure; the strengthening of key business sectors such as capital markets and asset management, merchant banking and bancassurance; the development of virtual channels; the identification of alternative distribution channels for banking, financial and insurance products; and the introduction of e-commerce initiatives and stand alone virtual banking.

Organisational streamlining

The Bank is currently setting up a new organisational structure, with the objective of creating an organisation dynamically geared towards meeting fully and efficiently the changing needs of the market by focusing on four selected business areas (retail and small businesses, medium-sized corporates, large-sized corporates and private banking). The new structure is intended to assist the Bank's increased focus into individual specialist markets.

Strengthening key business products

In August 2000, the Bank set up FinanzAttiva SIM in order to perform conventional brokerage activities initially on regulated Italian markets and subsequently internationally, and FinanzAttiva SGR to manage assets both on an individual basis (portfolio management and fund-based asset management, partly in conjunction with well-known international operators) and on a collective basis (mutual funds and SICAVs (as defined below)) and to manage portfolios on behalf of institutional customers. The Bank is currently awaiting the necessary authorisations from the supervisory authorities, following which these two companies will commence operations.

In September 2000, the Group acquired control of Centrobanca, a Milan-based "medium-term bank" that specialises in medium- and long-term corporate lending. As at 30th June 2000, Centrobanca had customer deposits of ITL 11,629 billion (non-consolidated and unaudited) and loans to customers of ITL 12,051 billion (non-consolidated and unaudited). While the Bank aims to improve the quality of loans made by Centrobanca, these are typically supported by substantial real estate collateral. See also "–Capital Adequacy" below.

The Group's insurance sector underwent a reorganisation in 2000 with the aim of rationalising its life and non-life insurance activities and of standardising the decision-making and management process of the technical service operations. As a consequence, a new holding company was established, BPB Partecipazioni Assicurative

S.p.A. which wholly owns BPB Assicurazioni S.p.A. (a general insurance company) and BPB Assicurazioni Vita S.p.A. (a life insurance company). The holding company also controls 90 per cent. of the share capital of the new insurance company Assicurazioni Forme Integrative di Tutela S.p.A. See “–Other Products and Services– Insurance”.

Developing virtual channels

With the aim of offering a fully-integrated multi-channel banking service, the Bank is further developing a series of virtual channels to market its products. The Bank has had a telephone banking unit (Lineattiva Calling) in operation since 1997 and currently has approximately 22,000 live users of this service. In February 2000, an on-line trading service, Lineattiva Tr@ding, was launched. Currently, approximately 6,500 users have subscribed to this service which is now handling over 45 per cent. of the Group's stock market transactions (in terms of both number and value of transaction). In December 2000, the Bank launched a home banking service (Lineattiva Banking) for its retail customers. The Bank intends to enable customers to manage their own accounts, whilst offering them greater convenience and speed at an economical cost and, at the same time, safeguarding security. With the aim of further expanding its multi-channel approach, in March 2000 the Bank signed an agreement with the mobile telephone company Telecom Italia Mobile Group (“TIM”) and with the television broadcaster Telemarket.

Identification of alternative distribution channels

The Group is also pursuing (in conjunction with partners) the aim of offering banking, financial and insurance services through a number of alternative distribution channels. Commercial agreements have been signed with four leading real estate networks in Italy, which are already selling a range of home mortgages and the Group's financial and insurance products to the real estate agencies' clients.

In September 2000, an agreement was signed with the Italian Federation of Tobacconists. Under this agreement, the proprietors of tobacconist shops in Italy will be offered tailor-made life insurance and pension products developed specifically to meet their needs. The network consists of 58,000 outlets spread evenly throughout Italy. Their staff and family members total over 200,000 persons.

Exploiting “new economy” opportunities

To exploit to the full the opportunities offered by the “new economy” based on the development of new technologies the Bank has in conjunction with B2Biscom S.p.A. (a company of the e.Biscom group) formed Mercato Impresa S.p.A. to offer small and medium-sized companies a business to business digital marketplace by the end of February 2001 under the brand “Coralis”.

The Bank is also implementing a project aimed at creating a stand alone virtual bank able to interpret the needs of both affluent and small business clients by providing essential support in the fields of credit, finance and payment systems. This is expected to be launched in the first half of 2001.

Lending

Loan portfolio

As at 30th June 2000, approximately 87 per cent. by value of the Group's lending was to individuals and non-financial enterprises. The following table sets out the distribution of lending to customers by the Group according to the type of borrower as at 30th June 2000, 31st December 1999 and 1998:

	As at:					
	30th June		31st December			
	2000		1999		1998	
	(unaudited)					
	(millions of Lire)	%	(millions of Lire)	(%)	(millions of Lire)	(%)
Governments.....	31,237	0.08	76,754	0.23	80,514	0.29
Other public authorities	126,178	0.34	142,936	0.42	122,746	0.44
Non-financial enterprises	20,627,567	55.75	18,915,686	56.07	15,456,170	55.03
Financial enterprises.....	4,739,487	12.81	4,672,462	13.85	4,212,819	15.00
Producer households ⁽¹⁾	3,021,395	8.17	2,573,605	7.63	2,435,218	8.67
Consumer households and other borrowers.....	8,454,597	22.85	7,351,596	21.79	5,781,654	20.58
Total	37,000,461	100.00	33,733,039	100.00	28,089,121	100.00

Note:

(1) Producer households comprise principally small businesses and sole traders.

The following table sets out the breakdown of the Group's lending to Italian non-financial enterprises (which category comprises principally large- and medium-sized companies) and "producer households" (which category comprises principally small businesses) as at 30th June 2000, 31st December 1999 and 1998:

	As at:					
	30th June		31st December			
	2000		1999		1998	
	(unaudited)					
	(millions of Lire)	%	(millions of Lire)	(%)	(millions of Lire)	(%)
Retail and wholesale trade, recovery and repair services.	4,174,444	18.29	3,596,312	17.60	3,222,388	18.29
Textiles, leather and footwear, clothing	1,860,788	8.15	1,761,141	8.62	1,677,566	9.52
Metal products, excluding machinery and transport equipment	1,271,112	5.57	1,142,713	5.59	1,043,003	5.92
Construction and public works	1,860,889	8.15	1,594,935	7.80	1,455,310	8.26
Other market services.....	4,017,083	17.60	3,711,980	18.16	3,034,449	17.22
Other branches of activity	9,643,842	42.25	8,629,019	42.22	7,185,875	40.79
Total	22,828,158	100.00	20,436,100	100.00	17,618,591	100.00

The Bank believes that the Group's loan portfolio is satisfactorily diversified. As at 30th June 2000, the Group had no "large exposure" (which is defined by the Bank of Italy as being a loan whose value is greater than 10 per cent. of the relevant bank's own funds). In addition, as at 30th June 2000, loans to the Bank's 20 largest customers amounted to 13.2 per cent. of the Bank's total lending, while loans to the 20 largest groups accounted for 11.5 per cent. of the Bank's total lending. The following table shows the breakdown of the Bank's level of loan customer and by concentration as at 30th June 2000, 31st December 1999 and 1998:

	As at:		
	30th June	31st December	
	2000	1999	1998
	(unaudited)	(% of Total Loan Portfolio)	
20 largest customers	13.2	14.5	15.2
30 largest customers	15.9	17.5	18.0
50 largest customers	19.2	21.0	21.5
20 largest groups	11.5	15.7	16.3
30 largest groups	14.7	19.2	19.8
50 largest groups	18.7	23.1	23.7

Geographic distribution

As at 30th June 2000, approximately 63 per cent. of the Group's outstanding loans were to customers in the Lombardy region and 15 per cent. to customers in the Marches region. A total of 95.7 per cent. of the Group's loan portfolio was represented by loans to customers based in Italy. The following table sets out the geographical distribution of the Group's assets and liabilities as at 30th June 2000, 31st December 1999 and 1998:

	As at:								
	30th June			31st December					
	2000			1999			1998		
	Italy	Other EU Countries	Other Countries	Italy	Other EU Countries	Other Countries	Italy	Other EU Countries	Other Countries
	(unaudited)			(billions of Lire)					
Assets ⁽¹⁾	43,894	3,121	2,046	43,163	3,009	1,822	40,614	1,058	1,727
Liabilities ⁽²⁾	42,306	2,944	1,356	41,876	3,161	1,252	38,650	920	1,934
Guarantees and Commitments	3,616	208	223	3,911	445	89	3,169	68	84

Notes:

- (1) Includes only treasury bills and other bills eligible for refinancing with central banks, loans and advances to credit institutions, loans and advances to customers, bonds and other debt securities and shares and other equities.
- (2) Includes only amounts owed to credit institutions, amounts owned to customers, debts evidenced by certificates and subordinated liabilities.

Security

The following table sets out a breakdown of the security and guarantees obtained by the Group in respect of its loan portfolio as at 30th June 2000, 31st December 1999 and 1998:⁽¹⁾

	As at:		
	30th June	31st December	
	2000	1999	1998
	(unaudited) (billions of Lire)		
Mortgages.....	10,065	8,572	6,756
Pledges on			
cash deposits.....	4	16	38
Securities	1,557	1,373	866
other valuables	29	31	36
Guarantees provided by			
States	—	2	0.5
other public bodies	5	4	1
Banks	237	212	300
Others	6,507	5,863	4,265
Total	18,404	16,075	12,262

Note:

- (1) The security and guarantees shown in the table refer to the following items in the loan portfolio: overdrafts net of drawn credit lines that are subject to recourse; mortgage loans; personal loans and other non-overdraft lending; and loans and advances granted out of funds administered on behalf of public bodies.

Currency

As at 30th June 2000 approximately 95.7 per cent. of the Group's total loan portfolio was denominated in euro. The following table sets out the amount of the Group's lending in euro and non-euro currencies as at 30th June 2000, 31st December 1999 and 1998:

	As at:									% change		
	30th June			31st December						30th June 2000/		
	2000			1999			1998			31st December 1999		
(unaudited)												
	Euro	Non-Euro		Euro	Non-Euro		Euro	Non-Euro		Euro	Non-Euro	
	Currencies	Currencies	Total	Currencies	Currencies	Total	Currencies	Currencies	Total	Currencies	Currencies	Total
Overdrafts.....	8,978,107	274,663	9,252,770	8,390,002	264,421	8,654,423	7,900,263	184,573	8,084,836	7.01%	3.87%	6.91%
Mortgage loans.....	12,013,843	3,164	12,017,007	10,409,382	—	10,409,382	7,852,531	—	7,852,531	15.41%	—	15.44%
Other lending.....	6,265,800	866,066	7,131,865	5,928,707	816,579	6,745,286	3,625,442	1,120,040	4,745,482	5.69%	6.05%	5.73%
Advances	2,756,123	413,728	3,169,851	2,625,531	301,346	2,926,877	2,263,828	511,886	2,775,714	4.97%	37.29%	8.30%
Repurchase agreements	1,536,610	—	1,536,610	1,556,798	—	1,556,798	1,844,904	—	1,844,904	(1.30%)	—	(1.30%)
Leasing loans.....	2,182,526	—	2,182,526	1,807,439	—	1,807,439	1,252,757	4,287	1,257,044	20.75%	—	20.75%
Personal loans.....	560,523	350	560,873	480,570	516	481,086	428,886	1,213	430,099	16.64%	(32.17%)	16.58%
Risk portfolio.....	503,074	16,091	519,165	495,775	26,315	522,090	416,315	17,335	433,650	1.47%	(38.85%)	(0.56%)
Loans against pledge of salary	55,175	71	55,246	38,224	142	38,366	27,304	77	27,381	44.35%	(50.00%)	44.00%
Bad and doubtful loans: principal.....	529,303	7,291	536,594	538,816	12,212	551,028	574,694	17,124	591,818	(1.77%)	(40.00%)	(2.62%)
Bad and doubtful loans: interest	37,953	—	37,953	40,264	—	40,264	45,662	—	45,662	(5.74%)	—	(5.74%)
Total	35,419,037	1,581,424	37,000,461	32,311,508	1,421,531	33,733,039	26,232,586	1,856,535	28,089,121	9.62%	11.25%	9.69%
Of which:												
Residents	34,400,672	1,014,021	35,414,693	31,665,188	849,439	32,514,627	26,202,847	1,337,596	27,540,443	8.64%	19.38%	8.92%
Non residents.....	1,018,365	567,403	1,585,768	646,320	572,092	1,218,412	29,739	518,939	548,678	57.56%	(0.82%)	30.15%

Defaulted and Problem Loans

Ongoing monitoring of outstanding loans is carried out at branch level by branch managers and, at head office level, by the loans and business development department, by the internal auditing department and by the loan review department. In addition, the international department monitors “country risk” exposure. The internal auditing department’s monitoring activities are assisted by an automated internal credit risk control system.

The supervisory regulations of the Bank of Italy relating to problem loans identify five categories:

- loans in the course of restructuring (*crediti in corso di ristrutturazione*)
- restructured loans (*crediti ristrutturati*)
- loans subject to country risk (*crediti soggetti a rischio paese*)
- impaired loans (*partite incagliate*)
- bad and doubtful loans (*crediti in sofferenza*).

Loans in the course of restructuring

These are loans where the counterparty is indebted to a large number of banks and the debtor has presented a petition of consolidation in the previous 12 months. The restructured part of such loans have to be disclosed but do not have to be classed as bad and doubtful loans or impaired loans. Where more than 12 months since the presentation of the petition have passed, banks must disclose the exposure as being either a bad and doubtful loan or an impaired loan.

Restructured loans

These are loans made by a pool of banks (or a single bank) where a moratorium in respect of repayment thereof has been granted and the rate of interest has been renegotiated at a lower rate or at market rate. Loans to companies which have ceased trading or are insolvent are excluded from this category. The restructured part of the loan only needs to be disclosed as a bad and doubtful loan or an impaired loan when the renegotiated terms are no longer compatible with the market.

Any banks which do not agree with the restructuring must notify the other banks that they will treat the debt as a bad and doubtful loan or an impaired loan. If a bank agrees to disclose the restructured loan, it must give notice as to whether it is a bad and doubtful loan or an impaired loan.

Loans subject to country risk

“Country risk” relates to problems of solvency in countries where there are difficulties in respect of the service of debt. There are four categories of risk: zero, low, medium and high.

For each of these groups, all Italian banks must monitor the percentage of devaluation which is required to be applied to those loans which are not specifically guaranteed against political or economic risk. In particular, the Bank of Italy requires the monitoring of devaluation of such loans by 0 per cent., 15 per cent., 30 per cent. and 40 per cent. All Italian banks must report monthly to the Bank of Italy on their positions in respect of each country.

Impaired loans

Pursuant to guidelines established by the Bank of Italy, banks must classify a loan as an “impaired loan” when it determines that the borrower is experiencing financial or economic difficulties that are likely only to be temporary.

Bad and doubtful loans

Bad and doubtful loans are loans where the borrower is in a state of insolvency (whether or not proceedings have been commenced). This is a subjective test. The relevant bank decides whether a state of insolvency exists.

The following table sets out, as at 30th June 2000, 31st December 1999 and 1998, a breakdown of the impaired loans, bad and doubtful loans and restructured loans of the Group (after provisions have been made and excluding default of interest):

	As at:		
	30th June	31st December	
	2000	1999	1998
	(unaudited)		
	<i>(billions of Lire)</i>		
(i) Impaired loans	236	251	300
(ii) Bad and doubtful loans	537	551	592
(iii) Restructured loans	49	62	65
(iv) Total lending to customers	37,000	33,733	28,089
Aggregate of (i) and (ii) as a percentage of (iv)	2.1%	2.4%	3.2%

The following table sets out the composition of the Group's bad and doubtful loans and provisions (excluding arrears of interest) as at 30th June 2000, 31st December 1999 and 1998:

	As at:		
	30th June	31st December	
	2000	1999	1998
	(unaudited)		
	<i>(billions of Lire)</i>		
Nominal value of bad and doubtful loans at risk	753	793	910
Provisions	216	242	318
Net value of bad and doubtful loans at risk	537	551	592
Percentage of total lending to customers represented by net value of bad and doubtful loans	1.5%	1.6%	2.1%

The Bank has no significant exposure to emerging markets. The following table sets out a table showing the composition of the Group's "country risk" loans, which includes loans to banks and financial institutions:

	As at:		
	30th June	31st December	
	2000	1999	1998
	(unaudited)		
	(billions of Lire)		
Nominal value of "Country risk" loans	18	23	27
Provisions	1	1	3
Net value of "Country risk" loans.....	17	22	24
Percentage of total loans represented by net value of "Country Risk" loans	0.04%	0.06%	0.07%

Credit Procedures

Applications for credit may be approved at different levels depending on the nature, the size and the risk of the credit being applied for. Large loans, including "large exposure" loans, are approved either by the Loans and Sundry Risks Committee (see "Management and Employees") or by the Board of Directors. The Group already utilises automated scoring systems for its retail customers and is currently considering the introduction of automated scoring systems for all customer groups.

Funding

As a result of its extensive branch network, the Group is able to source the majority of its funding requirements through its retail customer base, and its strategy has been to increase its loan book in line with the growth in customer deposits.

The following table sets out the sources of the Group's customer funding as at 30th June 2000, 31st December 1999 and 1998:

	As at:		
	30th June	31st December	
	2000	1999	1998
	(unaudited)		
	(billions of Lire)		
Amounts owed to customers	24,866	25,204	23,583
Debts evidenced by certificates and bonds	14,196	13,384	12,037
Total customer deposits	39,062	38,588	35,620

In common with the experience of other Italian banks, customers have increasingly tended to invest in shorter term deposits. The Group also sources funds by way of issuing debt securities, being primarily in the form of certificates of deposit, bonds and other debt securities. As at 30th June 2000, the Group had ITL 2,628 billion outstanding in the form of certificates of deposit and ITL 11,568 billion outstanding in the form of bonds and other debt securities.

The following table sets out the maturity profile of the Bank's customer deposits as at 30th June 2000, 31st December 1999 and 1998:

	As at:		
	30th June	31st December	
	2000	1999	1998
	(unaudited)	(%)	
On demand	52.68	55.41	52.70
Less than 3 months.....	12.99	13.84	19.21
3 months to 1 year.....	7.77	8.00	7.79
1 year to 5 years	24.17	20.82	19.58
Greater than 5 years	2.39	1.93	0.72
Total	100.00	100.00	100.00

In addition to customer funding, the Group relies on loans from credit institutions, primarily in the form of time deposits denominated in Lire and foreign currencies. As at 30th June 2000, the amounts owed to credit institutions were ITL 6,827 billion (ITL 6,477 billion as at 31st December 1999).

As at 30th June 2000, 93.6 per cent. of the Group's customer deposits was denominated in euro and 73.6 per cent. of credit institutions' deposits with the Group were denominated in euro.

The Bank has also issued subordinated bonds (non-convertible or convertible into the Bank's equities).

The following table sets out the principal amounts of each of the Group's outstanding issues of subordinated bonds as at 30th June 2000, 31st December 1999 and 1998:

	As at:		
	30th June	31st December	
	2000	1999	1998
	(unaudited)	(billions of Lire)	
Convertible subordinated 7.50% bonds due 1999 ⁽¹⁾ of the Bank.....	—	1	116
Subordinated variable rate bonds due 2000 ⁽¹⁾ of the Bank.....	—	300	300
Convertible subordinated variable rate bonds with warrants due 2000 of the Bank ⁽¹⁾⁽²⁾	85	192	325
Convertible subordinated "mixed" rate bonds with warrants due 2004 of the Bank	331	560	560
Subordinated variable rate bonds due 2006 of the Bank.....	290	93	—
BPA subordinated convertible 7% bonds due 1999 ⁽¹⁾	—	50	52
Cassa di Risparmio di Fano 7% bonds due 1999 ⁽¹⁾	—	—	—
Banca Brignone variable rate certificates due 2000 ⁽¹⁾	—	14	14
Banca Brignone variable rate bonds due 2002	12	14	14
Total	718	1,223	1,381

Notes:

- (1) Now fully repaid.
- (2) In the second half of 2000, ITL 83 billion in aggregate principal amount of the Bank's Convertible Subordinated Variable Rate Bonds with Warrants due 2000 were converted into ITL 83 billion ordinary shares of the Bank. A further ITL 2 billion in aggregate principal amount of such bonds matured in the second half of 2000. Also in the second half of 2000, the warrants initially attaching to such bonds were exercised, resulting in an increase in the Bank's issued share capital of ITL 201 billion.

In the second half of 2000, the Bank issued €300 million Subordinated Callable Floating Rate Notes due 2010 and €200 million (ITL 387 billion) Domestic Subordinated Callable Floating Rate Notes due 2008. In January 2001, the Bank launched a 4.3 per cent. domestic Tier III issue in aggregate principal amount of up to €100 million due 2003.

Financial Risk Management

The Group believes that its exposure to market risk and interest rate risk is moderate. The interest rate risk on the Group's assets and liabilities is valued using an "asset and liability management" model on a quarterly basis, although the position is continuously monitored in order to remain within specified parameters. The Group employs a "value at risk" methodology to monitor market risk exposure. Two committees, comprising senior management personnel, currently monitor the Group's exposure to market risk: an asset and liability management committee, which has a strategic monitoring role, and a finance committee, which monitors risk on an operating level.

The Group's securities portfolio and off-balance sheet items are marked to market on a daily basis. Strict limits are applied both in relation to the treasury position overall and also in relation to trades with individual counterparties.

The Group's securities portfolio's book value as at 30th June 2000 amounted to ITL 8,021 billion (as compared with ITL 8,465 billion as at 31st December 1999). The securities portfolio consists mainly of high quality fixed and variable rate domestic securities, although the Group has diversified its holdings (within limits which Management believes to be prudent) into foreign debt instruments, domestic shares, futures and options. No significant investments have been made in emerging markets.

The following table sets out the maturity profile of assets and liabilities for the Group as at 30th June 2000:

	Duration:							
	From 1 to 5 years					Over 5 years		
	On demand	Up to 3 months	From 3 to 12 months	Fixed rate	Floating rate	Fixed Rate	Floating Rate	Indefinite maturity
	(millions of Lire)							
Assets ⁽¹⁾	9,911,211	13,364,105	8,435,811	4,811,460	9,030,330	3,139,562	7,151,869	1,101,947
Treasury bonds eligible for refinancing	—	58,913	102,099	524,350	633,742	419,037	74,158	—
Due from banks	1,433,122	1,895,527	461,625	35,836	561	15,311	135	209,916
Loans to customers	8,294,672	9,759,307	4,286,302	2,173,786	5,132,181	1,266,135	5,196,047	892,031
Bonds and other debt securities.....	6,609	166,973	294,561	1,195,619	2,289,695	1,241,111	791,489	—
Off-balance sheet items	176,808	1,483,385	3,291,224	881,869	974,151	197,968	1,090,040	—
Liabilities ⁽²⁾	23,690,691	12,375,816	4,873,077	7,469,242	4,292,918	1,173,592	822,594	4,465
Due to banks.....	1,962,279	4,610,246	154,762	25,455	9,429	58,496	2,223	4,465
Due to customers	21,360,927	3,062,544	358,964	—	25,875	—	57,483	—
Debt evidenced by certificates	335,865	2,189,428	2,836,330	4,296,853	3,827,008	242,973	467,345	—
Bonds	21,610	632,006	1,880,818	4,216,435	3,801,911	242,973	466,534	—
Certificates of deposit.....	26,007	1,555,406	953,107	68,543	25,097	—	—	—
Other securities.....	288,248	2,016	2,405	11,875	—	—	811	—
Subordinated liabilities	10	—	84,759	331,391	11,400	—	290,440	—
Off-balance sheet transactions.....	31,610	2,513,598	1,438,262	2,815,543	419,206	872,123	5,103	—

Notes:

- (1) Includes only treasury bills and other bills eligible for refinancing with central banks, loans and advances to credit institutions, loans and advances to customers, bonds and other debt securities and certain off-balance sheet items.
- (2) Includes only amounts owed to credit institutions, amounts owed to customers, debts evidenced by certificates, subordinated liabilities and certain off-balance sheet liabilities.

Derivative contracts to which the Group was a party and which were outstanding as at 30th June 2000 were primarily aimed at hedging interest rate risk, both on the funding side and on the asset side.

Single currency

Reorganisation and information technology updates have continued in order to complete the introduction process of the European single currency in management applications as well as in preparation for the transition from the double currency to the single currency regime.

Since 1st January 1999, the Group has offered products and services both in euro and Italian lire to customers. The Group has also continued to organise training and information activities for bank employees and customers in order to promote an awareness of issues which may arise with the introduction of the European single currency.

Capital Adequacy

The following table sets out an analysis of the capital adequacy of the Group as at 30th June 2000 and 31st December 1999, calculated according to the requirements of the Bank for International Settlements and the Bank of Italy by reference to total risk-weighted assets of the Group of ITL 39,856 billion and ITL 37,646 billion as at 30th June 2000 and 31st December 1999, respectively:

	As at:	
	30th June 2000 (unaudited)	31st December 1999
	<i>(billions of Lire)</i>	
Tier 1 capital	3,511	3,022
Tier 2 capital	742	888
Items to be deducted	(203)	(203)
Total capital.....	4,050	3,708
Capital adequacy ratios		
Tier 1	8.81%	8.03%
Tier 1 and Tier 2	10.16%	9.85%

The consolidated Tier 1 and total capital ratios of the Group are expected to be 7.1 per cent. and 9.7 per cent. upon completion of this offering. The corresponding non-consolidated ratios of the Bank are expected to be 11.8 per cent. and 16.4 per cent., respectively upon completion of this offering.

Other Products and Services

The Bank is the parent company of a multi-functional group, through which it holds controlling interests in companies operating in the following sectors:

- savings and fund management
- insurance
- leasing
- corporate finance and merchant banking
- financial services.

In addition, the Group holds interests in companies that are involved in tax collection.

Savings and fund management products

In recent years, the Bank has extended its products and services to provide savings and fund management instruments to its customers. These include branded mutual funds, fund-based asset management, private banking, portfolio management, and supplementary pension and welfare products. As at 30th June 2000, the Group had ITL 27,381 billion of customers' savings under management (ITL 27,361 billion as at 31st December 1999). In November 1998, the Bank was the third credit institution in Italy to launch two personalised open-ended pension funds, in collaboration with ARCA SGR S.p.A., which is one of the largest Italian fund management companies. The two open-ended pension funds are aimed at self-employed people and retailers and are marketed exclusively via the branch networks of the Group. The Group's pension funds hold approximately 10 per cent. of total pension fund subscriptions in Italy. In April 2000, the Bank launched four new products in fund-based asset management which offer varying degrees of risk.

The Bank opened a private banking department in 1997. This department designs investment plans for high net worth individuals with a view to optimising individual asset management using a combination of traditional and innovative financial instruments.

Insurance

The Group has been active in the insurance market since 1989 through BPB Mediazioni Assicurative S.r.l., an insurance broker. In 1994, the Group expanded its operations in the insurance sector and acquired control of Mare Assicurazioni S.p.A. (now BPB Assicurazioni S.p.A.) (a general insurance company) and Mare Assicurazioni Vita S.p.A. (now BPB Assicurazioni Vita S.p.A.) (a life insurance company). The Group offers a wide range of insurance products ranging from traditional and unit-linked life policies to accident cover.

In the first half of 2000, the Group's insurance sector was reorganised, rationalising the non-life insurance and life-insurance areas and standardising the decision-making and management process of the technical service operations. A new holding company was established, BPB Partecipazioni Assicurative S.p.A., with wholly-owned subsidiaries, BPB Assicurazioni S.p.A. and BPB Assicurazioni Vita S.p.A., and direct control (90 per cent.) of Assicurazioni Forme Integrative di Tutela S.p.A. and indirect control (100 per cent.) of BPB Assirema S.r.l.

For the year ended 31st December 1999, the Group's total insurance premium income amounted to ITL 444 billion (as compared to ITL 369 billion as at 31st December 1998). In the first half of 2000, the Group's insurance premium income amounted to ITL 294 billion.

Leasing

The Group is active in the financial leasing market through two subsidiaries (BPB Leasing S.p.A. (operating principally in Lombardy) and Esaleasing S.p.A. (operating principally in the Marche region)), which achieved net profits of ITL 2.9 billion and ITL 3.3 billion, respectively, in the six months ended 30th June 2000.

Corporate finance and merchant banking

The Bank established a corporate finance department in 1995 which offers advice on, *inter alia*, stock exchange listings, mergers and acquisitions and financial consultancy services, principally to medium-sized companies. The acquisition of Centrobanca is intended to increase the Group's range of services, with the development of merchant banking and corporate finance, targeting an increasingly sophisticated client base.

Centrobanca's lending to customers amounted to ITL 12,051 billion (with more than ITL 9,449 billion by guaranteed lending), with customer deposits of ITL 11,629 billion and capital and reserves of ITL 713 billion as at 30th June 2000.

Financial services

Through its subsidiary, SF Studio Finanziario S.p.A., the Bank provides consultancy services in connection with European Union ("EU") financial matters, including advice on applications to the EU for concessionary loans. The Bank also has a number of investments in companies offering financial services which market investment products and provide financial consultancy or investment advice.

Other activities

The Group also provides tax collection services in the provinces of Bergamo and Ancona. In 2000, the Bank increased its shareholding in Bergamo Esattorie S.p.A. (a tax collection company operating in Bergamo) from 86.17 per cent. to 100 per cent.

Subsidiaries

The following table sets out the Bank's principal subsidiaries as at 30th June 2000⁽¹⁾:

Name	Head Office	Net Worth ⁽²⁾ (billions of Lire)	Ownership ⁽³⁾ (%)	Profit/Loss ⁽⁴⁾ (billions of Lire)
<i>Banking</i>				
Banca Popolare di Ancona S.p.A.	Jesi	1,282	52.5	80.48
Banca Brignone S.p.A.	Pinerolo	66	100.0	1.23
Banca Popolare di Todi S.p.A.	Todi	61	85.8 ⁽¹⁰⁾	2.87
Cassa di Risparmio di Fano S.p.A.	Fano	232	66.4 ⁽⁵⁾	7.11
Banque de Dépôts et de Gestion S.A.	Lausanne	83	100.0 ⁽⁶⁾	10.26
<i>Leasing</i>				
BPB Leasing S.p.A.	Bergamo	52	100.0	8.48
Esaleasing S.p.A.	Ancona	45	97.8 ⁽¹⁰⁾	5.00
<i>Insurance</i>				
BPB Assicurazioni S.p.A.	Milan	32	100.0 ⁽⁷⁾	1.31
BPB Assicurazioni Vita S.p.A.	Milan	42	100.0 ⁽⁷⁾	5.66
BPB Mediazioni Assicurative S.r.l.	Bergamo	5	88.0	1.45
BPB Partecipazioni Assicurative S.p.A.	Milan	75	90.0 ⁽⁸⁾	(0.04)
<i>Assicurazioni Forme Integrative</i>				
di Tutela S.p.A.	Milan	20	100.0 ⁽¹¹⁾	—
BPB Assirema S.r.l.	Milan	1	100.0 ⁽⁹⁾	0.08
<i>Real Estate</i>				
BPB Immobiliare S.r.l.	Bergamo	140	100.0	1.82
<i>Financial Services</i>				
BPB Partecipazioni S.p.A.	Bergamo	253	100.0	2.43
S.F. Studio Finanziario S.p.A.	Milan	2	100.0	0.14
BPB Investimenti S.p.A.	Bergamo	29	57.8	0.09
<i>Other Activities</i>				
Bergamo Esattorie S.p.A.	Bergamo	15	100.0	3.60
Ancona Tributi S.p.A.	Ancona	7	62.7 ⁽¹⁰⁾	0.89
Mercato Impresa S.p.A.	Tirano	9 ⁽³⁾	100.0 ⁽¹²⁾	—
BPB International Finance plc	Dublin	340	100.0	31

Notes:

- (1) In August 2000, BPB FinanzAttiva Gestioni SGR S.p.A. and BPB FinanzAttiva SIM S.p.A. have become subsidiaries of the Bank. As at 30th June 2000, the Bank held a 10.84 per cent. ownership interest in Centrobanca. See also "—History and Overview" for acquisitions of further interests in BPA and Centrobanca since 30th June 2000.
- (2) As at the end of the last full financial year for each subsidiary. Net worth is calculated as follows: for fully-consolidated companies by aggregating their capital, issue premiums, reserves, fund for general banking risks, profit brought forward and the part of profit for the year allocated to reserves and to dividends, and deducting losses brought forward and loss for the year; for companies consolidated using the equity method, by summing their capital, issue premiums, reserves, funds for general banking risks, revaluation reserves, provisions for bad and doubtful debts, profit brought forward and the part of profit for the year allocated to reserves and to dividends.
- (3) As at 30th June 2000.
- (4) For the last full financial year for each subsidiary.
- (5) Held 66.14 per cent. through BPA and 0.25 per cent. through the Bank.
- (6) Held through a Swiss incorporated holding company.
- (7) Held 100 per cent. through BPB Partecipazioni Assicurative S.p.A..
- (8) Held 80 per cent. directly by the Bank and 10 per cent. through BPA.
- (9) Held 50 per cent. through BPB Assicurazioni S.p.A. and 50 per cent. through BPB Assicurazioni Vita S.p.A..
- (10) Held through BPA.
- (11) Held 90 per cent. through BPB Partecipazioni Assicurative S.p.A. and 10 per cent. through BPB Partecipazioni S.p.A..
- (12) Held 65 per cent. through the Bank and 35 per cent. through BPB Partecipazioni S.p.A..

Banca Popolare di Ancona S.p.A.

BPA is a retail bank. BPA currently has 175 branches located throughout central Italy and Campania. BPA's head office is located in Jesi in the Marche region. As at 30th June 2000, BPA had a total of ITL 6,380 billion customer deposits and outstanding loans and advances of ITL 6,247 billion. See also "Management's Discussion and Analysis of Financial Performance and Condition – Offer to Acquire Banca Popolare di Ancona S.p.A."

Banca Popolare di Todi S.p.A. ("BPT")

As at 30th June 2000, BPA held 85.8 per cent. of the shareholding in BPT. BPT, a retail bank which has a network of 12 branches in the region of Umbria, held customer deposits as at 30th June 2000 of ITL 340 billion. BPT's lending to customers amounted to ITL 264 billion as at the same date.

Cassa di Risparmio di Fano S.p.A. ("Carifano")

Carifano, a retail bank with a network of 40 branches, operates mainly in the Marche region. BPA holds 66.14 per cent. of its issued share capital and the Bank holds a further 0.25 per cent. directly. As at 30th June 2000, Carifano's customer deposits amounted to ITL 1,477 billion and total lending to customers amounted to ITL 1,140 billion.

Banca Brignone S.p.A. ("Banca Brignone")

The Bank acquired a controlling stake in Banca Brignone in 1996. Subsequently, the Bank increased its shareholding in Banca Brignone to 100 per cent.. Banca Brignone has 19 branches in the Piedmont region and Milan and in addition to offering retail banking services, offers private banking services primarily to high net worth individuals looking for a higher level of service than would be obtained from a retail bank. As at 30th June 2000, Banca Brignone's customer deposits amounted to ITL 900 billion and loans and advances to customers amounted to ITL 774 billion.

Banque de Dépôts et de Gestion S.A. ("BDG")

This bank was acquired by the Bank in 1994. BDG is based in Lausanne with branches in Lugano and Neuchâtel and provides confidential asset management services to high net worth individuals. As at 30th June 2000, BDG's total deposit-taking from customers amounted to SFR 337.6 million, while lending to customers amounted to SFR 197.1 million as at the same date.

Litigation

Pursuant to a resolution dated 25th April 1998, the shareholders of BPA, including the Bank (whose shareholding in BPA was then approximately 53 per cent.), dismissed all but one of the then-directors of BPA and the General Manager, and BPA commenced an action against such individuals for damage they had caused to BPA. Such directors and the General Manager commenced an action against BPA seeking reinstatement and money damages. Proceedings relating to such actions are pending. The Bank and BPA believe that BPA's claims against the General Manager and such directors are meritorious and that the action against BPA is without merit. Such action is being vigorously defended by BPA.

In April and October 1998, certain shareholders of BPA brought actions to declare void the resolution dated 18th November 1995 pursuant to which the shareholders of BPA approved the transformation of BPA from a co-operative society to a joint stock company, together with further actions alleging the impermissibility of a 1995 increase in BPA's share capital and the issuance by BPA of convertible bonds and asserting that the Bank of Italy's authorisation, also in 1995, of the acquisition by the Bank of a stake in BPA was invalid. The court in Ancona dismissed the applications for interim measures made by the relevant shareholders of BPA in

1998. The Bank and BPA believe, based on advice of Italian counsel, that the resolution was validly passed, the relevant share capital increase and securities issuance were permissible, the approval of the BPA acquisition was valid and that the claims, which the Bank and BPA are vigorously defending, are without merit.

No assurance, however, may be given as to the time of final determination or likelihood of a successful outcome in any of the foregoing matters.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE AND CONDITION

Introduction

The following discussion is based on extracts from, and should be read in conjunction with, the consolidated audited financial statements of the Group as at, and for the years ended, 31st December 1999 and 1998 or, as the case may be, the consolidated unaudited financial statements of the Group as at, and for the six months ended, 30th June 2000 and 1999.

Summary Financial Information

The information in respect of the full years ended, or as at, 31st December 1999 and 1998 contained in this section is extracted from the consolidated audited accounts of the Group and the information in respect of the six month period ended, or as at, 30th June 2000 and 1999 is extracted from the consolidated unaudited accounts of the Group.

Consolidated Balance Sheet

	As at:			
	30th June		31st December	
	2000	1999	1999	1998
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(millions of Lire)			
Assets				
Cash in hand and balances with central banks and post offices	242,335	189,997	287,523	229,800
Treasury bills and other bills eligible for refinancing with central banks	1,812,299	3,819,593	2,054,777	3,348,970
Loans and advances to credit institutions.....	4,052,033	6,935,264	5,797,685	7,124,884
Loans and advances to customers	37,000,461	29,019,161	33,733,039	28,089,121
Bonds and other debt securities.....	5,986,057	4,653,456	6,300,030	4,795,012
Shares and other equities	211,307	87,718	110,420	42,971
Participations	312,648	362,862	355,546	347,104
Participations in Group member companies	113,842	82,537	100,732	83,039
Positive consolidation differences	195,931	205,408	212,770	205,671
Positive differences in net worth	26,958	20,650	23,557	22,536
Intangible fixed assets	62,033	39,777	56,483	44,481
Tangible fixed assets.....	1,228,954	1,170,094	1,215,888	1,184,366
Own shares	11,100	—	—	—
Other assets.....	2,265,438	2,044,418	2,549,455	2,108,215
Accrued income and prepaid expenses	372,991	372,613	305,854	385,887
Total assets	53,894,387	49,003,548	53,103,759	48,012,057

	As at:			
	30th June		31st December	
	2000	1999	1999	1998
	(unaudited) (millions of Lire)			
Liabilities				
Amounts owed to credit institutions.....	6,827,355	4,507,443	6,477,028	4,501,352
Amounts owed to customers	24,865,793	22,679,827	25,204,417	23,583,839
Debts evidenced by certificates.....	14,195,802	13,266,522	13,384,362	12,036,741
Funds administered on behalf of public				
Bodies	683	1,550	1,129	1,837
Other liabilities	2,010,961	2,783,244	1,922,826	2,059,118
Accrued expenses and deferred income	394,663	438,862	339,115	341,691
Staff severance payments	341,301	318,553	329,248	326,155
Provisions for liabilities and charges.....	479,814	401,567	557,009	544,429
Provisions for bad and doubtful debts.....	18,880	24,147	21,674	28,821
Fund for general banking risks.....	237,946	235,348	238,593	235,004
Subordinated liabilities	718,000	1,193,341	1,223,203	1,380,905
Negative consolidation differences	995	1,088	1,190	1,155
Negative differences in net worth	1,931	785	987	869
Net worth attributable to other shareholders.....	691,188	631,321	643,782	643,024
Share capital	601,329	504,792	526,529	458,492
Share premiums	1,376,189	1,007,034	1,069,123	854,845
Reserves.....	842,284	763,226	763,170	644,948
Revaluation reserves.....	106,332	109,134	105,353	109,779
Profit brought forward.....	—	—	—	—
Profit for the financial period.....	182,941	135,764	295,021	259,053
Total liabilities	53,894,387	49,003,548	53,103,759	48,012,057
Guarantees and commitments				
Guarantees granted	3,036,058	2,763,792	3,379,937	2,812,735
Commitments.....	1,012,144	2,140,997	1,066,333	509,370

As at 31st December 1999 and 1988

The Group's cash in hand (including balances with Central Banks and post offices) and treasury bills (including bills eligible for refinancing with central banks) amounted to ITL 2,342,300 million as at 31st December 1999, a decrease of 34.6 per cent. from 31st December 1998, principally as a result of a reduction in the amount of treasury bills included within the Group's portfolio and despite an increase in bonds and other debt securities within such portfolio, as described below. Customer deposits increased by 8.3 per cent. to ITL 38,588,779 million as at 31st December 1999. The increase in customer deposits was in excess of the estimated average increase for the Italian banking system in 1999.

The Group's loans and advances to credit institutions decreased by 18.63 per cent. to ITL 5,797,685 million as at 31st December 1999 and loans and advances to customers increased 20.1 per cent. to ITL 33,733,039 million in 1999, in excess of the average figure for Italian banks for the period. Bonds and other debt securities within the Group's portfolio increased by 31.4 per cent. to ITL 6,300,030 million as at 31st December 1999. In addition, the ratio of net bad and doubtful loans to net lending as at 31st December 1999 was 1.63 per cent., as compared with 2.11 per cent. in 1998.

Tangible fixed assets increased by 2.7 per cent. to ITL 1,215,888 million as at 31st December 1999, with other assets (including, *inter alia*, coupons on securities, cheques drawn on other banks and deferred tax)

increasing by 20.9 per cent. to ITL 2,549,455 million as at 31st December 1999. Total assets increased by 10.6 per cent. as at 31st December 1999 to ITL 53,103,759 million.

Amounts owed to credit institutions by the Group increased by 43.9 per cent. as at 31st December 1999 to ITL 6,477,028 million, as a result of an increase in time deposits and repurchase transactions entered into with credit institutions. In addition, amounts owed to customers increased by 6.9 per cent. to ITL 25,204,417 million as at 31st December 1999, due to an increase in current accounts with customers and a decrease in the value of repurchase transactions entered into with customers, with debts evidenced by certificates increasing in the same period by 11.2 per cent. to ITL 13,384,362 million. As a result, the Group's total liabilities increased by 10.6 per cent. as at 31st December 1999.

In terms of contingent liabilities, the value of guarantees provided by the Group in 1999 increased by 20.2 per cent. as at 31st December 1999 to ITL 3,379,937 million, principally as a result of the Group providing a greater number of commercial guarantees. The Group's other commitments (comprising, *inter alia*, loans (both medium and long-term) and deposits granted but not yet drawn and undrawn irrevocable credit lines) increased by 109.3 per cent. to ITL 1,066,333 million as at 31st December 1999.

As at 30th June 2000 and 1999

As at 30th June 2000, the Group's total lending to customers increased by 27.5 per cent. (to ITL 37,000,461 million), as compared with 30th June 1999. The total amount of net bad and doubtful loans and impaired loans amounted to ITL 772 billion as at 30th June 2000 and represented 2.1 per cent. of total lending to customers, as compared to 2.96 per cent. as at 30th June 1999.

The Group's total customer deposits rose from ITL 35,946 billion as at 30th June 1999 to ITL 39,062 billion as at 30th June 2000, an increase of 8.7 per cent.

The aggregate market value of the Group's indirect resources (comprising assets under management and securities in custody) as at 30th June 2000 amounted to ITL 78,506 billion, as compared to ITL 68,449 billion as at 30th June 1999, an increase of 14.7 per cent. In addition, assets under management increased by 1.7 per cent. from ITL 26,932 billion as at 30th June 1999 to ITL 27,381 billion as at 30th June 2000.

The market value of the Group's securities portfolio decreased by 6.3 per cent. from ITL 8,561 billion as at 30th June 1999 to ITL 8,021 billion as at 30th June 2000. As at such date, ITL 2,439 billion of such securities were financial fixed assets.

The Group's net worth as at 30th June 2000, including the net profit for this period (see "—Consolidated Profit and Loss Account"), amounted to ITL 3,369 billion as compared to ITL 2,781 billion as at 30th June 1999, an increase of 21.1 per cent..

Consolidated Profit and Loss Account

	For the six-month period/year end			
	30th June		31st December	
	2000	1999	1999	1998
	(unaudited) (millions of Lire)			
Interest income and similar income	1,236,539	1,099,411	2,173,555	2,763,319
Interest expenses and similar charges	(585,460)	(507,931)	(1,003,735)	(1,507,962)
Dividends and other revenues	38,687	17,330	33,423	27,267
Commission income	454,854	379,162	801,242	693,392
Commission expenses.....	(37,390)	(35,678)	(71,740)	(66,446)
Profits on financial operations.....	50,205	43,335	72,361	124,798
Other operating income	87,742	78,452	158,337	140,450
Administrative expenses.....	(653,242)	(632,827)	(1,278,960)	(1,293,386)
Value adjustments on intangible and tangible fixed assets.....	(66,097)	(65,089)	(138,812)	(138,468)
Allocations to provisions for liabilities and charges	(9,091)	(15,349)	(15,855)	(21,464)
Other operating expenses	(14,200)	(7,453)	(17,988)	(8,831)
Value adjustments in respect of loans and advances and provisions for guarantees and commitments.....	(89,661)	(89,626)	(168,590)	(242,494)
Value re-adjustments in respect of loans and advances and provisions for guarantees and commitments	57,387	54,853	79,056	99,635
Allocations to provisions for bad and doubtful debts	(5)	(1)	(2)	(4)
Value adjustments in respect of financial fixed assets.....	(63,611)	(12)	(52)	(998)
Value re-adjustments in respect of financial fixed assets.....	216	280	288	89
Profit of participations valued according to equity method	5,455	(894)	8,814	(356)
Profit on ordinary activities	412,328	317,963	631,342	568,541
Extraordinary income	20,870	8,372	55,299	104,603
Extraordinary expenses.....	(18,733)	(8,687)	(21,242)	(114,483)
Extraordinary Profit (Loss).....	2,137	(315)	34,057	(9,880)
Withdrawal from the consolidation provision for future liabilities and charges	—	—	2	—
Variation in the fund for general banking risks.....	(3,553)	(400)	(5,900)	(5,660)
Taxes on income for the period.....	(202,923)	(164,575)	(319,717)	(260,382)
Profit for the financial year attributable to other shareholders.....	(25,048)	(16,909)	(44,763)	(33,566)
Net Income for the period	182,941	135,764	295,021	259,053

For the years ended 31st December 1999 and 1998

Interest income and similar income decreased by 21.3 per cent. in 1999 to ITL 2,173,555 million as a result of a reduction in interest rates on lending and securities affecting the Italian banking system as a whole. However, interest expenses and similar charges decreased by 33.4 per cent. over the same period to ITL 1,003,735 million as a result of a reduction in interest rates on deposits.

Commission income increased by 15.6 per cent. in 1999 to ITL 801,242 million, principally as a result of an increase in commissions on asset management activities, lending, foreign exchange transactions, insurance-related activities and commissions on credit cards. However, commission expenses also rose by 8 per cent. in 1999. Other operating income, including income arising from recovery of taxes, insurance premia from customers, rental and other operating income, rose by 12.7 per cent. in 1999 to ITL 158,337 million.

In 1999, the Group decreased its adjustments in respect of loans and advances and provisions for guarantees and commitments by 30.5 per cent. to ITL 168,590 million, as a result of improving asset quality.

Profit in 1999 on ordinary activities increased by 11.0 per cent. to ITL 631,342 million. Extraordinary income decreased by 47.1 per cent. in 1999, as a result of a decrease in the amount of deferred tax in 1999 and an increase in the Group's provisioning for tax and liabilities, and extraordinary expenses decreased by 81.4 per cent. in the same period. Extraordinary profit was ITL 34,057 million for the period ended 31st December 1999, as compared with an extraordinary loss of ITL 9,880 million for the period ended 31st December 1998, as a result of a significant decrease in the Bank's pension scheme contributions and a decrease in the cost of its redundancy incentive scheme.

Despite an increase of 22.8 per cent. in taxes on income in 1999 (reflecting a rate of 48.0 per cent. against 46.6 per cent. in 1998), net income for the period increased by 13.9 per cent. to ITL 295,021 billion.

For the six months ended 30th June 2000 and 1999

The Group recorded a gross operating profit of ITL 575.3 billion for the six months ended 30th June 2000, an increase of 32.9 per cent. as compared to such figure for the six months ended 30th June 1999 (ITL 432.9 billion).

The Group's net interest income rose from ITL 607.9 billion for the six months ended 30th June 1999 to ITL 681.1 billion (an increase of 12.0 per cent.) for the six months ended 30th June 2000. Gross income for the six months ended 30th June 2000 amounted to ITL 1,186 billion, as compared to ITL 1,025 billion for the same period in 1999 (an increase of 15.6 per cent.).

The Group's administrative expenses amounted to ITL 610.3 billion for the six months ended 30th June 2000, an increase of 3.0 per cent. as compared to the same figure for the six months ended 30th June 1999.

Extraordinary items for the six month ended 30th June 2000 decreased by ITL 53.3 billion as compared to the figure for the first half of 1999. Profit on ordinary activities amounted to ITL 467.7 billion for the first half of 2000, as compared to ITL 318.0 billion for the six months ended 30th June 1999.

After deduction of income tax amounting to ITL 202.9 billion and a reduction in the fund for general banking risks of ITL 3.6 billion, net profit for the six months ended 30th June 2000 attributable to the Group and to other shareholders amounted to ITL 208.0 billion, as compared to ITL 152.7 billion as at 30th June 1999, an increase of 36.2 per cent.. After deducting profit attributable to other shareholders (ITL 25.0 billion), net profit for the period attributable to the Group amounted to ITL 182.9 billion, an increase of 34.8 per cent. as compared to the first half of 1999, during which the corresponding figure was ITL 135.8 billion.

As a result, annualised return on equity (on a consolidated basis), calculated as the percentage ratio between half-yearly net profit after an allocation to provisions for general banking risks attributable to the

Group and the Group's net worth (excluding half-yearly profit), was 11.6 per cent., as compared to 10.4 per cent. in the first half of 1999.

Ratios

The following table sets out certain consolidated ratios of the Group as at, or in respect of the period ended, 30th June 2000, 31st December 1999 and 1998:

	As at		
	30th June	31st December	
	2000	1999	1998
	(unaudited)	%	
Risk ratios			
Net bad and doubtful debts (principal/total loans)	1.45	1.63	2.11
Solvency ratio for purpose of Regulatory Authorities (Tier 1)	8.81	8.03	8.25
Structural ratios (end of period values)			
Customer Lending/Customer Funding (excluding subordinated bonds)	94.72	87.42	78.86
Customer Funding (excluding subordinated bonds)/Total assets	72.48	72.67	74.19
Customer Lending/Total assets	68.65	63.52	58.50
Profit ratios (end of period values)			
Interest margin/Total assets ⁽¹⁾	2.53	2.28	2.67
Return on equity ⁽¹⁾	11.58	10.93	11.25
Return on assets ⁽¹⁾	0.68	0.56	0.54
Gross operating profit/Total assets ⁽¹⁾	2.14	1.65	1.82
Gross operating profit/Equity ⁽¹⁾	36.42	32.42	37.88

Note:

(1) Annualised.

Unaudited Results and Selected Balance Sheet Items of the Group as at and for the nine months ended 30th September 2000

The following discussion is based on extracts from, and should be read in conjunction with, the consolidated unaudited reclassified financial statements of the Group as at, and for the nine months ended, 30th September 2000 included elsewhere in this document (the "Nine Month Information"). The basis of preparation and classification of certain items contained in the Nine Month Information differs in certain respects from that contained in the consolidated audited financial statements of the Group as at, and for the years ended, 31st December 1998 and 1999 and the consolidated unaudited financial statements of the Group as at, and for the six months ended, 30th June 2000 and 1999. Accordingly, the Nine Month Information is not directly comparable to any other financial statements or financial information provided with respect to such annual and six-month periods, and is provided herein solely for the convenience of the reader and is for illustrative purposes only.

As at 30th September 2000, the Group had loans and advances to customers of ITL 51,459 billion and customer deposits of ITL 53,174 billion and owned, on a consolidated basis, securities amounting to ITL 9,432 billion.

Net interest income of ITL 1,007 billion for the nine months ended 30th September 2000 increased as compared with the same period in 1999 as a result of an increase in the loans to customers and deposits and a recovery in interest rate differentials. Gross income of ITL 1,860 billion was the result of, in particular, a rise in net commissions, which constituted one third of gross income. Administrative expenses totalled ITL 977 billion,

an increase as compared with the the same period in 1999, as a result of the strengthening of the Group's distribution network and investments made in high potential areas, including promotional and advertising investments aimed at supporting new commercial activities.

In October 2000, the Group completed the acquisition of 10 per cent. of the issued share capital of Crediop S.p.A., an institution offering financial services to local bodies and, in particular, lending to the public sector. The acquisition (at a cost of ITL 200 billion to the Group) was made through BPB Partecipazioni S.p.A.

Preliminary Results for the year ended 31st December 2000

On 29th January 2001, the Bank announced preliminary unaudited non-consolidated financial information relating to the Bank and BPA for the year ended and at 31st December 2000. Based on such preliminary information, the Bank expects an increase in net profit, direct deposits, total indirect resources and loans and advances to customers, and a decrease in the ratio of net problem loans (principal) to net lending for the year when compared to 1999.

The preliminary unaudited financial information may not be indicative of the results for the Group as a whole, and it may also differ significantly from the audited results of the Bank and BPA when these are announced at a later date. This financial information is not included or incorporated by reference herein, and prospective purchasers of the Trust Preferred Securities are cautioned not to rely on such information for purposes of their investment decision.

On 30th January 2001, the Board of Directors of the Bank decided to propose that the forthcoming Annual General Meeting approve the distribution of an uncharged dividend of ITL 1,800 per share.

Offer to Acquire Banca Popolare di Ancona S.p.A.

On 3rd November 2000, the Bank, which had acquired 52.5 per cent. of the issued share capital of BPA by 1997 (see "Business-History and Overview"), announced its intention to make a public offer to acquire the remaining 47.4 per cent. of BPA's share capital.

The offer commenced on 30th November 2000 and, by its close, on 21st December 2000, firm acceptances from 17,790 shareholders with a total of 10,271,559 of BPA's shares (amounting to approximately 88.6 per cent. of the shares to which the offer related and approximately 42.0 per cent. of BPA's outstanding share capital) had been received. Following the offer, the Bank now holds a total of 23,131,974 of BPA's ordinary voting shares, equal to 94.6 per cent. of BPA's share capital at the date of this offering memorandum. The Bank has indicated that it does not currently intend to acquire the remaining 5.4 per cent. of BPA's share capital.

The Bank paid €51.6 (ITL 100,000) in cash for each share acquired, or a total of €531 million. The Offer was financed without an increase in the Bank's share capital, the Bank making use of other available resources and other forms of finance (including subordinated loans), which permitted it to maintain compliance with the capital adequacy ratios as set out in current Italian banking legislation.

The rationale for the offer was to facilitate closer integration and co-ordination between the Bank and BPA, so as to enhance further the enlarged Group's development and penetration in Central and Southern Italy, and also to promote greater efficiency within the Group. Management believes the offer will also provide maximum strategic flexibility to secure further growth opportunities for the Group, principally through BPA entering co-operation agreements and other strategic alliances with other banks and companies of benefit to the wider Group.

The following financial information relating to BPA is extracted from its Annual Report and non-consolidated financial statements as at, and for the year ended, 31st December 1999 and from its non-consolidated and unaudited financial statements as at, and for the six months ended, 30th June 2000.

Balance Sheet

	As at:		
	30th June	31st December	
	2000	1999	1998
	(unaudited)	(millions of Lire)	
Assets			
Cash and deposits with central banks and post offices	42,077	50,757	44,570
Dealing securities	1,091,170	1,078,820	1,347,555
Due from banks	347,750	521,335	1,392,199
Loans to customers	6,246,977	5,454,207	4,279,095
Fixed assets:	914,070	909,506	545,647
Securities	363,826	363,933	75,498
Equity investments	392,621	390,311	311,399
Intangible	31,051	30,828	33,128
Tangible	126,572	124,434	125,622
Other assets, accrued income and prepayments, own shares	412,584	460,714	359,109
Total assets	9,054,628	8,475,339	7,968,175
	As at:		
	30th June	31st December	
	2000	1999	1998
	(unaudited)	(millions of Lire)	
Liabilities and Shareholders' Equity			
Due to customers and securities issued	6,379,765	6,090,572	5,709,276
Due to banks	722,890	452,055	393,815
Public funds administered, other liabilities, accrued liabilities and deferred income	357,147	337,951	334,205
Reserve for termination indemnities, reserves for risks and charges, reserves for possible loan losses	224,497	222,572	203,230
Subordinated liabilities	—	50,489	51,876
Share capital, share premium account, equity reserves and reserves for general banking risks	1,321,843	1,241,224	1,219,288
Net profit for the year	48,486	80,476	56,425
Total Liabilities and Shareholders' Equity	9,054,628	8,475,339	7,968,175
Guarantees and Commitments	534,245	508,477	540,750

	As at:		
	30th June	31st December	
	2000	1999	1998
	(unaudited)	(millions of Lire)	
Net Interest income	163,560	278,909	282,250
Profits from financial transactions	(343)	5,758	31,989
Net commissions, operating income and expense ⁽²⁾	87,912	142,881	115,081
Net income from services	87,569	148,639	147,070
Net interest and other banking income	251,129	427,548	429,320
– payroll costs ⁽²⁾	(94,661)	(180,323)	(181,889)
– operating costs ⁽²⁾	(39,285)	(83,913)	(80,750)
Indirect taxes and duties ⁽²⁾	(2,178)	(3,942)	(4,167)
Total administrative costs⁽²⁾	<u>(136,124)</u>	<u>(268,178)</u>	<u>(266,806)</u>
Operating profit	115,005	159,370	162,514
Provisions for risks and charges	(1,204)	(3,936)	(3,549)
Adjustments and writebacks to tangible, intangible and financial fixed assets	(9,620)	(20,367)	(17,023)
Adjustments and writebacks to loans and provisions for guarantees and commitments	(12,368)	(25,530)	(48,138)
Provisions to reserves for possible loan losses	(559)	(810)	(899)
Profit before non-recurring items and income taxes	91,254	108,727	92,905
Non-recurring income, net	1,842	32,193	12,263
Profit before taxes	93,096	140,920	105,168
Income taxes	(43,110)	(55,944)	(52,937)
Profit after taxes	49,986	84,976	52,231
Change in reserve for general banking risks	(1,500)	(4,500)	3,000
Share of loss by former Banca Pop. Napoli attributable to minority interests	0	0	1,254
Net profit for the year	<u>48,486</u>	<u>80,476</u>	<u>56,485</u>

Notes:

- (1) The balance sheet and income statement aggregates for 1998 are presented in the form of consolidated financial statements, effectively anticipating the accounting implications following the absorption of Banca Popolare di Napoli, which took effect from 1st January 1999.
- (2) “Net commissions, operating income and expense” is stated net of taxes recovered, amounting to ITL 17,943 million in 1999 and ITL 15,959 million in 1998 (reclassified from indirect taxes and duties), recharged expenses for staff on secondment of ITL 941 million in 1999 and ITL 787 million in 1998 (reclassified from payroll costs) and leasing payments of ITL 432 million in 1999 and ITL 457 million in 1998 (reclassified to operating costs). “Operating costs” have been reduced for costs relating to staff seconded to the Bank for ITL 233 million in 1999 (ITL 175 million in 1998) and have been increased for leasing payments of ITL 432 million in 1999 (ITL 457 million in 1998).

As a result, “Total administrative costs” have been decreased by ITL 18,452 million in 1999 and ITL 16,289 billion in 1998.

For the nine month period ended 30th September 2000, BPA reported unaudited net profit of ITL 76.7 billion (€39.6 million), representing an increase of approximately 53 per cent. over its net profit for the nine month period ended 30th September 1999. As at 30th September 2000, BPA’s unaudited customer deposits were ITL 6.5 trillion (€3.4 billion), indirect resources were ITL 7.8 trillion (€4.0 billion) and loans to customers were ITL 6.5 trillion (€3.4 billion), representing increases of 7.4 per cent, 4.7 per cent. and 20.1 per cent., respectively, over the equivalent figures as at 30th September 1999.

MANAGEMENT AND EMPLOYEES

The supervision and control of the Bank are entrusted to the general meeting of the shareholders, the Chairman, the Board of Directors, the Executive Committee and the Statutory Audit Committee. A general meeting of shareholders is called at least once a year within four months of the end of the previous fiscal year.

The Board of Directors comprises 21 non-executive members, appointed by the annual general meeting of shareholders. Directors serve for a term of three years. Each year, one third of the Directors leave office and are eligible for re-election. After each annual general meeting, the Board of Directors elects a Chairman and two Deputy Chairman from among its members. The business address of each of the Directors is Piazza Vittorio Veneto, 8, Bergamo, Italy.

The members of the Board of Directors of the Bank are as follows:

Emilio Zanetti, Giuseppe Calvi, Antonio Parimbelli, Mauro Bagini, Giuseppe Antonio Banfi, Enzo Berlanda, Mario Comana, Giacomo Fustinoni, Andrea Gibellini, Mario Mazzoleni, Giorgio Frigeri, Roberto Moroni, Sergio Orlandi, Alessandro Pedersoli, Giorgio Perolari, Pier Giulio Ravera, Emilio Riva, Raffaele Rizzardi, Roberto Sestini, Riccardo Stecconi and Marco Venier.

Name	Title	Principal outside interests relevant to the business of the Group
Emilio Zanetti ⁽¹⁾	Chairman	S.E.S.A.A.B. S.p.A.; Deputy Chairman, La Provincia di Como S.p.A. Editoriale; Director, Associazione Bancaria Italiana, Associazione Nazionale Fra le Banche Popolari, Banca Italease S.p.A., Istituto Centrale delle Banche Popolari Italiane, Dalmine S.p.A., GEFINA S.p.A., S.A.C.B.O. S.p.A. and Italcementi S.p.A.;
Giuseppe Calvi ⁽¹⁾	Deputy Chairman	Director, Mazzoleni Industriale Commerciale S.p.A.;
Antonio Parimbelli ⁽¹⁾	Deputy Chairman	—
Mauro Bagini	Director	Chairman, Minelli S.p.A. and Tecnolegno S.p.A.; Executive Director, Immobiliare S. Guido S.p.A. and Immobiliare Miranga S.r.l.; Director, Maranit S.p.A., Cementeria Di Monselice S.p.A. and Finanziamenti Industriali S.p.A.;
Giuseppe Antonio Banfi	Director	Director, S.I.A. S.p.A. and C.C.I.A.A. Bergamo;
Enzo Berlanda ⁽¹⁾	Director	Chairman, Girola Partecipazioni S.p.A.;
		Director, Borsa Italiana S.p.A. and ITAS Istituto Trentino Alto Adige Assicurazioni;
Mario Comana	Director	Director, CENTAX S.p.A.;
Giacomo Fustinoni	Director	Director, Cooperativa Farmaceutica Bergamasca SCRL and Immobiliare VIS S.p.A.;
Andrea Gibellini	Director	Chairman, Istituto Diocesano per il Sostentamento del Clero; Executive Director, Domus Adiutrix S.p.A.;
		Director, Brembo S.p.A. and Istituto Mendel S.r.l.;
Mario Mazzoleni ⁽¹⁾	Director	Chairman, Mazzoleni Industriale Commerciale S.p.A.;
		Director, Unifer Nord S.p.A.;
Giorgio Frigeri ⁽¹⁾	Director	Deputy Chairman, ARCA SGR S.p.A. and ARCA Merchant S.p.A.;
		Director, CREDIOP S.p.A. and Fondo Interbancario di Tutala del Deposit;
Roberto Moroni	Director	Deputy Chairman, Istituto Italiano del Marchio di Qualità IMQ;
		Director, ABB Asea Brown Boveri S.p.A.,
		ABB Elettrocondutture S.p.A. and ABB SACE TMS S.p.A.;
Sergio Orlandi	Director	Director, Cognetex S.p.A., Filte S.p.A. and Sant'Andrea Novara S.p.A., Liberfin S.p.A., Montefibre S.p.A., Orlandi Tessicasa. S.p.A., Sinterama S.p.A., HF Filati S.p.A. and Tintoria LUX S.p.A.;
		Executive Partner, Burgfrau Snc dei Fratelli Orlandi;
Alessandro Pedersoli ⁽¹⁾	Director	Chairman, Beiersdorf S.p.A.;
Giorgio Perolari	Director	Chairman and Executive Director, Perfil S.p.A.;
		Director, Italmobiliare S.p.A. and Sistema Moda Italia S.p.A.;

Name	Title	Principal outside interests relevant to the business of the Group
Pier Giulio Ravera	Director	Director, FLAMMA S.p.A.;
Emilio Riva	Director	Chairman and Executive Director, Riva Acciaio S.p.A.;
		Chairman, Finanziaria Acciai S.r.l. and ILVA S.p.A.
		Executive Director, Eureka Verri S.r.l.;
		Executive Partner, Verri Eureka s.s.;
Raffaele Rizzardi	Director	Chairman, O & D Società per la Consulenza e l'Organizzazione;
		Executive Director, SO.GE.FID S.p.A.;
		Director, ALIFOND – Fondo Pensione Industria Alimentare;
Roberto Sestini	Director	Chairman and Executive Director, Società Italiana Acetilene & Derivati – S.I.A.D. S.p.A. and SIAD Gas Tecnici S.r.l.;
		Chairman, Compressione Gas Tecnici S.r.l., SIAD Macchine Impianti S.p.A., Società Azionaria Miniere Anidride Carbonica – SAMAC S.p.A. and C.C.I.A.A. Bergamo, Flow Fin S.p.A. IPA Servizi SCPA and Industria Cartaria Cartotecnica Italiana – I.C.C.I. S.p.A.;
		Director, 3R Associati S.p.A., Carbitalia S.p.A., CHEMGAS S.r.l., Consorgas S.r.l., ESA S.r.l., Industria Gas Tecnici-IGAT S.p.A., Rivoira S.p.A., Tecnodal S.p.A., IMVAS srl, Mercato Mobiliare Di Nord Est S.p.A. and Università degli Studi di Bergamo;
		Executive Director, SEFIN S.p.A. TRE-F S.r.l.;
Riccardo Stecconi	Director	Chairman, Banca Popolare di Ancona S.p.A.;
Marco Venier	Director	Chairman, Coop.Edile La Serena S.r.l., F.I.S. – Factoring Investimenti Servizi Finanziari S.p.A., ICRO Coatings S.p.A., Legler Immobiliare S.p.A. and Taverna Noprd S.r.l.;
		Director, Editoriale Johnson S.p.A., Frattini Costruzioni Meccaniche S.p.A., ICRO Didonee S.p.A., Industrie Riunite Filati S.p.A., Inoxa S.r.l., Istituto Italiano d'Arti Grafiche S.p.A., Legler Holding S.p.A., Mariano Ferro S.p.A. and Nuovo Istituto Italiano d'Arti Grafiche S.p.A.;
		Executive Director, Immobiliare ISEA S.r.l., Residenza Deodara S.r.l. and Società Bergamasca Isolanti S.r.l.

Note:

(1) Member of the Executive Committee.

The Executive Committee consists of, among others, the Chairman, two Deputy Chairmen and four Directors.

The Loans and Sundry Risks Committee consists of, among others, the Chairman, the Deputy Chairman and five Directors and meets once a week, primarily to review large loan applications. Members of the Loans and Sundry Risks Committee serve a one year term of office and can be re-elected.

The Chairman of the Board is the legal representative of the Bank and has overall responsibility to guide and co-ordinate the activities of the Bank.

The management of the Bank is entrusted to the General Manager (or Chief Executive) and two Joint General Managers. As of the date of this offering memorandum the General Manager (or Chief Executive) is Gaudenzio Cattaneo.

The Statutory Audit Committee (which under Italian law is an independent body) comprises a Chairman, four standing members and two alternate members who serve for a term of three years, with authority and obligations dictated by law.

The current members of the Statutory Audit Committee are as follows:

Chairman

Luigi Guatri

Standing Members

Antonio Amaduzzi

Alberto Lanfranchi

Italo Lucchini

Pecuvio Rondini

Alternate members

Giorgio Bonomi

Maurizio Vicentini

PricewaterhouseCoopers S.p.A. act as external auditors.

Employees

The number of employees of the Group has remained relatively stable in recent years notwithstanding the growth of its operations. The numbers at the end of 1997, 1998 and 1999 were 4,828, 4,888 and 4,884 respectively. As at 30th June 2000, the Group employed a total of 7,695 staff.

REGULATION

Regulation in the European Union

Within the EU, the creation of a single financial market at the end of 1992 has involved continued negotiations among member states towards establishing greater freedom in the cross-border banking and securities business through a harmonised institutionally-based regulatory environment, with emphasis on the role of the home country regulator. The Second Banking Co-ordination Directive established a framework for the mutual recognition of each European Economic Area member state's supervision of banks, enabling a bank authorised in one European Economic Area member state to carry out banking and investment activities on a branch or cross-border service basis in other European Economic Area member states on the basis of a single license provided by the home country supervisory authority. Supporting the Second Banking Co-ordination Directive are the Solvency and Own Funds Directives, which establish a minimum harmonisation of regulatory capital requirements to enable banks to operate throughout the European Union under their authorisation granted by the regulators of the home member state. The Capital Adequacy Directive establishes minimum capital standards for the investment business of securities firms and banks.

On 1st January 1999, eleven EU countries adopted the euro, relinquishing their monetary independence. At present, the European Central Bank ("ECB"), together with the EU national central banks, define and implement EU monetary policy, hold and manage some or all of member states' official foreign currency reserves and promote the smooth operation of payment systems. The implementation of EU monetary policy in the participating member states is carried out by their respective national central banks pursuant to their powers under national legislation, which has been amended to reflect the introduction of the euro and the ECB. Foreign exchange operations, particularly open market operations, are coordinated by the ECB, but are largely carried out by national central banks. The euro is now in a transitional period. During the transitional period, the euro can be used as a calculation unit and for payments in book-entry form. In early 2002, euro notes and coins are due to come into circulation which will end the transitional period and complete the introduction of the euro as a single currency unit in the eleven countries that have adopted the euro. As of 1st July 2002 at the latest, the eleven participating EU currencies will cease to exist.

Regulation 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 is the consequence of changes in banking regulations and the competitive stimulus resulting from the liberalisation of European financial markets and the advent of the euro. At the end of 1998, Italy had 922 banks according to the Bank of Italy 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 emphasises 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 EC Directive No. 89/646 (the "EU Second Directive"). The effect of the regulatory changes and Europe-wide liberalisation has been a significant increase in competition in the Italian banking industry.

The principal components of regulatory and structural changes in Italy include the Legislative Decree No. 385 of September 1, 1993 (the "Consolidated Banking Law"), Law No. 218 of July 30, 1990 (the "Amato Law"), implemented by Legislative Decrees No. 356, 357, 358 of November 20, 1990, the Directive of the

Ministry of Treasury (the “Treasury”) of November 18, 1994 (the “Dini Directive”), Law No. 461 of December 23, 1998 (the “Ciampi Law”), implemented by Legislative Decree No. 153 of May 17, 1999, and certain fiscal changes (which implement the EU 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. 77/780, implemented by Presidential Decree No. 350 of June 27, 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 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 mainly provided 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 under public law and those in corporate form.

Effective 1st January 1994, the Consolidated Banking Law eliminated the distinction between Ordinary Credit Institutions and Special Credit Institutions. 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 under public law 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) and (b) co-operative 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 are authorised to be carried out in their home country, provided the Bank of Italy is informed by the entity supervising the relevant non-Italian EU bank. The home-country supervising entity retains primary control over the relevant non-Italian EU bank (the principle of “home-country control”).

Consolidated Banking Law

The Consolidated Banking Law repealed and replaced, among others, the Banking Act. The Consolidated Banking Law governs the role of the supervisory authorities, investment in banks, the definition of banking and related activities, the authorisation of banking activities, the scope of banking supervision (in particular on a consolidated basis), special bankruptcy procedures for banks and the supervision of financial companies.

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

The Amato Law

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

The Amato Law contained two principal provisions:

Conversion and organisation: Ordinary and Special Credit Institutions organised as public law entities were allowed to convert into, or to transfer their assets to, one or more joint-stock companies. 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 public law credit institutions completed prior to the end of 1995. Registration tax and other indirect taxes applicable to such reorganisations were substantially reduced. In addition, in order to encourage consolidation, the surviving banks following such reorganisations 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 may, over such period, be up to 1.2 per cent. (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 favorable tax rules concern asset write-ups and capital gains on asset contributions.

The Dini Directive and Other Provisions

The Dini Directive, enacted in November 1994, provided certain fiscal incentives for Italian banking foundations to encourage them to reduce their participation in the banks they controlled (known as *società conferitaria*). 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 per cent. of its expenses with revenues from sources other than the *società conferitaria*; or
- (ii) hold a participation in the *società conferitaria* whose value does not exceed 50 per cent. of the foundation's total assets.

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

On 14th May 1999, the Italian Government approved the legislative decree that enacted the Ciampi Law which includes further fiscal and other incentives to encourage Italian banking foundations still controlling their co-founded banks to reduce their shareholdings in such banks. The law also establishes fiscal incentives to encourage consolidation of the Italian banking system.

The effect of the Amato Law and Dini Directive and the implementation of the EC Directives has been a significant increase in the competition in the Italian banking industry in virtually all bank and bank-related services.

Italian Usury Law

Italian Law 7 March 1996 n. 108 (the "Usury Law") has introduced a specific law preventing lenders from applying interest rates equal to or higher than those deemed to be usurious and providing criminal penalties for any entities or individuals found guilty of usury ("Usury Rates"). Usury Rates are set out on a quarterly basis by the Italian Treasury on the basis of the average market interest rate of the immediately preceding quarter.

Decree 29 December 2000 n. 394 (“Decree 394”), superseding and modifying certain interpretations of the Usury Law, has established that the relevant moment to ascertain the existence of a usury rate is the point at which agreement is reached on the interest rate and not at the time of payment of the interest itself. Decree 394 also provides for a reduction of interest rates due on existing fixed rate interest loans except where the interest rate agreed between the parties was more favourable for the debtor.

Decree 394, in order to be implemented, has to be converted into law and there is a considerable debate on possible amendments and integration.

Compounding of Interest (Antatocismo)

There is doubt under applicable Italian law and regulation as to the enforceability of provisions requiring the payment of interest in respect of overdue interest in certain circumstances. Article 1283 of the Italian Civil Code permits such payment in limited circumstances but does permit interest to be paid on overdue interest in circumstances where this can be shown to be a recognised customary practice. Italian banks have typically capitalised accrued interest on a three-month basis on the grounds that such practice could be characterised as customary practice. However, recent decisions of the Italian courts have rejected this analysis.

A recent Italian statute nonetheless permits the *Comitato Interministeriale per il credito e risparmio* (the “CICR”) to promulgate the conditions and criteria pursuant to which compounding of interest is permissible and expressly validates already existing *anatocismo* (compounding of interest) provisions in agreements. In February 2000, the CICR issued a resolution (the “CICR Resolution”) setting forth the circumstances in which provisions permitting *anatocismo* in credit agreements are permissible. However, litigation challenging this statute in relation to interest paid before the effective date of the CICR Resolution is currently pending.

There can be no assurance as to the level of impact which the matters described above or under “– Italian Usury Law” may have on the Bank or the Group.

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, the *Commissione Nazionale per le Società e la Borsa* (“CONSOB”) regulates the securities activities of the Bank.

The CICR

The CICR is composed of the Treasury Minister, 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 which the Bank of Italy must follow when adopting regulations applicable to banks.

The Treasury

The Treasury has broad powers in relation to banking and financial activities. The Treasury, in consultation with the Italian Ministry of Foreign Affairs, authorises the establishment in Italy of the first branch of non-EU banks, sets eligibility standards to be met by holders of 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 that are generally within the sphere of CICR’s powers and may also issue decrees which impose administrative sanctions against banks and their managers and, upon proposal of the Bank of Italy, place banks in compulsory administrative liquidation or extraordinary management.

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, administrative and accounting organisation 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, 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 or clearance of by-law amendments (depending on the type of 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 is the lender of last resort for Italian banks and is banker to the 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 repurchase agreements, and its power to fix the rate on fixed-term advances. By injecting or absorbing funds through the purchase and sale, respectively, of Italian Government securities, providing Italian banks with ordinary and extraordinary advances and setting the rates at which such advances are available, the Bank of Italy may increase or decrease liquidity in the banking system.

The Bank of Italy also utilises compulsory reserves to control the money supply. See “—Italian Banking Regulation—Reserve Requirements” below. Following the introduction of the euro, from January 1st, 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 that monitors and regulates the securities markets and offerings of securities in Italy.

Italian Banking Regulation

Reserve Requirements

The reserve requirement is one of the instruments of monetary policy. Since the introduction of the euro on 1st January 1999, the European System of Central Banks (the “ESCB”) has been responsible for the monetary policy of the participating member states. The ESCB consists of the ECB and the central banks of the EU member states and its decisions are implemented by the central banks of the member states. The compulsory reserve requirement allows the ESCB to stabilise interest rates on the monetary market and to monitor the liquidity needs of the entire system. The amount of the compulsory reserve is determined by applying the ratio determined by the ECB.

Each Italian bank must deposit, in a compulsory reserve account with the Bank of Italy, an interest-bearing reserve in respect of the aggregate of its liabilities (other than liabilities to the ECB, the central banks of the EMU participating member states and other banks subject to the compulsory reserve requirement) represented by (i) overnight deposits, (ii) fixed term deposits with a stated maturity of less than two years, (iii) deposits refundable upon notice, (iv) fixed term debt securities with stated maturity not exceeding two years and (v) money market instruments, denominated both in lire and in foreign currency (the “Aggregate Reserve Amount”). The reserve ratio is currently 2 per cent. of the Aggregate Reserve Amount. On the amount so calculated a fixed deduction of 100,000 is allowed. The reserve is adjusted monthly (on the basis of the same ratio) as a result of increases or decreases in the Aggregate Reserve Amount. A bank may withdraw, in whole or in part, from the compulsory reserve account, provided that the monthly average of the reserves is 100 per cent. This requirement is met if during the period commencing on the 24th day of the month immediately following the reference month and ending on the 23rd day of the following month, the average amount of daily balances in the reserve account is not lower than the amount of the compulsory reserve calculated as per the foregoing. Italian banks may also, subject to authorisation by the Bank of Italy, fulfil their compulsory reserve duties through an intermediary bank, which is jointly and severally liable for compliance. If the compulsory reserve requirements are not complied with, the ECB may impose a sanction on the defaulting bank.

The compulsory reserve earns an annual rate of interest equal to the average rate of the main refinancing transactions carried out by the ESCB, as calculated during the relevant maintenance period. Any excess amount held in a reserve account does not bear interest.

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, the Basel Committee’s Risk-Based Capital Guidelines, the Consolidated Banking Law, CICR Regulation of 12th January 1994, and by the regulations issued by the Bank of Italy. According to these regulations, 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” and together with core capital the “total capital”). Core capital includes paid-in share capital, capital reserves, retained earning reserves and a special reserve denominated “*fondo per rischi bancari generali*,” innovative capital instruments, less treasury shares, goodwill and intangible assets and losses carried forward and incurred in the fiscal year. Supplementary capital includes asset revaluation reserves, subordinated debt, hybrid instruments of deposit (such as non-redeemable loans), general allowance for loan losses and other positive items, less net losses on securities and other negative items, and the positive difference between market value and book value of shareholdings. There are limitations on the maximum amount of subordinated debt that may be counted as supplementary capital; for example, subordinated debt may not exceed 50 per cent. of core capital.

If the bank is part of a banking group, the required total capital must also be calculated on a consolidated basis. This required total capital will be the sum of the required total capital on a stand-alone basis of each bank that is part of the group plus other components that typically arise out of the consolidation (e.g., negative or positive consolidation differences).

Italian banking groups are required to have a ratio of total capital to risk-weighted assets of at least 8 per cent. on a consolidated basis and Italian banks belonging to a banking group are required to have a ratio of total capital as calculated for the Bank of Italy’s regulatory purposes to risk-weighted assets of at least 7 per cent. 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 per cent.

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 per cent., 20 per cent., 50 per cent., 100 per cent. and 200 per cent.

The aggregate capital requirements for banks is determined by reference to credit risk (i.e., the solvency ratio) and market risk (i.e., market risk on the trading securities and exchange risk on the total assets).

Loan Exposure Limitations

The EC Directive No. 92/121 on the monitoring and control of large exposures of credit institutions (the “Large Exposures Directive”) is intended to spread credit risks throughout 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 per cent. of a bank’s total capital and the aggregate of their large exposures (loans exceeding 10 per cent. of their total capital) to not more than 800 per cent. of the bank’s total capital. A lower limit (20 per cent. of total capital) applies to all 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 per cent. 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 per cent. of the share capital, excluding consolidated subsidiaries of the same banking group.

Banks belonging to banking groups are not required to conform to certain of these limits on an individual basis but only on a consolidated basis at the parent level. On an individual basis, banks belonging to banking groups must limit their loan exposures to any single customer or group of related customers to 40 per cent. of the bank’s total capital and 25 per cent. of the bank’s total capital by 31st December 2001.

Provisions for Credit Risks and Write-Offs

Until the end of 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 per cent. of total loans to customers at year-end subject to a maximum on the total cumulative loan loss allowance equal to 5.0 per cent. 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 adjustments in excess of 0.5 per cent. 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. With Law 21 November 2000, No.342, (i) the tax deductible amount of provisions for credit risks related to total loans to customers at year-end has been increased to 0.6 per cent, and (ii) the period over which any net adjustments in excess of 0.6 per cent. of loans to customers may be deducted from taxable income on a straight-line basis has been increased to nine years.

Equity Participation 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 per cent. of the total capital of the acquiring bank, (ii) exceeding 10 per cent. or 20 per cent. 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 in investments by banks in insurance companies cannot

exceed 40 per cent. of the acquiring bank's capital. However, in relation to banks belonging to banking groups, the aggregate investments in insurance companies may not exceed 60 per cent. of the total capital of the acquiring bank and may not exceed 40 per cent. of the acquiring bank's consolidated total capital.

As a general limit, equity investment by a bank in all types of companies may not in the aggregate exceed, together with real estate investments, 100 per cent. of a bank's required capital as defined by the Bank of Italy. 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 1 billion in total capital and satisfy the solvency ratios (*banca abilitata*) are permitted within the following limits:

- (i) the aggregate amount of a bank's equity participation may not exceed 50 per cent. (on a consolidated and unconsolidated basis) of the bank's total capital (25 per cent. as to investments in unlisted companies);
- (ii) equity investments in a single non-financial company or in a group of non-financial companies may not exceed 6 per cent. of the bank's total capital; and
- (iii) generally banks may not acquire more than 15 per cent. of the voting shares of any non-financial company. However, such 15 per cent. limit may be exceeded provided that:
 - (a) the amount of the equity investment does not exceed 2 per cent. of the acquiring bank's total capital; and
 - (b) the aggregate amount of the part of the equity investments made by the bank in excess of the above limit of 15 per cent. does not exceed 2 per cent. of the acquiring bank's total capital.

The Bank of Italy has established lower limits for banks with total capital lower than 2,000 billion and higher limits for banks which, besides meeting the above-mentioned requirements, collect medium- and long-term funds and take no demand deposits.

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.

Real Estate Holdings by Banks

Banks may purchase real estate provided that such property is instrumental to the exercise of their banking and financial activities. No real estate may be acquired for speculative purposes.

The aggregate amount of a bank's investments in real estate and shareholdings may not exceed its total capital unless the acquisition of the real estate is necessary for the protection of the bank's rights as a creditor.

Accounting and Reporting Requirements

The Bank of Italy requires all banks to report periodically financial information relating to all components of their balance sheet, as well as their off-balance sheet operations and their liquidity.

Italian companies, including banks, are required to employ statutory auditors. The statutory auditors are elected at the general shareholders' meeting and are separate from the internal and external auditors. The statutory auditors are required to verify matters relating to corporate governance and compliance with law, as well as the company's accounts. The statutory auditors are required to transmit to the Bank of Italy copies of the minutes of their meetings and reports of irregularities in the bank's management or violations of law. Moreover, at least quarterly, the statutory auditors shall be informed by the board of directors of any material

transaction carried out by the company and of any potential conflict of interest that may arise from such transaction.

Companies listed on an Italian stock exchange, including the Bank, also are required to have their annual financial statements audited by external auditors. External auditors perform annual audits of the Bank's domestic and foreign operations. Copies of the audited financial statements are provided to the Bank of Italy.

Insurance on Deposits

Depositors are primarily protected against the risk of insolvency of their bank or credit institution and the loss of their deposited funds by the Interbank Deposit Guarantee Fund (the "Interbank Fund"), established in 1987 by a group of Italian banks.

The Interbank Fund, of which all Italian banks (including Italian branches of foreign banks) are members, intervenes when a credit institution is in compulsory administrative liquidation. In the event of controlled management, the Interbank Fund may make payments to support the business of a credit institution, which may take various forms (debt financing, the taking of equity stakes in the banks, etc.).

According to its terms, the Interbank Fund is obliged to compensate depositors in the event of a compulsory administrative liquidation of a bank. The maximum coverage per depositor may not be less than ITL 200 million, approximately 20,000 of which must be repaid within three months of a decree for the bank's compulsory administrative liquidation. Deposits by other banks in their own name and for their own account, customer, deposits and other customer funds in bearer form are, among other items, excluded from coverage. The Bank has been a member of the Interbank Fund since its establishment.

Restrictions on Investments in Banks

Italian banking legislation requires any purchase of shares of a bank or a bank group's holding company to be previously authorised by the Bank of Italy if, alone or combined with previous purchases, such purchase causes the purchaser's shareholding in the bank or the bank group's holding company to exceed 5 per cent. (or the further thresholds of 10 per cent., 15 per cent., 20 per cent., 33 per cent. and 50 per cent.) of the voting capital of the Bank or the holding company or if, regardless of such limit, such purchase or variation in shareholding entails the acquisition of control of the Bank or the banking group. Similarly, the acquisition of a controlling interest in a company which holds shares representing more than 5 per cent. of a bank's voting capital or which otherwise has a controlling interest in a bank is subject to prior authorisation by the Bank of Italy. These provisions apply also to public purchase and exchange offers. Where the acquisition in question is made by a non-EU party whose country of origin does not offer reciprocal conditions for the acquisition of interests in banking institutions in that country by an Italian party, the Bank of Italy will notify the Treasury and the President of the Council of Ministers; the latter at the proposal of the Treasury, may refuse the authorisation. Notification must be made prior to the transfer of the shares, which must be made conditional on the granting of authorisation by the Bank of Italy.

The authorisation must be requested from the Bank of Italy prior to the acquisition becoming effective. No public purchase or exchange offer may be launched until the Bank of Italy's authorisation has been obtained.

In addition and without prejudice to the foregoing, any intention to acquire a controlling stake in a bank or in a banking group must be notified to the Bank of Italy at the time of the first contact with the seller. Such notice must contain information with respect to (i) the existing relationships that the prospective purchaser has with the target bank or group holding company as well as with other banks and financial intermediaries, (ii) the target bank or group holding company's shareholders and (iii) the method for the financing of the proposed acquisition.

Similarly, any intention to dispose of a controlling participation in a bank or banking group's holding company must be notified to the Bank of Italy, will the relevant notice specifying the terms and conditions of the envisaged transaction and the possible counterparties. Further provisions apply in the case of companies, including banks, listed on the *Nuovo Mercato*.

The Bank of Italy must respond within 60 days from receipt of the request for authorisation and the ancillary documentation. Such term is suspended when further information is required. Authorisation is granted when the proposed purchaser meets the integrity requirements set out by law and the acquisition does not impair the sound management of the bank. Any authorisation so granted may be suspended or revoked. Where the person intending to acquire a controlling participation in a bank or a bank group's holding company is an EU bank or its controlling shareholder, the authorisation is given after consultation with the supervisory authority of the purchasing bank's home member state.

Any party that, either directly or indirectly through its subsidiaries, is primarily engaged in a non-banking or non-financial sector, will not be authorised to acquire shares in a bank which results in its aggregate holding exceeding 15 per cent. of such bank's voting capital, or which gives it a controlling interest in the bank, subject to certain exceptions. Authorisation from the Bank of Italy will be denied or revoked when any such party exercises, on a consistent basis, power to appoint (or remove) the majority of the members of the board of directors of the bank through any form of arrangement so as to impair the sound management of the bank. Shares held by any such party in excess of the 15 per cent. threshold or which otherwise result in such party to have control over the bank, must be sold within periods determined by the Bank of Italy. In the absence of any such disposal, the Bank of Italy may apply to a court to order the sale of the shares in question.

The acquisition of a shareholding in a bank exceeding certain thresholds (5 per cent., 10 per cent., 15 per cent., 20 per cent. and 33 per cent. of the share capital of the bank and, in any event, the control of the bank), any subsequent variation of shareholding that brings such shareholding below these thresholds as well as any increase in the shareholding which results in the thresholds of 25 per cent., 40 per cent., 45 per cent. or 55 per cent. of the bank's share capital or any threshold above 55 per cent. by multiples of 5 per cent. (e.g., 60 per cent., 65 per cent., 95 per cent.) being exceeded or the 100 per cent. of share capital to be acquired, must also be reported to the Bank of Italy and the bank within ten days of the date upon which such participation was acquired. The Bank of Italy retains the right to decrease the thresholds with respect to banks characterised as having a widely disbursed membership. Shares held through subsidiaries, fiduciaries or intermediaries are taken into account for the purpose of calculating such ownership thresholds. In addition, the Bank of Italy may require fiduciaries to disclose the identities of the beneficial owner of the shares of a bank held in trust. Shares held for which the requisite authorisations have not been granted or have otherwise been suspended or revoked, or in respect of which the required notification to the Bank of Italy has not been made, may not be voted, although they will count for quorum purposes. Any shareholders' resolution adopted in breach of the foregoing may be subject to legal challenge, if the resolution would not have been passed in the absence of votes attributable to such shares, by members of the Board of Directors, members of the Board of Statutory Auditors, or absent or dissenting shareholders within three months from the date of the resolution or, if the resolution is subject to filing with the *Registro delle Imprese*, within three months from the date of registration. The resolution may also be challenged, or annulled on the request of the Bank of Italy within six months from the date of the resolution or, if the resolution is subject to filing with the *Registro delle Imprese*, within six months from the date of registration.

Pursuant to regulations issued by the Treasury, parties which hold, directly or indirectly, more than 5 per cent. of a company's share capital must satisfy certain integrity requirements. If such requirements are not satisfied any shares that are held in excess of the 2 per cent. limit may not be voted although they will count for quorum purposes. Shareholders' resolutions adopted in breach of the foregoing may be annulled if such resolutions would not have been passed in the absence of votes attributable to such shares.

Where the acquisition of a participation in a bank encompasses a transaction which is relevant under the applicable Italian antitrust legislation, the prospective purchaser must send the Bank of Italy a separate and specific notice. In accordance with Italian antitrust laws and regulations, the Bank of Italy, upon consultation with the Italian antitrust authority, is required to prohibit acquisitions of sole or joint control over a bank that would create or strengthen a dominant position in the domestic banking market or a significant part thereof, which would result in an elimination or a substantial reduction, on a lasting basis, of competition, provided that certain revenue thresholds are exceeded. However, if the acquiring party and the party to be acquired surpass certain turnover thresholds, the antitrust approval of the acquisition falls within the exclusive jurisdiction of the EU Commission.

Exchange Controls in Italy

The following discussion of exchange controls in Italy summarises relevant Italian laws in force at the date hereof, but does not purport to be a comprehensive description of all exchange control considerations that may be relevant to a decision to purchase the securities offered hereby.

There are no exchange controls in Italy. Residents and non-residents of Italy may effect any investments, divestitures and other transactions that entail transfer of assets to or from Italy, subject only to the reporting, record-keeping and disclosure requirements described below. Residents of Italy may hold foreign currency and foreign securities of any kind, within and outside Italy, non-residents may invest in Italian securities without restriction and may export from Italy cash, instruments of credit and securities, in both foreign currency and lire, representing interest, dividends, other asset distributions and the proceeds of dispositions.

Updated reporting and record-keeping requirements are contained in Italian legislation, which implements an EC directive regarding the free movement of capital. Such legislation requires that transfers into or out of Italy of cash or securities in excess of ITL 20 million be reported in writing to the *Ufficio Italiano Cambi* by residents or non-residents that effect such transfers directly, or by credit institutions and other intermediaries that effect such transactions on their behalf. In addition, credit institutions and other intermediaries effecting such transactions on behalf of residents or non-residents of Italy are required to maintain records of such transactions for five years, which may be inspected at any time by Italian tax and judicial authorities. Non-compliance with these reporting and record-keeping requirements may result in administrative fines or, in the case of false reporting and in certain cases of incomplete reporting, criminal penalties. The *Ufficio Italiano Cambi* will maintain reports for a period of ten years and may use them, directly or through other government offices, to police money laundering, tax evasion and any other crime or violation.

Individuals, non-profit entities and partnerships that are residents of Italy must disclose on their annual tax declarations all investments and financial assets held outside Italy, as well as the total amount of transfers to, from, within and between countries other than Italy relating to such foreign investments or financial assets, even if at the end of the taxable period such persons no longer owned such foreign investments or financial assets. No such disclosure is required in respect of foreign investments or financial assets that are exempt from income tax or if withholding tax in Italy has already been paid. Such disclosure requirement does not apply if the total value of the investments and assets at the end of the taxable period or the total amount of the transfers effected during the year is not greater than ITL 20 million. Corporate residents of Italy are exempt from such disclosure requirements with respect to their annual tax declarations because this information is required to be disclosed in their financial statements.

There can be no assurance that the present regulatory environment within or outside Italy will endure or that particular policies presently in effect will be maintained, although Italy is required to maintain certain regulations and policies by virtue of its membership in the EU and other international organisations and its adherence to various bilateral and multinational international agreements.

BANCA POPOLARE DI BERGAMO CAPITAL TRUST

Banca Popolare di Bergamo Capital Trust is a statutory business trust formed on 1st February 2001 under the Delaware Business Trust Act, as amended (the “Trust Act”), under a trust agreement and the filing of a certificate of trust filed with the Secretary of State of the State of Delaware. The trust agreement will be amended and restated in its entirety on or about 15th February 2001 (as so amended and restated, the “Trust Agreement”).

The LLC will own 100 per cent. of the Trust Common Securities, which will have an aggregate liquidation preference equal to €1,000. The Trust will use all the proceeds derived from the issuance of the Trust Securities to purchase the LLC Preferred Securities from the LLC. The assets of the Trust will consist solely of the LLC Preferred Securities.

The Trust exists exclusively for the purposes of:

- issuing the Trust Securities representing undivided beneficial ownership interests in the assets of the Trust;
- investing the proceeds of the Trust Securities in, and holding, the LLC Preferred Securities; and
- engaging in only those other activities necessary or incidental thereto.

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

The initial Regular Trustees of the Trust will be Francois Gautier, a resident of Switzerland, Dean A. Christensen, a resident of the United States and Benjamin B. Abedine, a resident of the United States.

Initially, The Bank of New York will act as Property Trustee and The Bank of New York (Delaware) will act as Delaware Trustee.

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

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

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

- that 100 per cent. of the Trust Common Securities will be held by the LLC, or, with the prior approval of the Bank of Italy, if then required, any subsidiary of the Bank incorporated under the laws of any

State of the United States which is deemed to be a “company controlled by the parent company” within the meaning of Rule 3a-5 of the 1940 Act;

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

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

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

On or prior to the Issue Date, the Trust, the LLC and the Bank will enter into a services agreement with Lord Securities Corporation (the “Services Agreement”). Under the Services Agreement, Lord Securities Corporation will be obligated, among other things, to provide legal, accounting, tax and other general support services to the Trust and the LLC, to maintain compliance with all applicable US and Italian local, state and federal laws, and to provide administrative, record-keeping and secretarial services for the LLC and the Trust. As issuer of the LLC Preferred Securities, the LLC will pay all of the fees and expenses of the Trust, including any taxes, duties, assessments or governmental charges of whatever nature (other than withholding taxes) imposed by the United States or any other domestic taxing authority upon the Trust, and all other obligations of the Trust (other than with respect to the Trust Securities).

The location of the principal executive office of the Trust and the business address of the Trust is Two Wall Street, 7th Floor, New York, New York 10005, USA.

BANCA POPOLARE DI BERGAMO FUNDING LLC

Banca Popolare di Bergamo Funding LLC is a limited liability company that was formed on 1st February, 2001 under the Delaware Limited Liability Company Act, as amended (the “LLC Act”), pursuant to an initial limited liability company agreement and a certificate of formation filed with the Secretary of State of the State of Delaware. The limited liability company agreement will be amended and restated in its entirety on or about 15th February 2001 (as so amended and restated, the “LLC Agreement”) in order to reflect, among other things, the issuance by the LLC of its common securities (the “LLC Common Securities”) and its Noncumulative Fixed/Floating Rate Guaranteed Preferred Securities (the “LLC Preferred Securities,” and together with the LLC Common Securities, the “LLC Securities”).

The Property Trustee will initially hold 100 per cent. of the issued and outstanding LLC Preferred Securities for the benefit of the holders of the Trust Securities. The Bank will initially hold 100 per cent. of the issued and outstanding LLC Common Securities, which will have an aggregate liquidation preference equal to €1,000,000.

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

The LLC exists exclusively for the purposes of:

- issuing the LLC Securities and entering into the Initial Derivative Contract with the Bank;
- investing the Initial Proceeds in and holding the initial Eligible Investments, including the Initial Subordinated Deposit, and to purchase the Trust Common Securities;
- reinvesting the proceeds of the Initial Subordinated Deposit and other Eligible Investments, upon repayment thereof, in and holding other Eligible Investments; and
- engaging in only those other activities necessary, appropriate, proper, advisable, incidental or convenient thereto.

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

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

The holder of the LLC Common Securities may, with the prior approval of the Bank of Italy, if then required, transfer such securities to another branch of the Bank or to one or more subsidiaries of the Bank each of which is deemed to be a “company controlled by the parent company” within the meaning of Rule 3a-5 of the 1940 Act, *provided that*, prior to such transfer it has received an opinion of an independent nationally

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

The LLC may also use any of its assets or proceeds therefrom, other than the Subordinated Deposits and proceeds therefrom, to pay its expenses or dividends to the holders of the LLC Common Securities at any time, provided that the minimum aggregate principal amount of such assets or proceeds owned by the LLC after such payment shall at all times be not less than €1,000,000.

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

The LLC’s business and affairs will be conducted by its Board, which will consist initially of three members. The initial Regular Independent Director will be Dwight Jenkins. The other initial members of the Board include Francois Gautier and Roland Klenast, each of whom is an employee of the Group and a non-resident of Italy.

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

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

On or before the Issue Date, the LLC, the Trust and the Bank will enter into a Services Agreement with Lord Securities Corporation. See “Banca Popolare di Bergamo Capital Trust.” As holder of the LLC Common Securities, the Bank will provide the LLC with the funds necessary for payment by the LLC of all of its fees and expenses, including any taxes, duties, assessments or governmental charges of whatever nature (other than withholding taxes) imposed by the United States or any other domestic taxing authority upon the LLC, and all other obligations of the LLC (other than with respect to the LLC Securities).

The location of the registered office of the LLC is One Rodney Square, 10th Floor, Tenth and King Streets, Wilmington, New Castle County, Delaware 19801, USA.

DESCRIPTION OF THE TRUST SECURITIES

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

General

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

On or before the Issue Date, the Property Trustee, on behalf of the Trust, will enter into an agency agreement (the “Agency Agreement”) with The Bank of New York (London Branch), as the principal paying agent and transfer agent for the Trust Preferred Securities (the “Principal Paying Agent”) and Deutsche Bank Luxembourg S.A., as the Luxembourg paying agent for the Trust Preferred Securities (the “Luxembourg Paying Agent” and, together with the Principal Paying Agent, the “Paying Agents”).

Dividends

Periodic cash distributions (“Dividends”) on the Trust Preferred Securities with respect to each Dividend Period will be paid to the extent that Dividends on the LLC Preferred Securities have been declared or deemed declared and in each case paid by the LLC to the Trust or paid by the Bank under the Subordinated Guarantees or otherwise with respect to the corresponding Dividend Period. Amounts paid to holders of the Trust Preferred Securities in respect of Dividends and other distributions will be limited to payments received by the Trust from the LLC with respect to the LLC Preferred Securities or from the Bank under the Trust Subordinated Guarantee or otherwise.

Dividends on the Trust Preferred Securities, only if and to the extent the Trust has funds legally available for payment of such Dividends in the Trust’s property account, will accrue and be payable on a noncumulative basis as follows: (i) Dividends will accrue at the fixed rate per annum (the “Fixed Dividend Rate”) of 8.364 per cent. of the liquidation preference of €1,000 per Trust Preferred Security during each Dividend Period until the Dividend Period that begins on 15th February 2011 and will be payable in arrear on each 15th February commencing 15th February 2002, and (ii) during each Dividend Period thereafter, Dividends will accrue at a floating rate per annum (each a “Floating Dividend Rate”) of 4.60 per cent. above the Euro Inter-bank Offered Rate for three-month euro deposits (“EURIBOR”) and will be payable in arrear on each 15th February, 15th May, 15th August and 15th November, commencing 15th May 2011 (each, a “Dividend Payment Date”).

Prior to the Dividend Period that begins on 15th February 2011, Dividends on the Trust Preferred Securities for any period shorter than a year will be calculated on the basis of the actual number of days in the relevant calendar year and the actual number of days elapsed during the relevant Dividend Period. Dividends that are payable on each Dividend Payment Date or Redemption Date (as defined below) will be calculated on the liquidation preference of €1,000 per Trust Preferred Security on an annual basis for each such Dividend Period, from and including the immediately preceding Dividend Payment Date (or from and including 15th February 2001, with respect to the Dividends payable on 15th February 2002) to but excluding the relevant Dividend Payment Date or Redemption Date, as the case may be (each such period, a “Dividend Period”). If

any Dividend Payment Date or Redemption Date on or before the Dividend Period that begins on 15th February 2011 falls on a day that is not a Business Day, the applicable Dividend or Redemption Price (as defined below) will be payable on the next succeeding day that is a Business Day, without adjustment, interest or further payment as a result of the delay.

“Business Day” means any day (A) other than a Saturday, Sunday or a day on which banking institutions in The City of New York and London are authorised or required by law or executive order to remain closed and (B) that is a TARGET Settlement Day.

With respect to each Dividend Period commencing with the Dividend Period that begins on 15th February 2011, Dividends payable on each Dividend Payment Date will be calculated on a quarterly basis for each such Dividend Period, from and including the EURIBOR Reset Date (as defined below) falling in such Dividend Period to but excluding the EURIBOR Reset Date falling in the next succeeding Dividend Period at a Floating Dividend Rate determined on the related EURIBOR Determination Date (as defined below) for such Dividend Period. The Dividend in respect of each Dividend Period for any period shorter than a year will be calculated on the basis of a 360-day year and the actual number of days elapsed during such Dividend Period. Each Dividend Payment Date on or after 15th February 2011 will also be a EURIBOR Reset Date. If any EURIBOR Reset Date, Dividend Payment Date or Redemption Date after 15th February 2011 falls on a day that is not a Business Day, such EURIBOR Reset Date, Dividend Payment Date or Redemption Date will be postponed to the next succeeding day which is a Business Day, unless it would thereby fall into the next calendar month, in which case it will be brought forward to the preceding day that is a Business Day.

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

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

“Calculation Agent” means The Bank of New York or any successor thereto.

“EURIBOR Determination Date” for any Dividend Period commencing on or after 15th February 2011, means the second TARGET Settlement Day preceding the applicable EURIBOR Reset Date.

“EURIBOR Reset Date” means the first day of any Dividend Period commencing on or after 15th February 2011.

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

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

All percentages resulting from any calculation regarding Dividends on the Trust Preferred Securities will be rounded to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upwards (e.g., 9.876545 per cent. (or .09876545) would be rounded to 9.87655 per cent. (or .0987655)).

The Calculation Agent will notify the Luxembourg Stock Exchange of the Dividend Payment Date and the Dividend Rate determined for each Dividend Period.

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

Payment of Additional Amounts

All payments in respect of the Trust Securities made by or on behalf of the Trust will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature, imposed or levied by or on behalf of the Republic of Italy, the United States or any jurisdiction of residence of an Eligible Borrower (each, a “Relevant Jurisdiction”) or any authority therein or thereof having power to tax (collectively, “Relevant Tax”) payable by or on behalf of the Trust, unless the withholding or deduction of such Relevant Tax is required by law. In that event, the Trust will pay, as further Dividends, such additional amounts (“Additional Amounts”) as may be necessary in order that the net amounts received by the holders of the Trust Securities (or a third party on the holder’s behalf), after such withholding or deduction, will equal the amount which would have been received in respect of the Trust Securities in the absence of such withholding or deduction, except that no such Additional Amounts will be payable to a holder of Trust Securities (or to a third party on any such holder’s behalf) with respect to any Trust Securities to the extent that such Relevant Tax is imposed or levied by virtue of such holder (or the beneficial owner of such Trust Securities) (1) having some connection with the Relevant Jurisdiction, other than being a holder (or beneficial owner) of such Trust Securities or (2) not having made a declaration of non-residence in, or other lack of connection with, the Relevant Jurisdiction or any similar claim for exemption, if the Bank or its agent has provided the beneficial owner of such Trust Securities or its nominee with at least 60 days’ prior written notice of an opportunity to make such a declaration or claim.

Trust Enforcement Events

The occurrence, at any time, of: (1) non-payment of Dividends on the Trust Preferred Securities for any Dividend Period; (2) a default by the Bank in respect of any of its obligations under the Trust Subordinated Guarantee; or (3) an LLC Enforcement Event (as defined below under “Description of the LLC Securities—LLC Preferred Securities—LLC Enforcement Events”) with respect to the LLC Preferred Securities will constitute an enforcement event under the Trust Agreement with respect to the Trust Securities (a “Trust Enforcement Event”); *provided, that*, pursuant to the Trust Agreement, the holder of the Trust Common Securities will be deemed to have waived any Trust Enforcement Event with respect to the Trust Common

Securities until all Trust Enforcement Events with respect to the Trust Preferred Securities have been cured, waived or otherwise eliminated. In the case of a Trust Enforcement Event set forth in clause (1) above, the Trust may cure such Trust Enforcement Event by making Dividend payments on the Trust Securities in full on each Dividend Payment Date for 12 consecutive months. Until every Trust Enforcement Event with respect to the Trust Preferred Securities has been so cured, waived or otherwise eliminated, the Property Trustee will be deemed to be acting solely on behalf of the holders of the Trust Preferred Securities and only the holders of the Trust Preferred Securities will have the right to direct the Property Trustee with respect to certain matters under the Trust Agreement and, in the case of non-payment of Required Dividends on the LLC Preferred Securities for any Dividend Period, the election of one Special Independent Director to the Board. See “Description of the LLC Securities—LLC Preferred Securities—Voting Rights” and “Description of the LLC Securities—LLC Preferred Securities—Independent Directors’ Approval.” Upon the occurrence of a Trust Enforcement Event, the Trust will notify or cause the Luxembourg Stock Exchange to be notified of such event.

Upon the occurrence of a Trust Enforcement Event:

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

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

Redemption

The LLC Preferred Securities may be redeemed by the LLC, at its option, in whole or in part, at the Regular Redemption Price (as defined below) on any Dividend Payment Date on or after 15th February 2011, with the prior approval, if then required, of the Bank of Italy. Upon the occurrence of an LLC Special Event (as defined below) (other than a Change in Law Tax Event (as defined below) with respect to the LLC), the LLC Preferred Securities may be redeemed by the LLC, at its option, in whole but not in part, at the Regular Redemption Price (as defined below) on any Dividend Payment Date if such redemption occurs on or after 15th February 2011 (a “Regular Redemption Date”), or at the Special Redemption Price (as defined below) on any Dividend Payment Date if such redemption occurs prior to 15th February 2011 (the “Special Redemption Date” and together with a Regular Redemption Date, a “Redemption Date”), in each case, with the prior approval, if then required, of the Bank of Italy. Upon the occurrence of a Change in Law Tax Event with respect to the LLC, the LLC Preferred Securities may be redeemed by the LLC, at its option, in whole but not in part, at the Regular Redemption Price on any Dividend Payment Date, with prior approval of the Bank and, if then required, the Bank of Italy. Upon any such redemption of the LLC Preferred Securities, the proceeds from such repayment shall simultaneously be applied to redeem a corresponding aggregate liquidation preference of Trust Securities at the applicable Redemption Price; *provided, that*, holders of the Trust Securities shall be given not less than 30 nor more than 60 days’ notice of such redemption and payments will be made pursuant to the Trust

Agreement (see “—Payments”). See “Description of the LLC Securities—LLC Preferred Securities—General,” “Description of the LLC Securities—Redemption and Repurchase of LLC Preferred Securities—Optional Redemption” and “—Redemption and Repurchase of LLC Preferred Securities—LLC Special Events.” Upon the occurrence of any partial redemption, the Trust will notify or cause the Luxembourg Stock Exchange to be notified of the remaining outstanding aggregate liquidation preference of the Trust Preferred Securities. The LLC Agreement provides that if a partial redemption of the LLC Preferred Securities would result in a delisting of the Trust Preferred Securities on any securities exchange or automated quotation system on which the Trust Preferred Securities are then listed or quoted, the LLC will redeem the LLC Preferred Securities only in whole. Any LLC Preferred Securities or Trust Securities that are redeemed will be cancelled and not reissued following their redemption.

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

The “Regular Redemption Price” means the liquidation preference of €1,000 per LLC Preferred Security, plus any accumulated and unpaid Dividends for the Dividend Period ending on the day immediately preceding the Regular Redemption Date, plus (without duplication) any unpaid Required Dividends, plus LLC Additional Amounts thereon, if any.

The “Special Redemption Price” means the greater of (1) the liquidation preference of €1,000 per LLC Preferred Security and (2) the Make-Whole Amount (as defined below), plus, in the case of either (1) or (2), any accumulated and unpaid Dividends for the Dividend Period ending on the day immediately preceding the Special Redemption Date, plus (without duplication) any unpaid Required Dividends, plus LLC Additional Amounts thereon, if any.

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

“Make-Whole Amount” means the amount equal to the sum of the present value of the liquidation preference of €1,000 per LLC Preferred Security, together with the present values of the scheduled noncumulative Dividend payments per LLC Preferred Security from the Special Redemption Date to the Dividend Payment Date on 15th February 2011, in each case, discounted to the Special Redemption Date on an annual basis (calculated on the basis of the actual number of days in the relevant calendar year and the actual number of days in such period) at the German Bund Rate (as defined below) plus .50 per cent.

“German Bund Rate” means, with respect to the Special Redemption Date, the rate per annum equal to the equivalent yield to maturity of the Comparable German Bund Issue, assuming a price for the Comparable German Bund Issue (expressed as a percentage of its principal amount) equal to the Comparable German Bund Price for such Special Redemption Price.

“Comparable German Bund Issue” means the German Bund security selected by the Calculation Agent as having a maturity comparable to 15th February 2011 that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities having a maturity of 15th February 2011.

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

“Reference German Bund Dealer” means (A) the Calculation Agent and (B) any other German Bund dealer selected by the Calculation Agent after consultation with the LLC.

“Reference German Bund Dealer Quotations” means, with respect to each Reference German Bund Dealer and the Special Redemption Date, the average, as determined by the Calculation Agent, of the bid and asked

prices for the Comparable German Bund Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Calculation Agent by such Reference German Bund Dealer at 3:30 p.m., Frankfurt time, on the third German Business Day immediately preceding the Special Redemption Date.

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

If, at any time, a Trust Special Event shall occur and be continuing, the Regular Trustees shall, within 90 days following the occurrence of such Trust Special Event, elect to either (1) dissolve the Trust upon not less than 30 nor more than 60 days’ notice to the holders of the Trust Securities, Euroclear and Clearstream Luxembourg, with the result that, after satisfaction of liabilities to creditors of the Trust, if any, LLC Preferred Securities would be distributed on a *pro rata* basis to the holders of the Trust Securities in liquidation of such holders’ interest in the Trust, *provided, however*, that, if at the time there is available to the Trust the opportunity to eliminate, within such 90-day period, the Trust Special Event by taking some ministerial action, such as filing a form or making an election, or pursuant to some other similar reasonable measures which in the sole judgment of the Bank has, or will cause, no adverse effect on the LLC, the Trust, the Bank or the holders of the Trust Securities and will involve no material costs, the Trust will pursue such measure in lieu of dissolution or (2) cause the Trust Preferred Securities to remain outstanding, *provided, that*, in the case of this clause (2), the Bank shall pay any and all costs and expenses incurred or payable by the Trust attributable to the Trust Special Event.

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

“Capital Event” means the Bank is notified by the Bank of Italy to the effect that the LLC Preferred Securities may not be included in the consolidated or stand-alone Tier 1 capital of the Bank.

An “Investment Company Event” means that the Bank shall have requested and received an opinion of a nationally recognised United States law firm experienced in such matters to the effect that there is more than an insubstantial risk that the Trust or the LLC is or will be considered an “investment company” within the meaning of the 1940 Act, as a result of any judicial decision, any pronouncement or interpretation (irrespective of the manner made known), any adoption or amendment of any law, rule or regulation or any notice or announcement (including any notice or announcement of intent to adopt such rule or regulation) by any United States legislative body, court, governmental agency or regulatory authority after the date hereof.

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

A “Change in Law Tax Event” means the receipt by the Bank of an opinion of a nationally recognised law firm or other tax adviser in the Relevant Jurisdiction, as appropriate, experienced in such matters, to the effect that, as a result of (1) any amendment to, or clarification of, or change (including any announced prospective change) in, the laws or treaties (or any regulations promulgated thereunder) of such Relevant Jurisdiction or any political subdivision or taxing authority thereof or therein affecting taxation, (2) any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) (for purposes of this definition, an “Administrative Action”) or (3) any amendment to, clarification of, or change in the official position or the interpretation of such Administrative Action or any interpretation or pronouncement that provides for a position with respect to such Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental, administrative or regulatory authority or body, irrespective of the manner in which such amendment, clarification or change is made known, which amendment, clarification or change is effective, or which pronouncement or decision is announced, on or after the date of original issuance of the Trust Preferred Securities and the LLC Preferred Securities as a result of which, there is more than an insubstantial risk that (A) the Trust or the LLC is or will be subject to more than

a *de minimis* amount of taxes, duties or other governmental charges, (B) if a payment in respect of the Trust Securities or the LLC Preferred Securities were to be due (whether or not the same is in fact then due) on or before the next Dividend Payment Date, the Trust or the LLC, as the case may be, would be unable to make such payment without having to pay Additional Amounts or LLC Additional Amounts, as the case may be, or (C) if a payment in respect of a Subordinated Deposit were to be due (whether or not the same is in fact then due) on or before the next interest payment date in respect of such Subordinated Deposit, the related Eligible Borrower would be unable to make such payment without having to pay Subordinated Deposit Additional Amounts; *provided, however*, that none of the foregoing events shall constitute a Change in Law Tax Event if such event or events may be avoided by the related Eligible Borrower, the Trust or the LLC taking reasonable measures which (x) do not require the Eligible Borrower, the LLC or the Trust to incur material out-of-pocket expenses and (y) would not otherwise be disadvantageous to the Bank or the related Eligible Borrower, as determined in the Bank's discretion.

An "Interpretation Tax Event" means, to the extent not covered in the definition of "Change of Law Tax Event," the receipt by the Bank of an opinion of a nationally recognised law firm or other tax adviser experienced in such matters, to the effect that, as a result of a change in the official interpretation of Italian tax laws as currently in force contained in a public release by non-governmental or governmental tax or other authorities, generally accepted practice in Italy would require the Eligible Borrower under a Subordinated Deposit to pay Subordinated Deposit Additional Amounts in connection with a payment thereunder (whether or not the same is in fact due); *provided, however*, that none of the foregoing events shall constitute an Interpretation Tax Event if such event or events may be avoided by the related Eligible Borrower, the Trust or the LLC taking reasonable measures which (x) do not require the Eligible Borrower, the LLC or the Trust to incur material out-of-pocket expenses and (y) would not otherwise be disadvantageous to the Bank or the related Eligible Borrower, as determined in the Bank's discretion.

A "Tax Deductibility Event" means the receipt by the Bank of an opinion of a nationally recognised law firm or other tax adviser, as appropriate, in the Relevant Jurisdiction in which an Eligible Borrower is located and experienced in such matters, to the effect that, as a result of (1) any amendment to, or clarification of, or change (including any announced prospective change) in, the laws or treaties (or any regulations promulgated thereunder) of such Relevant Jurisdiction or any political subdivision or taxing authority thereof or therein affecting taxation, (2) 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) in such Relevant Jurisdiction (for purposes of this definition, an "Administrative Action") or (3) any amendment to, clarification of, or change in the official position or the interpretation of such Administrative Action or any interpretation or pronouncement that provides for a position with respect to such Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental, administrative or regulatory authority or body in such Relevant Jurisdiction, 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, in each case, after the date of the making of such Subordinated Deposit as a result of which there is more than an insubstantial risk that such Eligible Borrower will be subject to more than a *de minimis* additional amount of national income taxes due to a change or modification of the deductibility of the interest payments on such Subordinated Deposit; *provided, however*, that none of the foregoing events shall constitute a Tax Deductibility Event unless the Bank, such Eligible Borrower, the LLC and the Trust have used their respective best efforts to achieve comparable tax benefits to the Bank, including without limitation, replacing such Subordinated Deposit or such Eligible Borrower.

If the Trust gives a notice of redemption in respect of Trust Preferred Securities (which notice will be irrevocable), then, by 12:00 p.m., New York City time, on the applicable Redemption Date, provided that the LLC has paid to the Property Trustee a sufficient amount of cash in connection with the related redemption of the LLC Preferred Securities, the Trust will irrevocably deposit with the Paying Agents funds sufficient to pay

the applicable Redemption Price and will give the Paying Agents irrevocable instructions and authority to pay the applicable Redemption Price to the holders of the Trust Preferred Securities represented by global securities and will irrevocably deposit with the Property Trustee funds sufficient to pay such Redemption Price in respect of any Trust Preferred Securities in certificated form and will give the Paying Agents irrevocable instructions and authority to pay such amount to the holders thereof on surrender of their certificates. See “—Form, Denomination and Transfer.” If notice of redemption shall have been given and funds deposited as required, then, immediately prior to the close of business on the date of such deposit, all rights of holders of such Trust Preferred Securities so called for redemption will cease, except the right of the holders of such Trust Preferred Securities to receive the applicable Redemption Price (but without interest on such Redemption Price). In the event that payment of the applicable Redemption Price in respect of Trust Preferred Securities is improperly withheld or refused and not paid either by the Trust, or by the Bank pursuant to the Trust Subordinated Guarantee, distributions on such Trust Preferred Securities will continue to accrue at the then applicable rate from the original Redemption Date to the date of payment, in which case the actual payment date will be considered the date fixed for redemption for purposes of calculating the applicable Redemption Price.

In the event that fewer than all of the outstanding Trust Preferred Securities are to be redeemed, the Trust Preferred Securities will be redeemed *pro rata*.

In accordance with, and subject to the limitations set forth in the LLC Agreement, so long as any LLC Preferred Securities are outstanding, neither the Bank nor any Subsidiary will be entitled to redeem, repurchase or otherwise acquire, or set apart funds for the redemption, repurchase or other acquisition of, any Parity Securities or Junior Securities, through a sinking fund or otherwise (other than (A) any redemption, repurchase or other acquisition of such share capital or other instrument held by the Bank or any Subsidiary, (B) as a result of a reclassification of the share capital of the Bank or such Subsidiary or the exchange or conversion of one class or series of such share capital for another class or series of such share capital, (C) the purchase of fractional interests in the share capital of the Bank or any such Subsidiary pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged, (D) in connection with a levy of execution for the satisfaction of a claim by the Bank or any Subsidiary, (E) in connection with the satisfaction by the Bank or any Subsidiary of its obligations under any employee benefit plan or similar arrangement or (F) in connection with transactions effected by or for the account of customers of the Bank or any of its affiliates or in connection with the distribution, trading or market-making in respect of such securities), unless and until (A) full Dividends on all LLC Preferred Securities for the prior financial year (or such lesser period during which the LLC Preferred Securities have been outstanding) and any Dividend Period that has occurred during the current financial year have been paid or a sum sufficient for payment has been paid to the Paying Agents for payment of such Dividends and (B) the LLC has declared Dividends on the LLC Preferred Securities in full at the Dividend Rate for the then current Dividend Period and sufficient funds have been paid to the Paying Agents for payment of such Dividends. It is an obligation of the Bank to ensure that its affiliates observe the foregoing limitations.

If the LLC Preferred Securities are distributed to the holders of the Trust Preferred Securities pursuant to a Trust Liquidation (as defined below) (see “—Liquidation Distribution Upon Dissolution”), the Bank and the LLC will notify such holders prior to such distribution in accordance with the provisions set forth in “General Listing Information—Notices.” If the LLC Preferred Securities are distributed to such holders, the Bank will use its commercially reasonable efforts to cause the LLC Preferred Securities to be listed on the Luxembourg Stock Exchange or on such other international securities exchange or similar organisation as the Trust Preferred Securities are then listed or quoted. The LLC Preferred Securities presently are not listed on the Luxembourg Stock Exchange or any other securities exchange. See “Investment Considerations—Optional Redemption Upon the Occurrence of an LLC Special Event or Trust Special Event—Liquidation of the Trust Upon Occurrence of a Trust Special Event.”

Upon dissolution of the Trust, on the date fixed for any distribution of LLC Preferred Securities, (i) the Trust Securities will no longer be deemed to be outstanding and (ii) certificates representing Trust Securities

will be deemed to represent the LLC Preferred Securities having an aggregate liquidation preference equal to the aggregate liquidation preference of such Trust Securities until such certificates are presented to the LLC or its agent for exchange.

Purchases of Trust Preferred Securities

The Bank or any of its affiliates may at any time and from time to time, with prior approval of the Bank of Italy (if then required), subject to compliance with applicable Italian regulatory requirements, purchase outstanding Trust Preferred Securities by tender in the open market or by private agreement. If purchases are made by tender, the tender must be available to all holders of Trust Preferred Securities.

Subordination of Trust Common Securities

Upon and during the continuance of an event of default under the Subordinated Deposits or the Subordinated Guarantees and upon liquidation, dissolution, winding-up or termination of the Trust, holders of the Trust Preferred Securities will have a preference over holders of the Trust Common Securities as to Dividend payments and other payments.

In the case of any Trust Enforcement Event, the holder of Trust Common Securities will be deemed to have waived any such Trust Enforcement Event until every Trust Enforcement Event with respect to the Trust Preferred Securities has been cured, waived or otherwise eliminated. Until all Trust Enforcement Events with respect to the Trust Preferred Securities have been so cured, waived or otherwise eliminated, the Property Trustee shall act solely on behalf of the holders of the Trust Preferred Securities and not on behalf of the holder of the Trust Common Securities, and only the holders of the Trust Preferred Securities will have the right to direct the Property Trustee to act on their behalf.

Liquidation Distribution Upon Dissolution

In the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Trust (each a “Trust Liquidation”), the holders of the Trust Securities will be entitled to receive out of the assets of the Trust, after satisfaction of liabilities to creditors, if any, the LLC Preferred Securities on a *pro rata* basis, except, in the case of the holders of Trust Common Securities, in the limited circumstances described above under “—Subordination of Trust Common Securities.”

Pursuant to the Trust Agreement, the Trust shall dissolve (1) upon the bankruptcy, insolvency, liquidation or dissolution of the Bank or the LLC, (2) upon the filing of a certificate of cancellation with respect to the LLC, (3) the consent of at least a majority of the outstanding Trust Securities, voting together as a single class, to file a certificate of cancellation with respect to the Trust, (4) upon the election of the Regular Trustees, following the occurrence of a Trust Special Event, to dissolve the Trust, (5) upon the entry of a decree of a judicial dissolution of the LLC or the Trust or (6) upon the redemption of all of the Trust Securities; *provided, however*, that the Trust shall, to the fullest extent permitted by law, not be dissolved until (x) all claims under the Subordinated Guarantees shall have been paid in full or (y) the LLC Preferred Securities shall have been distributed to holders of the Trust Securities in connection with the occurrence of a Trust Special Event.

Voting Rights

Except as described under “Description of the Subordinated Guarantee—Amendment,” and as otherwise required by the Trust Act, other applicable law and the Trust Agreement, the holders of the Trust Preferred Securities will have no voting rights.

Subject to the requirement of the Property Trustee obtaining a tax opinion as set forth in the last sentence of this paragraph, so long as a default by the Bank under either of the Subordinated Guarantees or by the LLC

under the LLC Preferred Securities is continuing, holders of a majority of the outstanding Trust Preferred Securities have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Property Trustee, or direct the exercise of any trust power conferred upon the Property Trustee under the Trust Agreement, including the right to direct the Property Trustee, as holder of the LLC Preferred Securities, (1) to exercise the remedies available to it under the LLC Agreement as a holder of the LLC Preferred Securities, (2) to consent to any amendment, modification or termination of the LLC Agreement or the LLC Preferred Securities where such consent shall be required; *provided, however*, that, where a consent or action under the LLC Agreement would require the consent or act of the holders of more than a majority of the LLC Preferred Securities affected thereby, only the holders of the percentage of the aggregate liquidation preference of the Trust Securities which is at least equal to the percentage of the aggregate liquidation preference of the LLC Preferred Securities required under the LLC Agreement may direct the Property Trustee to give such consent or take such action on behalf of the Trust and (3) to direct the Independent Directors with respect to matters (including enforcement of the Subordinated Deposits) for which the Independent Directors act on behalf of the Property Trustee, as holder of the LLC Preferred Securities. See “Description of the LLC Securities—LLC Preferred Securities—Voting Rights.” Except with respect to directing the time, method and place of conducting a proceeding for a remedy as described above, the Property Trustee shall be under no obligation to take any of the actions described in clauses (1), (2) or (3) above unless the Property Trustee has obtained an opinion of an independent nationally recognised law firm in the United States experienced in such matters to the effect that, as a result of such action, the Trust will not fail to be classified as a grantor trust for United States federal income tax purposes and that after such action each holder of Trust Securities will continue to be treated as owning an undivided beneficial ownership interest in the LLC Preferred Securities.

Any required approval or direction of holders of Trust Preferred Securities may be given at a separate meeting of holders of Trust Preferred Securities convened for such purpose, at a meeting of all of the holders of Trust Securities or pursuant to a written consent. The Regular Trustees will cause a notice of any meeting at which holders of Trust Preferred Securities are entitled to vote, or of any matter upon which action by written consent of such holders is to be taken, to be mailed to each holder of record of Trust Preferred Securities. See “—Notices.” Each such notice will include a statement setting forth the following information: (1) the date of such meeting or the date by which such action is to be taken; (2) a description of any resolution proposed for adoption at such meeting on which such holders are entitled to vote or of such matter upon which written consent is sought; and (3) instructions for the delivery of proxies or consents. No vote or consent of the holders of Trust Preferred Securities will be required for the Trust to redeem and cancel Trust Preferred Securities or distribute LLC Preferred Securities to such holders in accordance with the Trust Agreement.

Notwithstanding that holders of Trust Preferred Securities are entitled to vote or consent under any of the circumstances described above, any of the Trust Preferred Securities that are beneficially owned at such time by the Bank or any entity directly or indirectly controlled by, or under direct or indirect common control with, the Bank, shall not be entitled to vote or consent and shall, for purposes of such vote or consent, be treated as if such Trust Preferred Securities were not outstanding, except for Trust Preferred Securities purchased or acquired by the Bank or any of its affiliates in connection with transactions effected by or for the account of customers of the Bank or any of its affiliates or in connection with the distribution, trading or market-making in respect of such securities; *provided, however*, that persons (other than affiliates of the Bank) to whom the Bank or any of its affiliates have pledged Trust Preferred Securities may vote or consent with respect to such pledged Trust Preferred Securities pursuant to the terms of such pledge.

The procedures by which holders of Trust Preferred Securities may exercise their voting rights are described below. See “—Form, Denomination and Transfer.”

Holders of the Trust Preferred Securities will have no rights to appoint or remove the Regular Trustees, who may be appointed, removed or replaced solely by the LLC, as the holder of all of the Trust Common Securities.

Holders of the Trust Preferred Securities also have rights of direct action against the Bank in certain circumstances as described in “—Trust Enforcement Events” above, “Description of the LLC Securities—LLC Preferred Securities—LLC Enforcement Events” and “Description of the Subordinated Guarantees—Enforcement.”

Merger, Consolidation, Conversion or Amalgamation of the Trust

The Trust may not consolidate, amalgamate, convert or merge with or into, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to any corporation or other entity, except as described below. The Trust may, at the request of the holder of the Trust Common Securities, with the consent of a majority of the Regular Trustees and without the consent of the holders of the Trust Preferred Securities, the Property Trustee or the Delaware Trustee, consolidate, amalgamate, merge with or into, or be replaced by or convey, transfer or lease its properties substantially as an entity to a trust organised as such under the laws of any State of the United States; *provided, that*, (1) if the Trust is not the surviving entity, such successor entity either (x) expressly assumes all of the obligations of the Trust under the Trust Securities or (y) substitutes for the Trust Securities other securities having substantially the same terms as the Trust Securities (the “Successor Securities”), so long as the Successor Securities rank the same as the Trust Securities rank with respect to distributions, assets and payments upon liquidation, redemption and otherwise, (2) the LLC expressly acknowledges a trustee of such successor entity possessing the same powers and duties as the Property Trustee as the holder of the LLC Preferred Securities, (3) the Trust Preferred Securities or any Successor Securities will continue to be listed or quoted, or any Successor Securities will be listed or quoted upon notification of issuance, on any securities exchange, automated quotation system or similar organisation on which the Trust Preferred Securities are then listed or quoted, (4) such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease does not cause the Trust Preferred Securities (including any Successor Securities) to be downgraded by any rating agency then rating the Trust Preferred Securities, (5) such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the holders of the Trust Preferred Securities (including any Successor Securities) in any material respect, (6) such successor entity has a purpose substantially identical to that of the Trust, (7) the Bank guarantees the obligations of such successor entity under any Successor Securities to the same extent as provided by the Trust Subordinated Guarantee and (8) prior to such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease, the Bank has received an opinion of an independent nationally recognised law firm in the United States experienced in such matters to the effect that: (A) such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease will not adversely affect the rights, preferences and privileges of the holders of the Trust Preferred Securities (including any Successor Securities) in any material respect, (B) following such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease, (1) neither the Trust nor such successor entity will be required to register as an investment company under the 1940 Act, (2) the Trust (or such successor entity) will continue to be classified as a grantor trust for United States federal income tax purposes, (3) the Trust (or such successor entity) will not be classified as a foreign trust for United States federal income tax purposes and (4) the LLC (and such successor entity) will not be classified as an association or a publicly traded partnership taxable as a corporation for United States federal income tax purposes. Notwithstanding the foregoing, the Trust shall not, except with the consent of holders of 100 per cent. of the Trust Preferred Securities outstanding, consolidate, amalgamate, convert, or merge with or into, or be replaced by any other entity or permit any other entity to consolidate, amalgamate, merge with or into, or replace it, if such consolidation, amalgamation, conversion, merger, replacement, conveyance, transfer or lease would cause the Trust or the successor entity not to be classified as a grantor trust for United States federal income tax purposes.

Modification of the Trust Agreement

The Trust Agreement may be modified and amended if approved by a majority of the Regular Trustees (and in certain circumstances the Property Trustee and the Delaware Trustee), *provided, that*, if any proposed

amendment provides for, or the Regular Trustees otherwise propose to effect, (1) any action that would materially and adversely affect the powers, preferences or special rights of the Trust Securities, whether by way of amendment to the Trust Agreement or otherwise, or (2) the dissolution, winding-up or termination of the Trust other than pursuant to the terms of the Trust Agreement, then in each case the holders of the Trust Securities voting together as a single class will be entitled to vote on such amendment or proposal and such amendment or proposal shall not be effective except with the approval of at least a majority of the holders of any outstanding Trust Securities affected thereby; *provided, further*, that if any proposed amendment provides for, or the Regular Trustees propose (x) a change in the amount or timing of any Dividend on the Trust Securities or otherwise adversely affects the amount of any Dividend required to be paid in respect of the Trust Securities as of a specified date or (y) a restriction in the right of a holder of Trust Securities to institute suit for the enforcement of any payment on the Trust Securities, then such amendment or proposal shall not be effective except with the approval of 100 per cent. of the holders of the outstanding Trust Securities; *provided, further*, that if any amendment or proposal referred to in clause (1) above would adversely affect only the Trust Preferred Securities or the Trust Common Securities, then only holders of the affected securities will be entitled to vote on such amendment or proposal and such amendment or proposal shall not be effective except with the approval of a majority of holders of such securities.

The Trust Agreement may be amended without the consent of the holders of the Trust Securities to (1) cure any ambiguity, (2) correct or supplement any provision in the Trust Agreement that may be inconsistent with any other provision of the Trust Agreement or to add any other provision with respect to matters or questions arising under the Trust Agreement that shall not be inconsistent with the other provisions of the Trust Agreement, (3) add to the covenants, restrictions or obligations of the Bank or the Trust, (4) conform to any change in the 1940 Act or the rules or regulations thereunder and (5) modify, eliminate and add to any provision of the Trust Agreement to such extent as may be necessary or desirable to ensure that at all times that any Trust Securities are outstanding, (x) the Trust will be classified as a domestic grantor trust and not a business entity for United States federal income tax purposes and (y) the Trust will not be required to register as an investment company under the 1940 Act; *provided, that*, no such amendment shall have a material adverse effect on the rights, preferences or privileges of the holders of the Trust Securities and any such amendment shall become effective when notice thereof is given to the holders of the Trust Preferred Securities in accordance with “—Notices.”

Notwithstanding the foregoing, no amendment or modification may be made to the Trust Agreement if such amendment or modification would (1) cause the Trust to fail to be classified as a grantor trust for United States federal income tax purposes, (2) cause the Trust to be classified as a foreign trust for United States federal income tax purposes, (3) cause the LLC to be classified as an association or publicly traded partnership taxable as a corporation for such purposes, (4) reduce or otherwise adversely affect the powers of the Property Trustee, (5) cause the Trust or the LLC to be required to register under the 1940 Act or (6) cause the Trust Preferred Securities to fail to qualify as consolidated or stand-alone Tier 1 capital for the Bank.

Form, Denomination and Transfer

General

The Trust Preferred Securities will be issued in the form of a temporary registered global certificate (the “Temporary Global Certificate”). Beneficial interests in the Temporary Global Certificate will be exchanged for beneficial interests in a registered permanent global certificate (the “Permanent Global Certificate” and together with the Temporary Global Certificate, the “Global Securities”) upon the expiration of the 40-day period beginning on the later of the commencement of the offering and the Issue Date (the “restricted period”).

The Global Securities will be deposited upon issuance with the Common Depositary for Euroclear and Clearstream Luxembourg. Beneficial interests in the Permanent Global Certificate may be exchanged for definitive Trust Preferred Securities (at the cost and expense of the Bank) if and only if the Trust Preferred

Securities cease to be eligible for clearance through Euroclear and Clearstream Luxembourg or if either Euroclear or Clearstream Luxembourg (or their respective successors) is closed for business for a continuous period of 14 calendar days (other than by reason of holidays, statutory or otherwise) or otherwise permanently ceases business or announces an intention permanently to cease business. In such case, the Regular Trustees will cause definitive Trust Preferred Security Certificates to be issued and delivered, in full exchange for the Permanent Global Certificate, to Euroclear and Clearstream Luxembourg for the accounts of the holders of interests in the Permanent Global Certificate. All definitive Trust Preferred Security Certificates will be security-printed, and will be issued in a minimum liquidation preference of €1,000 per Trust Preferred Security. No definitive Trust Preferred Security Certificates delivered in exchange for a Permanent Global Certificate will be mailed or otherwise delivered to any location in the United States in connection with such exchange. An exchange for definitive Trust Preferred Security Certificates will be made at no charge to the holders of the interests in the Permanent Global Certificate being exchanged. Notwithstanding the foregoing, from and after such time as definitive Trust Preferred Security Certificates are issued in exchange for the Permanent Global Certificate, any remaining interest in the Temporary Global Certificate will be exchangeable only for definitive Trust Preferred Security Certificates. Until exchanged in full, the holder of an interest in any Global Certificate shall in all respects be entitled to the same benefits as the holder of definitive Trust Preferred Security Certificates.

Upon surrender of the relevant Global Certificate by the Common Depositary, the Regular Trustees shall cause definitive Trust Preferred Security Certificates to be delivered to Trust Preferred Securityholders in accordance with the instructions of such Common Depositary. None of the Trust nor the Trustees shall be liable for any delay in delivery of such instructions and may conclusively rely on, and shall be protected in relying on, such instructions.

A definitive Trust Preferred Security Certificate may be transferred or exchanged upon the surrender of the definitive Trust Preferred Security Certificate to be transferred or exchanged, together with the completed and executed assignment, at the specified office of the Registrar or, any transfer agent (which shall include a transfer agent having its specified office in Luxembourg so long as any Trust Preferred Securities are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require). New certificates will be dispatched to holders within five business days of such surrender and assignment.

Definitive Trust Preferred Security Certificates will be transferred or exchanged at the offices of the Registrar as set forth in the Agency Agreement. No service charge will be imposed for any registration of transfer or exchange, but payment of a sum sufficient to cover any tax or other governmental charge imposed in connection therewith may be required. Holders of definitive Trust Preferred Security Certificates in Luxembourg will be able to effect transfers by delivery of the definitive Trust Preferred Security Certificates to Deutsche Bank Luxembourg S.A., with instructions for the transfer of all or part thereof to the proposed transferee thereof.

Transfers Within Global Securities

Subject to the procedures and limitations described below under “—Global Securities” and “—Payments; Certifications by Holders of the Temporary Global Certificate,” transfers of beneficial interests within a global security may be made without delivery to the Bank, the Trust or the Property Trustee of any written certifications or other documentation by the transferor or transferee.

Global Securities

The laws of some jurisdictions require that some purchasers of securities take physical delivery of securities in definitive form. Those laws may impair the ability to transfer beneficial interests in the Trust Preferred Securities so long as the Trust Preferred Securities are represented by Global Securities.

Beneficial interests in and transfers of Global Securities will be shown on records maintained by, and payments on Global Securities will be made to beneficial owners through, the clearing systems that hold the Global Securities and their participants. The initial clearing systems for the Global Securities are Euroclear and Clearstream Luxembourg.

Owners of beneficial interests in Global Securities will not be considered the owners or holders of the Trust Preferred Securities under the Trust Agreement. Accordingly, to exercise any rights of a holder of Trust Preferred Securities, each beneficial owner must rely on the procedures of the clearing system that holds the Global Securities in which that beneficial owner has an interest and, if such owner is not a direct participant in such clearing system, on the participant and any other intermediaries through which such owner holds its beneficial interest.

The information set out below in connection with Euroclear and Clearstream Luxembourg is subject to any change in or reinterpretation of the rules, regulations and procedures of the clearing systems currently in effect. The Bank accepts responsibility for the correct extraction of the information about each of them set forth below which it has obtained from sources that it believes to be reliable. The Managers do not take any responsibility for the accuracy of the information. Neither the Bank nor the Trust, the LLC or the Managers will have any responsibility or liability for any aspect of the records relating to, or payments made on account of interests in Trust Preferred Securities held through the facilities of any clearing system or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments; Certifications by Holders of the Temporary Global Certificate

On or after the restricted period, a certificate must be provided by or on behalf of a holder of a beneficial interest in a Temporary Global Certificate to the Principal Paying Agent, certifying that the beneficial owner of the interest in the Temporary Global Certificate is not a US person. Unless such certificate is provided, (1) the holder of such beneficial interest will not receive any payments with respect to such holder's beneficial interest in the Temporary Global Certificate, (2) such beneficial interest may not be exchanged for a beneficial interest in the Permanent Global Certificate and (3) settlements of trades with respect to such beneficial interest will be suspended.

Clearstream Luxembourg and Euroclear

Clearstream Luxembourg and Euroclear have advised the Bank as follows:

Clearstream Luxembourg

Clearstream Luxembourg is incorporated under the laws of Luxembourg as a professional depositary. Clearstream Luxembourg holds securities for Clearstream Luxembourg participants (as defined below) and facilitates the clearance and settlement of securities transactions between Clearstream Luxembourg participants through electronic book-entry changes in accounts of Clearstream Luxembourg participants, thereby eliminating the need for physical movement of certificates. Clearstream Luxembourg provides to Clearstream Luxembourg participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream Luxembourg interfaces with domestic markets in several countries. As a professional depositary, Clearstream Luxembourg is subject to regulation by the Luxembourg Monetary Institute. Clearstream Luxembourg participants are recognised financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations and may include the Managers ("Clearstream Luxembourg participants"). Indirect access to Clearstream Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream Luxembourg participant either directly or indirectly.

Distributions with respect to Trust Preferred Securities held beneficially through Clearstream Luxembourg will be credited to cash accounts of Clearstream Luxembourg participants in accordance with its rules and procedures, to the extent received by Clearstream Luxembourg.

Euroclear

Euroclear was created in 1968 to hold securities for Euroclear participants (as defined below) and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear includes various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank S.A./N.V. (the “Euroclear operator”), under contract with Euroclear Clearance Systems S.C., a Belgium cooperative corporation (the “cooperative”). All operations are conducted by the Euroclear operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear operator, not the cooperative. The cooperative establishes policy for Euroclear on behalf of Euroclear participants. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the Managers (“Euroclear participants”). Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

The Euroclear operator is the Belgian branch of a New York banking corporation which is a member bank of the Federal Reserve System. As such, it is regulated and examined by the Federal Reserve and the New York State Banking Department, as well as the Belgian Banking Commission.

Securities clearance accounts and cash accounts with the Euroclear operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the “Euroclear terms and conditions”). The Euroclear terms and conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear and receipts of payment with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear operator acts under the Euroclear terms and conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants.

Distributions with respect to Trust Preferred Securities held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Euroclear terms and conditions, to the extent received by the Euroclear operator and by Euroclear.

Euroclear and Clearstream Luxembourg Arrangements

Distributions with respect to the Global Securities will be credited to the extent received by Euroclear or Clearstream Luxembourg from the Principal Paying Agent, to the cash accounts of Euroclear or Clearstream Luxembourg customers in accordance with the relevant clearing system’s rules and procedures.

The holdings of book-entry interests in the Global Securities through Euroclear and Clearstream Luxembourg will be reflected in the book-entry accounts of each such institution. As necessary, the registrar or its agent will adjust the amounts of the Global Securities on the register for the accounts of The Bank of New York Depository (Nominees) Limited (the “register”) to reflect the amounts of Trust Preferred Securities held through Euroclear and Clearstream Luxembourg.

Trading between Euroclear and/or Clearstream Luxembourg Participants

Secondary market sales of book-entry interests in the Trust Preferred Securities held through Euroclear or Clearstream Luxembourg to purchasers of book-entry interests in the Global Securities through Euroclear or Clearstream Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearstream Luxembourg and will be settled using the conventional procedures applicable to Eurobonds.

Although the foregoing sets out the procedures of Euroclear and Clearstream Luxembourg in order to facilitate the transfers of interests in the Trust Preferred Securities among participants of Clearstream Luxembourg and Euroclear, none of Euroclear and Clearstream Luxembourg is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Bank nor the Trust, the LLC or the Managers or any affiliate of any of the above, or any person by whom any of the above is controlled for the purposes of the Securities Act, will have any responsibility for the performance by Euroclear, Clearstream Luxembourg or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described above.

So long as the Global Securities are held on behalf of Euroclear and Clearstream Luxembourg or any other clearing system (an “alternative clearing system”), notices to holders of Trust Preferred Securities represented by a beneficial interest in the Global Securities may be given by delivery of the relevant notice to Euroclear, Clearstream Luxembourg or the alternative clearing system, as the case may be, except that, so long as the Trust Preferred Securities are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if such publication is not practicable, in an English language newspaper having general circulation in Europe.

Information Concerning the Property Trustee

The Property Trustee, prior to the occurrence of a default with respect to the Trust Securities, undertakes to perform only such duties as are specifically set forth in the Trust Agreement and, after such default, shall exercise the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provisions, the Property Trustee is under no obligation to exercise any of the powers vested in it by the Trust Agreement at the request of any holder of Trust Preferred Securities, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby. The holders of Trust Preferred Securities will not be required to offer such indemnity in the event such holders, by exercising their rights, direct the Property Trustee to take any action following a Trust Enforcement Event.

Registrar, Transfer Agent and Paying Agents

The Bank of New York will act as Registrar and The Bank of New York (London Branch) will act as Principal Paying Agent for the Trust Preferred Securities. The Trust has the right at any time to vary or terminate the appointment of any paying agents and to appoint additional or successor paying agents, provided, however, for so long as the Trust Preferred Securities are listed on the Luxembourg Stock Exchange, the Trust shall maintain a transfer agent and a paying agent in Luxembourg. Deutsche Bank Luxembourg S.A. will act as Luxembourg paying agent. Registration of transfers of the Trust Preferred Securities will be effected without charge by or on behalf of the Trust, but upon payment (with the giving of such indemnity as the Trust may require) in respect of any tax or other governmental charges that may be imposed in relation to it. The Trust will not be required to register or cause to be registered the transfer of Trust Preferred Securities after such Trust Preferred Securities have been called for redemption.

Payments

As long as the Trust Preferred Securities are in book-entry form, payments on the Trust Preferred Securities will be made by the paying agent to the Common Depositary, which will credit the relevant accounts at Euroclear and Clearstream Luxembourg on the scheduled payment dates. The payments will be distributed by Euroclear and Clearstream Luxembourg to their respective accountholders as described under “—Euroclear and Clearstream Luxembourg Arrangements” above.

If definitive Trust Preferred Securities are issued in the limited circumstances described above, payments on the Trust Preferred Securities will be made by cheque mailed to the address of the holder entitled to receive the payment as such address appears on the Trust’s register.

Notices

Notices to the holders of the Trust Preferred Securities will be given by delivery of the relevant notice to Euroclear, Clearstream Luxembourg and any other relevant securities clearing system for communication by each of them to participants, and so long as the Trust Preferred Securities are listed on one or more stock exchanges and the rules of such stock exchange(s) so require, notice shall also be published in such manner as the rules of such stock exchange(s) may require. See “General Listing Information—Notices.”

Governing Law; Submission to Jurisdiction

The Trust Agreement and the Trust Preferred Securities will be governed by, and construed in accordance with, the laws of the State of Delaware.

In relation to any legal action or proceedings arising out of or in connection with the issuance of the Trust Preferred Securities, each of the Bank, the LLC and the Trust has irrevocably submitted to the jurisdictions of the courts of England, and has appointed Hackwood Secretaries Limited, at its registered office, from time to time, presently at One Silk Street, London EC2Y 8HQ, as its agent for service of process in England, and the courts of the State of New York and the United States Federal District Court located in the Borough of Manhattan in The City of New York, and has appointed CT Corporation, presently of 111 Eighth Avenue, 13th Floor, New York, NY 10011, U.S.A., as its agent for service of process in New York. Further, the Bank, the LLC and the Trust will agree to waive (i) any objection which it may have at any time to the laying of venue of any proceeding brought in any such court, (ii) any claim that such proceedings have been brought in an inconvenient forum and (iii) the right to object, with respect to such proceeding, that such court does not have any jurisdiction over such party.

Miscellaneous

The Regular Trustees are authorised and directed to conduct the affairs of and to operate the Trust in such a way that the Trust will not be required to register under the 1940 Act or characterised as (x) other than a grantor trust or (y) a foreign trust, in each case for United States federal income tax purposes. In this connection, the Regular Trustees are authorised to take any action, not inconsistent with applicable law, the certificate of trust or the Trust Agreement that the Regular Trustees determine in their discretion to be necessary or desirable for such purposes as long as such action does not adversely affect the interests of the holders of the Trust Preferred Securities.

DESCRIPTION OF THE LLC SECURITIES

The following summary sets forth the material terms and provisions of the LLC Securities. All of the LLC Common Securities will be initially owned by the Bank and all of the LLC Preferred Securities will be initially owned by the Trust. See “Description of the Trust Securities.” The LLC Agreement prohibits the LLC from incurring indebtedness for borrowed money or issuing any debt securities or any class or series of securities other than the LLC Common Securities and the LLC Preferred Securities. This summary is qualified in its entirety by reference to the terms and provisions of the LLC Agreement.

LLC Common Securities

Any net income of the LLC remaining after Dividends or other payments on the LLC Preferred Securities or the payment of expenses of the LLC will be distributed as soon as practicable to the Bank, as holder of the LLC Common Securities.

As the holder of the LLC Common Securities, the Bank will provide the LLC with funds necessary for payment by the LLC of all the fees and expenses of the LLC that are not covered by the income from the Eligible Investments. The LLC will pay all fees and expenses of the Trust.

LLC Preferred Securities

General

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

When issued, the LLC Preferred Securities will be validly issued, fully paid and non-assessable. The holders of the LLC Preferred Securities will have no preemptive rights with respect to any other securities of the LLC. The LLC Preferred Securities will not be convertible into any other securities of the LLC and will not be subject to any sinking fund or other obligation of the LLC for their repurchase or retirement.

Dividends

Dividends on the LLC Preferred Securities will be paid when, as and if declared (or deemed declared) by the Board of Directors of the LLC, out of assets of the LLC legally available for the payment of Dividends. Dividends will not be cumulative and Dividend payments will not accumulate or compound from Dividend Period to Dividend Period. This means that if Dividends are not declared or deemed declared in full or in part for any Dividend Payment Date, holders of the LLC Preferred Securities (and consequently, holders of the Trust Preferred Securities) will not, and will have no right to, receive that Dividend at any time, even if Dividends are declared or deemed declared or paid in respect of any future Dividend Period.

Dividends on the LLC Preferred Securities will accrue and be payable on a noncumulative basis as follows: (i) Dividends will accrue at the Fixed Dividend Rate of 8.364 per cent. of the liquidation preference of €1,000 per LLC Preferred Security during each Dividend Period until the Dividend Period that begins on 15th February 2011 and will be payable, if declared or deemed declared, in arrear on the same date as the annual Dividend Payment Date of the Trust Preferred Securities and (ii) during each Dividend Period thereafter, Dividends will accrue at a Floating Dividend Rate of 4.60 per cent. above EURIBOR and will be payable, if declared or deemed declared, in arrear on the same dates as the quarterly Dividend Payment Dates of the Trust Preferred Securities, commencing 15th May 2011.

Dividends on the LLC Preferred Securities will be calculated on the same basis as Dividends on the Trust Preferred Securities. See “Description of the Trust Securities— Dividends.”

Dividends on the LLC Preferred Securities, if and to the extent declared or deemed declared, will be payable to the holders thereof as they appear on the securities register of the LLC on the relevant record dates, which will be the 15th day (whether or not a Business Day) prior to the relevant Dividend Payment Date.

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

- (1) the Bank does not have, according to the unconsolidated annual accounts of the Bank relating to the financial year immediately preceding the financial year in which such Dividend Payment Date falls or, where such accounts are not available, the last set of annual unconsolidated accounts approved by the Bank, net profits (“Distributable Profits”) that would be available for the payment of a dividend or the making of a distribution on any class of its share capital, and/or the Bank has not declared or paid dividends on any class of its share capital based on the accounts used to calculate the relevant Distributable Profits;
- (2) the Bank is otherwise prohibited under applicable Italian banking laws or regulations from declaring a dividend or making a distribution on any class of its share capital; or
- (3) a Shift Event (as defined herein) has occurred and is continuing or would result from the payment thereof;

provided, that, the LLC will be prohibited from paying Dividends for any Dividend Period upon the occurrence and during the continuation of a Shift Event; *provided, however*, that notwithstanding the foregoing, if (A) dividends or other distributions have been declared or paid or (B) certain redemptions, repurchases or other acquisitions (other than those described in clause (1)(A) below) have been made by the Bank or any Subsidiary (as defined below), as the case may be, on or in respect of any Parity Securities or by the Bank on or in respect of any Junior Securities, the LLC will be required to declare and pay such Dividends on any Dividend Payment Date:

- (1) in full if:
 - (A) the Bank or any Subsidiary, as the case may be, has redeemed, repurchased or otherwise acquired a Parity Security or Junior Security for any consideration, or any monies are paid to or made available for a sinking fund or for redemption of any such securities (other than (I) any redemption, repurchase or other acquisition of such share capital or other instrument held by any member of the Group, (II) as a result of a reclassification of the equity share capital of the Bank or such Subsidiary or the exchange or conversion of one class or series of such equity share capital for another class or series of such equity share capital, (III) the purchase of fractional interests in the share capital of the Bank or any such Subsidiary pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged, (IV) in connection with a levy of execution for the satisfaction of a claim by the Bank or any Subsidiary, (V) in connection with the satisfaction by the Bank or any Subsidiary of its obligation under any employee benefit plan or similar arrangement and (VI) in connection with transactions effected by or for the account of customers of the Bank or any of its affiliates or in connection with the distribution, trading or market-making in respect of such securities during the 12-month period immediately preceding and including such Dividend Payment Date;
 - (B) the Bank has declared or paid a dividend or distribution or made any other payment with respect to a Junior Security that pays dividends or other distributions annually, if any, during the 12-month period immediately preceding and including such Dividend Payment Date;

- (C) the Bank has declared or paid a dividend or distribution or made any other payment with respect to a Junior Security that pays dividends or other distributions semiannually, if any, during the six month period immediately preceding and including such Dividend Payment Date; and
 - (D) the Bank has declared or paid a dividend or distribution or made any other payment with respect to a Junior Security that pays dividends or other distributions on a basis other than annually or semiannually during the three month period immediately preceding and including such Dividend Payment Date; and
- (2) *pro rata* if:
- (A) the Bank or any Subsidiary has declared or paid a dividend or distribution or made any other payment with respect to a Parity Security that pays dividends or other distributions on an annual basis during the 12-month period immediately preceding and including such Dividend Payment Date;
 - (B) the Bank or any Subsidiary has declared or paid a dividend or distribution or made any other payment with respect to a Parity Security that pays dividends or other distributions on a semiannual basis during the six month period immediately preceding and including such Dividend Payment Date; and
 - (C) the Bank or any Subsidiary has declared or paid a dividend or distribution or made any other payment with respect to a Parity Security that pays dividends or other distributions on a basis other than annually or semiannually during the three month period immediately preceding and including such Dividend Payment Date.

In the event that Dividends are deemed payable on any Dividend Payment Date pursuant to clause (2) above *pro rata* with dividends and other payments on any Parity Security, such Dividends shall be deemed payable in the same proportion that the declaration or payment on such Parity Security bears to the stated annual dividends or distributions to be declared and paid on such Parity Security. If such dividends or distributions are not stated on an annual basis (whether or not payable on an annual basis or otherwise), full Dividends on the LLC Preferred Securities for such Dividend Period will be deemed declared.

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

“Parity Securities” means (1) any preferred share, guarantee or similar instrument (other than the Subordinated Guarantees) issued by the Bank which ranks equally with the Subordinated Guarantees (including any such guarantee or similar instrument of preferred securities or preferred or preference shares issued by any Subsidiary) and (2) the preferred securities or preferred or preference shares issued by a Subsidiary with the benefits of a guarantee or similar instrument from the Bank, which guarantee or similar instrument ranks equally with the Subordinated Guarantees, but does not include any such securities or shares issued to the Bank by any such Subsidiary.

“Subsidiary” means any person or entity which is required to be consolidated with the Bank for financial reporting purposes under applicable Italian banking laws and regulations.

“Junior Securities” means all share capital of the Bank, including its preferred shares (“*Azioni Privilegiate*”), ordinary shares and savings shares (“*Azioni di Risparmio*”), now or hereafter issued, other than any share capital of the Bank that expressly or effectively rank equally with the Subordinated Guarantees or any Parity Security.

Payment of LLC Additional Amounts

All payments in respect of the LLC Preferred Securities made by or on behalf of the LLC will be made without withholding or deduction for or on account of any Relevant Tax payable by or on behalf of the LLC, unless the withholding or deduction of such Relevant Tax is required by law. In that event, the LLC will pay, as further Dividends, such additional amounts (“LLC Additional Amounts”) as may be necessary in order that the net amounts received by the holders of the LLC Preferred Securities, after such withholding or deduction, will equal the amount which would have been received in respect of the LLC Preferred Securities in the absence of such withholding or deduction, except that no such LLC Additional Amounts will be payable to a holder of LLC Preferred Securities (or to a third party on the holder’s behalf) with respect to any LLC Preferred Securities to the extent that such Relevant Tax is imposed or levied by virtue of such holder (or the beneficial owner of such LLC Preferred Securities) or a holder of Trust Preferred Securities (1) having some connection with the Relevant Jurisdiction, other than being a holder (or beneficial owner) of such LLC Preferred Securities or Trust Preferred Securities or (2) not having made a declaration of non-residence in, or other lack of connection with, the Relevant Jurisdiction or any similar claim for exemption, if the Bank or its agent has provided the beneficial owner of such LLC Preferred Securities or Trust Securities or its nominee with at least 60 days’ prior written notice of an opportunity to make such a declaration or claim.

Voting Rights

Except as described below, or as expressly required by applicable law, the LLC Preferred Securities will have no voting rights.

Upon the occurrence of a Shift Event or if, for any Dividend Period, Required Dividends and any LLC Additional Amounts in respect of such Required Dividends have not been paid in full on the LLC Preferred Securities by the LLC or by the Bank under the LLC Subordinated Guarantee with respect to the LLC Preferred Securities, together with any Guarantor Additional Amounts that may be payable thereon, then the holders of outstanding LLC Preferred Securities will be entitled, by ordinary resolution passed by the holders of a majority of such securities present in person or by proxy at a separate general meeting of such holders convened for the purpose, to appoint one Special Independent Director to the Board. Any Special Independent Director appointed as provided above shall vacate office if Dividends have been paid in full on the LLC Preferred Securities by the LLC or under the LLC Subordinated Guarantee by the Bank on each Dividend Payment Date for 12 consecutive months, and all other amounts due under the LLC Subordinated Guarantee have been paid. In addition, a majority in liquidation preference of the outstanding LLC Preferred Securities will have the right to replace the Special Independent Director so long as such Shift Event or non-payment is continuing.

No vote of the holders of the LLC Preferred Securities will be required for the LLC to redeem and cancel the LLC Preferred Securities in accordance with the LLC Agreement. See “—Redemption and Repurchase of LLC Preferred Securities.”

Notwithstanding that holders of LLC Preferred Securities are entitled to vote or consent under the limited circumstances described above, any LLC Preferred Securities that are beneficially owned at such time by the Bank or any entity directly or indirectly controlled by, or under direct or indirect common control with, the Bank, shall not be entitled to vote or consent and shall, for purposes of such vote or consent, be treated as if such LLC Preferred Securities were not outstanding, except for the LLC Preferred Securities purchased or acquired by the Bank or any of its affiliates in connection with transactions effected by or for the account of customers of the Bank or any of its affiliates or in connection with the distribution, trading or market-making in respect of such securities; *provided, however*, that persons (other than affiliates of the Bank) to whom the Bank or any of its affiliates have pledged LLC Preferred Securities may vote or consent with respect to such pledged LLC Preferred Securities pursuant to the terms of such pledge.

LLC Enforcement Events

If one or more of the following events shall occur and be continuing (each, an “LLC Enforcement Event”): (1) non-payment of Dividends on the LLC Preferred Securities for any Dividend Period; (2) a default by the Bank in respect of any of its obligations under the LLC Subordinated Guarantee; or (3) an event of default with respect to any Subordinated Deposit occurs and is continuing, then the Property Trustee, in accordance with the Trust Agreement, for so long as the LLC Preferred Securities are held by the Property Trustee, will have the right, or, in the event the Property Trustee does not hold the LLC Preferred Securities, holders of the outstanding LLC Preferred Securities will be entitled, by ordinary resolution passed by the holders of a majority of such LLC Preferred Securities present in person or by proxy at a separate meeting of such holders convened for the purpose, to enforce the terms of the LLC Preferred Securities under the LLC Agreement, including the right to direct the Independent Directors to enforce:

- the LLC’s creditors’ rights and other rights with respect to the Subordinated Deposits;
- the rights of the holders of the LLC Preferred Securities under the LLC Subordinated Guarantee; and
- the rights of the holders of the LLC Preferred Securities to receive Dividends (to the extent declared or deemed declared) on the LLC Preferred Securities.

In addition, in the event of an LLC Enforcement Event, the Property Trustee, or in the event the Property Trustee does not hold the LLC Preferred Securities, holders of the outstanding LLC Preferred Securities, shall have the right to enforce the terms of the LLC Subordinated Guarantee with respect to the LLC Preferred Securities.

In the case of an LLC Enforcement Event set forth in clause (1) above, the LLC may cure such LLC Enforcement Event by making Dividend payments in full on the LLC Preferred Securities on each Dividend Payment Date for 12 consecutive months.

If the Independent Directors fail to enforce the LLC’s rights under the Subordinated Deposits or those of the holders of the LLC Preferred Securities under the LLC Subordinated Guarantee after a holder of the LLC Preferred Securities has made a written request to an Independent Director for such enforcement, such holder may directly institute a legal proceeding against the Eligible Borrower to enforce the rights of the LLC under the Subordinated Deposits or against the Bank to enforce the rights of such holders under the LLC Subordinated Guarantee without first instituting any legal proceeding against the Independent Directors, the LLC or any other person or entity. In any event, if an LLC Enforcement Event has occurred and is continuing and such event is attributable to the failure of an Eligible Borrower to make any required payment when due on any Subordinated Deposit, then a holder of LLC Preferred Securities may on behalf of the LLC directly institute a proceeding against such Eligible Borrower with respect to such Subordinated Deposit for enforcement of payment. In such circumstances, a holder of LLC Preferred Securities may also bring a direct action against the Bank to enforce such holder’s right under the LLC Subordinated Guarantee.

Notwithstanding the foregoing, under no circumstances shall the Independent Directors have authority to cause the Board to declare Dividends on the LLC Preferred Securities to the extent such Dividends are not required to be declared. As a result, although the Independent Directors may be able to enforce the LLC’s creditors’ right to receive payments in respect of the Subordinated Deposits and the LLC Subordinated Guarantee, the LLC would be entitled to reinvest such payments in additional Subordinated Deposits, subject to satisfying certain reinvestment criteria described herein, or other Eligible Investments, rather than making distributions on the LLC Preferred Securities. Any member of the Board, including the Independent Directors, shall not, by virtue of acting in such capacity, be admitted as a member of the LLC or otherwise be deemed to be a member of the LLC and shall have no liability for the debts, obligations or liabilities of the LLC.

Independent Director Approval

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

The LLC Agreement provides that, for so long as any LLC Preferred Securities are outstanding, the Regular Independent Director, acting alone and without the vote or consent of the other members of the Board, has the right and obligation on behalf of the LLC to enforce and otherwise act on behalf of the LLC with respect to the Subordinated Deposits and the LLC Subordinated Guarantee. The LLC Agreement provides that, to the fullest extent permitted by law, the Regular Independent Director will consider only the interests of the holders of LLC Preferred Securities in determining whether any proposed action requiring their approval is in the best interests of the LLC; *provided, that*, so long as the LLC Preferred Securities are held by the Trust, the Regular Independent Director will be obligated to exercise its powers so as not to alter the material economic features of the LLC Preferred Securities.

So long as any LLC Preferred Securities are outstanding, certain actions (the “Designated Actions”) by the LLC must be approved by a majority of the Independent Directors as well as by a majority of the entire Board. The Designated Actions include: (1) the payment of Dividends or the making of distributions on the LLC Common Securities other than in accordance with the LLC Agreement; (2) the conversion of the LLC into another type of entity or the consolidation or merger of the LLC into any other entity, the consolidation or merger of any other entity with or into the LLC or the sale of all or substantially all of the assets of the LLC other than in accordance with the LLC Agreement; (3) to the fullest extent permitted by law, any dissolution, liquidation, or winding-up of the LLC that is not concurrent with the dissolution, liquidation or winding-up of the Bank; (4) any amendment, modification, renewal or replacement of the LLC Preferred Securities, the LLC Subordinated Guarantee, the Subordinated Deposits or the Derivative Contracts (or any other security, contract obligation, agreement or instrument that is an asset of the LLC) which adversely affects the powers, preferences or special rights of the LLC Preferred Securities in any material respect; (5) the approval of the direct or indirect sale, transfer or other disposition by the Bank of the LLC Common Securities other than to a branch of the Bank or to a subsidiary of the Bank that is deemed to be a “company controlled by the parent company” under Rule 3a-5 of the 1940 Act; and (6) any other action by the LLC or the Bank that could reasonably be expected to adversely affect the interests of the holders of the LLC Preferred Securities or the Trust Securities in any material respect.

Any Independent Director, acting alone and without the vote or consent of the other members of the board (other than any other Independent Director), will be entitled to take any and all such actions on behalf of the LLC in respect of the Subordinated Deposits, the LLC Subordinated Guarantee or any other right or remedy or course of action available to the LLC against the Bank or any other party; *provided, however*, that, unless otherwise required by law to do so, the Independent Directors shall not take any action if otherwise directed by the Property Trustee as the holder of the LLC Preferred Securities.

In the event that there is only one Regular Independent Director, any action that requires the approval of a majority of Regular Independent Directors must be approved by such Regular Independent Director.

Redemption and Repurchase of LLC Preferred Securities

Optional Redemption

The LLC Preferred Securities will be redeemable, at the option of the LLC, subject to the prior approval, if then required, of the Bank of Italy, in whole or in part, on or after 15th February 2011, or any Dividend

Payment Date occurring thereafter upon not less than 30 nor more than 60 days' notice to the holders of the LLC Preferred Securities (which notice shall be irrevocable), at the Regular Redemption Price.

LLC Special Events

If an LLC Special Event (other than a Change in Law Tax Event with respect to the LLC) occurs, then the LLC Preferred Securities will be redeemable on any Dividend Payment Date, in whole but not in part, at the option of the LLC, with the prior approval, if then required, of the Bank of Italy, at the Regular Redemption Price if such redemption occurs on or after 15th February 2011, or at the Special Redemption Price if such redemption occurs prior to 15th February 2011. Upon the occurrence of a Change in Law Tax Event with respect to the LLC, the LLC Preferred Securities will be redeemable on any Dividend Payment Date, in whole but not in part, subject to the prior approval, if then required, of the Bank of Italy, at the Regular Redemption Price. Any such redemption shall be upon not less than 30 nor more than 60 days' notice to the holders of the LLC Preferred Securities. See "Description of the Trust Securities—Redemption."

Payment of Redemption Price

In the event that payment of the applicable Redemption Price in respect of any LLC Preferred Security is improperly withheld or refused and not paid either by the LLC or by the Bank pursuant to the LLC Subordinated Guarantee, Dividends on such LLC Preferred Securities will continue to accumulate from the date fixed for redemption to the date of actual payment of such Redemption Price.

Repurchases

The LLC or the Bank or any of the Bank's other affiliates may at any time or from time to time, with prior approval of the Bank of Italy (if then required), subject to compliance with applicable Italian regulatory requirements, purchase outstanding LLC Preferred Securities by tender in the open market or by private agreement. If purchases are made by tender, the tender must be available to all holders of LLC Preferred Securities.

Liquidation Distribution Upon Dissolution

In the event of any voluntary or involuntary liquidation, dissolution, termination or winding-up of the LLC, holders of the LLC Preferred Securities at the time outstanding will, subject to the limitations described herein, be entitled to receive the liquidation preference of €1,000 per LLC Preferred Security, plus in each case, accumulated and unpaid Dividends for the then current Dividend Period to the date of the final distribution of assets of the LLC, in respect of each LLC Preferred Security out of the assets of the LLC available for distribution to members after satisfaction of liabilities to creditors. Such entitlement will arise following the payment of the liquidation distribution to holders of the LLC Common Securities.

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

The LLC Agreement will provide that, in the event of any voluntary or involuntary liquidation, dissolution, winding-up or termination of the Bank, the LLC shall be liquidated automatically, subject to prior approval of the Bank of Italy, if then required, *provided, however*, that the LLC shall, to the fullest extent permitted by law, not be dissolved until all claims under the Subordinated Guarantees shall have been paid in full.

Merger, Consolidation, Conversion or Amalgamation of the LLC

The LLC may not consolidate, amalgamate, convert or merge with or into, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to any corporation or other body, except as

described below or elsewhere herein. The LLC may, without the consent of the holders of the LLC Preferred Securities, consolidate, amalgamate, convert or merge with or into, or be replaced by a limited partnership, limited liability company or trust organised as such under the laws of any State of the United States of America, *provided, that*, (1) such successor entity either (x) expressly assumes all of the obligations of the LLC under the LLC Preferred Securities or (y) substitutes for the LLC Preferred Securities other securities having substantially the same terms as the LLC Preferred Securities (the “LLC Successor Securities”) so long as the LLC Successor Securities are not junior to any equity securities of the successor entity, with respect to participation in the profits, distributions and assets of the successor entity, except that they may rank junior to the LLC Common Securities or any successor LLC Common Securities to the same extent that the LLC Preferred Securities rank junior to the LLC Common Securities; (2) each Eligible Borrower of the Subordinated Deposits then held by the LLC expressly acknowledges such successor entity as the holder of the Subordinated Deposits; (3) the LLC Preferred Securities or any LLC Successor Securities are listed or any LLC Successor Securities are listed upon notification of official issuance, on any international securities exchange or similar organisation on which the LLC Preferred Securities, if so listed, are then listed; (4) such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease does not cause the Trust Preferred Securities (or, in the event that the Trust is liquidated in connection with a Trust Special Event, the LLC Preferred Securities (including any LLC Successor Securities)) to be downgraded by any nationally recognised statistical rating organisation in the United States; (5) such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease does not adversely affect the powers, preferences and other special rights of the holders of the Trust Preferred Securities, if the LLC Preferred Securities are held by the Trust at the time, or LLC Preferred Securities (including any LLC Successor Securities) in any material respect; (6) such successor entity has a purpose substantially identical to that of the LLC; (7) prior to such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease, the LLC has received an opinion of an independent nationally recognised law firm in the United States experienced in such matters to the effect that: (A) such successor entity will be treated as a partnership, and will not be classified as an association or a publicly traded partnership taxable as a corporation, for United States federal income tax purposes; (B) if the LLC Preferred Securities are held by the Trust at the time, such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease would not cause the Trust to be classified as other than a grantor trust for United States federal income tax purposes; (C) following such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease, the Trust (or such successor entity) will not be classified as a foreign trust for United States federal income tax purposes; (D) following such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease, such successor entity will not be required to register as an “investment company” under the 1940 Act; and (E) such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease will not adversely affect the limited liability of the holders of the LLC Preferred Securities; and (8) the Bank guarantees the obligations of such successor entity under any LLC Successor Securities at least to the extent provided by the LLC Subordinated Guarantee.

Book-Entry and Settlement

If the LLC Preferred Securities are distributed to holders of Trust Preferred Securities in connection with the involuntary or voluntary dissolution, winding-up or liquidation of the Trust as a result of the occurrence of a Trust Special Event, the LLC Preferred Securities will be issued in the same form as the Trust Preferred Securities they replace. Any global certificate will be replaced by one or more global certificates (each, a “Global LLC Preferred Certificate”) registered in the name of the relevant clearing system or its custodian as the depositary or its nominee. For a description of Euroclear and Clearstream and the specific terms of the depositary arrangements and for the exchange of definitive Trust Preferred Security Certificates, see “Description of the Trust Securities—Form, Denomination and Transfer.” As of the date of this offering memorandum, the description herein of the clearing system’s book-entry system and the clearing system’s practices as they relate to purchase, transfers, notices and payments with respect to the Trust Preferred Securities

apply in all material respects to any LLC Preferred Securities represented by one or more Global LLC Preferred Certificates.

Registrar and Paying Agent

The Bank of New York will act as Registrar and The Bank of New York (London Branch) will act as Principal Paying Agent for the LLC Preferred Securities. Registration of transfers of the LLC Preferred Securities will be effected without charge by or on behalf of the LLC, but upon payment (with the giving of such indemnity as the LLC may require) in respect of any tax or other governmental charges that may be imposed in relation to it. The LLC will not be required to register or cause to be registered the transfer of LLC Preferred Securities after such LLC Preferred Securities have been called for redemption.

Governing Law; Submission to Jurisdiction

The LLC Securities and the LLC Agreement will be governed by, and construed in accordance with, the laws of the State of Delaware.

In relation to any legal action or proceedings arising out of or in connection with the issuance of the LLC Preferred Securities, each of the Bank, the LLC and the Trust has irrevocably submitted to the jurisdictions of the courts of England, and has appointed Hackwood Secretaries Limited, at its registered office from time to time, presently at One Silk Street, London EC2Y 8HQ, as its agent for service of process in England, and the courts of the State of New York and the United States Federal District Court located in the Borough of Manhattan in The City of New York and has appointed CT Corporation, presently of 111 Eighth Avenue, 13th Floor, New York, NY 10011, U.S.A., as its agent for service of process in New York.

Further, the Bank, the LLC and the Trust will agree to waive (i) any objection which it may have at any time to the laying of venue of any proceeding brought in any such court, (ii) any claim that such proceedings have been brought in an inconvenient forum and (iii) the right to object, with respect to such proceeding, that such court does not have any jurisdiction over such party.

Miscellaneous

The Board is authorised and directed to conduct the affairs of the LLC in such a way that (1) the LLC will not be deemed to be required to register under the 1940 Act and (2) the LLC will not be treated as an association or as a “publicly traded partnership” (within the meaning of Section 7704 of the Code) taxable as a corporation for United States federal income tax purposes. In this connection, the Board is authorised to take any action, not inconsistent with applicable law or the LLC Agreement, that the Board determines in its discretion to be necessary or desirable for such purposes, so long as such action does not adversely affect the interests of the holders of the LLC Preferred Securities. Any amendment of the LLC Agreement relating to Dividends or the LLC Subordinated Guarantee will require consent of each holder of the LLC Preferred Securities.

DESCRIPTION OF THE INITIAL DERIVATIVE CONTRACT

The following summary sets forth the material terms and provisions of the Initial Derivative Contract, and its description is qualified in its entirety by reference to the terms and provisions of the Initial Derivative Contract.

General

Contemporaneously with the issuance of the LLC Preferred Securities, the LLC will enter into a credit derivative contract with the Bank under which, in exchange for an up-front fee in the amount of €5,000,000, the LLC will agree to make a Shift Payment (as defined below) to the Bank upon the occurrence of a Shift Event, without making any payment on the LLC Preferred Securities. The LLC is not obligated to make any other payment under the Initial Derivative Contract. The Initial Subordinated Deposit will support the LLC's obligations under the Initial Derivative Contract.

Any credit derivative contract between the Bank and the LLC, including the Initial Derivative Contract, is referred to in this offering memorandum as a "Derivative Contract" and will constitute an unconditional, unsecured subordinated obligation of the LLC and will rank senior in right of payment to the LLC Securities.

Shift Event

A "Shift Event" will be deemed to have occurred if: (1) as a result of losses incurred by the Bank, on a consolidated or stand-alone basis, the total risk-based capital ratio of the Bank, on a consolidated or stand-alone basis, as calculated in accordance with applicable Italian banking laws and regulations, and either (A) reported in the Bank's annual or semiannual consolidated or stand-alone accounts or (B) determined by the Bank of Italy and communicated to the Bank, falls below the then minimum requirements of the Bank of Italy specified in its February 2000 regulations governing *Strumenti Innovativi di Capitale*, as amended (currently 5.0 per cent.); or (2) the Bank of Italy, in its sole discretion, notifies the Bank that it has determined that the Bank's financial condition is deteriorating such that an event specified in clause (1) will occur in the near term.

Upon the occurrence of a Shift Event, under the Derivative Contract the LLC will be obligated to pay to the Bank an amount equal to the lesser of (1) the amount that is sufficient to cure the Shift Event and (2) the outstanding amount payable by the LLC under the Derivative Contracts (the "Shift Payment"). Unless the LLC pays a Shift Payment in cash, under set-off arrangements between the Bank and the LLC set forth in the Subordinated Deposits, the obligation of the LLC to pay the Bank such amount (the "Shift Payment") under the Derivative Contracts will be satisfied by the Bank reducing the amount outstanding under the Subordinated Deposits then held by the LLC by the amount of such Shift Payment.

Expiration and Termination

The Initial Derivative Contract will expire on 15th February 2021, although the Bank and the LLC will undertake that, prior to the expiration of the Initial Derivative Contract, they will negotiate in good faith a renewal or replacement of such contract and the related collateral arrangements.

The Derivative Contracts may be terminated at any time, in whole or in part, by mutual consent of the Bank and the LLC, with the prior approval, if then required, of the Bank of Italy.

However, until 15th February 2011, the LLC and the Bank may only terminate a Derivative Contract (the "Subject Contract") by mutual consent if: (1) the LLC and the Bank enter into a new Derivative Contract that is issued and effective simultaneously with the expiration of the Subject Contract and is secured by a Subordinated Deposit with the same stated amount and maturity date as the stated amount and maturity date of the Subordinated Deposit that secures the Subject Contract; (2) there would be no adverse withholding tax

consequences to holders of the Trust Preferred Securities or the LLC Preferred Securities as a consequence of such termination; (3) the Bank receives written confirmation from the Bank of Italy approving such termination and the new Derivative Contract and confirming that the LLC Preferred Securities would continue to qualify as Tier 1 capital of the Bank on a consolidated and stand-alone basis; (4) neither the Trust nor the LLC would be required to register as an investment company under the 1940 Act; (5) the LLC would continue to be treated as a partnership and the Trust would be classified as a grantor trust, in each case, for US federal income tax purposes; and (6) the Bank delivers to the LLC an officers' certificate and an opinion of counsel stating that all conditions precedent to such termination and entering into such new Derivative Contract have been complied with.

The Derivative Contracts will be terminable by mutual consent of the Bank and the LLC, without compliance with the conditions set out in (1) to (6) above, upon:

- the payment in full of the Redemption Price of the LLC Preferred Securities or purchase or cancellation of all LLC Preferred Securities; or
- the payment in full of the liquidation preference of €1,000 per LLC Preferred Security, plus any unpaid Dividends (to the extent declared or deemed declared) and any LLC Additional Amounts thereon.

The Derivative Contracts will be automatically terminated upon the liquidation, dissolution or winding-up of (or similar proceedings with respect to) the Bank.

If the Initial Derivative Contract is terminated before 15th February 2021, without renewal or replacement the LLC will refund the pro rated portion of the Bank's up-front fee.

Amendment

The Derivative Contracts may be amended by the parties thereto without the consent of the holders of the Trust Securities or the LLC Preferred Securities to (1) cure any ambiguity, (2) correct or supplement any provision therein that may be inconsistent with any other provision thereof or to add any other provision with respect to matters or questions arising thereunder that will not be inconsistent with the other provisions of the Derivative Contract, (3) add to the covenants, restrictions or obligations of the Bank, and (4) modify, eliminate and add any provision of the Derivative Contract to such extent as may be necessary or desirable; provided, however, that, no such amendment will have a material adverse effect on the rights, preferences or privileges of the holders of the Trust Securities and any such amendment will become effective when notice is given to the holders of the Trust Preferred Securities in accordance with "Description of the Trust Securities—Notices."

Governing Law; Submission to Jurisdiction

The Derivative Contracts will be governed by and construed in accordance with, the laws of the State of New York.

In relation to any legal action or proceedings arising out of or in connection with the Derivative Contract, each of the Bank and the LLC has irrevocably submitted to the jurisdictions of the courts of England, and has appointed Hackwood Secretaries Limited, at its registered office from time to time, presently at One Silk Street, London EC2Y 8HQ, as its agent for service of process in England, and the courts of the State of New York and the United States Federal District Court located in the Borough of Manhattan in The City of New York, and has appointed CT Corporation System, presently of 111 Eighth Avenue, 13th Floor, New York, NY 10011, U.S.A., as its agent for service of process in New York. Further, the Bank and the LLC will agree to waive (i) any objection which it may have at any time to the laying of venue of any proceeding brought in any such court, (ii) any claim that such proceedings have been brought in an inconvenient forum and (iii) the right to object, with respect to such proceeding, that such court does not have any jurisdiction over such party.

DESCRIPTION OF THE SUBORDINATED GUARANTEES

Set forth below is a summary of the Subordinated Guarantees that will be executed and delivered by the Bank for the benefit of the holders from time to time of the LLC Preferred Securities and the Trust Securities. The following summary does not purport to be complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the Subordinated Guarantees.

General

The Bank irrevocably and unconditionally will agree in the Subordinated Guarantees to pay in full, on a subordinated basis, to the holders of Trust Securities and the holders of LLC Preferred Securities, respectively, the Subordinated Guarantee Payments to the extent set forth therein, as and when due, regardless of any defense, right of set-off or counterclaim which the LLC or the Trust may have or assert, other than the defense of payment. The Bank's obligations under the Subordinated Guarantees are several and independent of the obligations of the LLC with respect to the LLC Preferred Securities or the obligations of the Trust with respect to the Trust Securities.

The Bank shall be liable as principal and debtor under the Trust Subordinated Guarantee to make the following Subordinated Guarantee Payments pursuant to the terms thereof (without duplication) with respect to the Trust Securities: (1) Dividends that are due and payable (or deemed payable) on the Trust Securities (which are calculated and payable on the same basis as Dividends on the LLC Preferred Securities); (2) upon liquidation of the Trust, the liquidation preference of €1,000 per Trust Securities; (3) the applicable Redemption Price with respect to any Trust Securities called for redemption by the Trust; and (4) Additional Amounts, if any, by the Trust on any payment referred to in (1), (2) or (3), plus, in each case, interest accrued thereon from the date of making the claim under the Trust Subordinated Guarantee, subject to the limitations set forth therein.

The Bank shall be liable as principal and debtor under the LLC Subordinated Guarantee to make the following Subordinated Guarantee Payments pursuant to the terms thereof (without duplication) with respect to the LLC Preferred Securities: (1) Dividends on the LLC Preferred Securities, to the extent declared (or deemed declared); (2) upon liquidation of the LLC, the liquidation preference of € 1,000 per LLC Preferred Security; (3) the applicable Redemption Price with respect to any LLC Preferred Securities called for redemption by the LLC; and (4) LLC Additional Amounts, if any, by the LLC on any payment referred to in (1), (2) or (3), plus, in each case, interest accrued thereon from the date of making the claim under the LLC Subordinated Guarantee, subject to the limitations set forth therein.

Notwithstanding the restrictions on the declaration and payment of Dividends by the LLC, the Bank will be permitted to make payments under the Subordinated Guarantees or otherwise in its discretion; *provided, however*, that the Bank will be prohibited from making any Subordinated Guarantee Payment so long as a Shift Event has occurred and is continuing; *provided, further*, that, notwithstanding the foregoing, if (A) dividends or other distributions have been declared or paid or (B) certain redemptions, repurchases or other acquisitions have been made by the Bank or any Subsidiary, as the case may be, on or in respect of any Parity Securities or by the Bank on or in respect of any Junior Securities, the Bank will be required to make a Subordinated Guarantee Payment in respect of Required Dividends on the LLC Preferred Securities at the times and in the amounts described in "Description of the LLC Securities—LLC Preferred Securities— Dividends."

Unless the LLC pays a Shift Payment to the Bank in cash upon the occurrence of a Shift Event, under the Derivative Contracts and the Subordinated Deposits, all or a portion of the Subordinated Deposits will be reduced as a result of a set-off in the amount of any Shift Payment. Consequently, it is anticipated that a substantial portion of any claim of the holders of the LLC Preferred Securities after the occurrence of a Shift Event will be required to be satisfied under the LLC Subordinated Guarantee.

In the event that payment of the amounts described above cannot be made by reason of any limitation referred to above, such amounts will be payable *pro rata* in proportion to the amounts that would have been payable but for such limitation.

The Subordinated Guarantees of the LLC Preferred Securities and the Trust Preferred Securities by the Bank is intended to provide the holders thereof, as nearly as possible, with rights to Dividends and distributions upon redemption and liquidation equivalent to those to which the holders thereof would have been entitled, if the LLC Preferred Securities or the Trust Preferred Securities, as the case may be, were issued directly by the Bank.

Ranking

Subject to applicable law, the Bank's obligations under the Subordinated Guarantees constitute unsecured obligations and will rank subordinate and junior to indebtedness of the Bank (other than any instrument or contractual right effectively ranking *pari passu* with the Subordinated Guarantees), *pari passu* with the most senior preferred shares of the Bank, if any, and each other and senior to all other share capital of the Bank, including its other preferred shares, ordinary shares and savings shares, and the holders of the LLC Preferred Securities and the Trust Preferred Securities, by their acceptance thereof, are deemed to agree to the foregoing subordination.

Payment of Guarantor Additional Amounts

All Subordinated Guarantee Payments in respect of the LLC Preferred Securities and the Trust Securities made by or on behalf of the Bank will be made without withholding or deduction for or on account of any Relevant Tax payable by or on behalf of the Bank, unless the withholding or deduction of such Tax is required by law. In that event, the Bank will pay such additional amounts ("Guarantor Additional Amounts") as may be necessary in order that the net amount received by the holders after such withholding or deduction will equal the amount which would have been received in respect of the LLC Preferred Securities or the Trust Preferred Securities, as the case may be, in the absence of such withholding or deduction, except that no such Guarantor Additional Amounts will be payable to a holder (or a third party on its behalf) with respect to any LLC Preferred Securities or Trust Securities, as the case may be, to the extent that such Relevant Tax is imposed or levied by virtue of such holder (or the beneficial owner of such LLC Preferred Securities or Trust Securities, as the case may be) (1) having some connection with the Relevant Jurisdiction, other than being a holder (or beneficial owner of such LLC Preferred Securities or Trust Securities, as the case may be) or (2) not having made a declaration of non-residence in, or other lack of connection with, the Relevant Jurisdiction or any similar claim for exemption, if the Bank or its agent has provided the beneficial owner of such Trust Securities or LLC Preferred Securities or its nominee with at least 60 days' prior written notice of an opportunity to make such a declaration or claim.

Enforcement

The Property Trustee, on behalf of the holders of the LLC Preferred Securities and the Trust Preferred Securities, may enforce the Subordinated Guarantees directly against the Bank. If the Property Trustee fails to enforce its rights under the Subordinated Guarantees after a holder of the LLC Preferred Securities or the Trust Preferred Securities, as the case may be, has made a written request, such holder may directly institute a legal proceeding against the Bank to enforce the Property Trustee's rights under the Subordinated Guarantees without first initiating any legal proceeding against the Property Trustee, the LLC, the Trust, or any other person or entity. Pursuant to the Subordinated Guarantees, the Bank will waive any right or remedy to require that any action be brought against the LLC, the Trust or any other person or entity before proceeding against the Bank.

Certain Covenants of the Bank

Issuance of Preference Shares and Subordinated Guarantees

The Bank will agree under the Subordinated Guarantees that it will not issue any preferred securities or preferred or preference shares ranking senior to its obligations under the Subordinated Guarantees. Moreover, the Bank will agree that it will not issue any guarantee in respect of any preferred securities or preferred or preference shares issued by any Subsidiary of the Bank ranking senior to its obligations under the Subordinated Guarantees unless the holders of the Trust Preferred Securities and the LLC Preferred Securities are given such rights and entitlements so that the Trust Preferred Securities and the LLC Preferred Securities rank *pari passu* with any such guarantee.

Payment of Dividends

The Bank will agree under the Subordinated Guarantees that if any amount due and payable under the Subordinated Guarantees in respect of any Dividends on the Trust Preferred Securities or on the LLC Preferred Securities in respect of the most recent Dividend Period, as the case may be, has not been paid, the Bank will pay such amount *pro rata* with any dividend or other payment made by the Bank or any Subsidiary on any Parity Securities and prior to any dividend or other payment made by the Bank on any Junior Securities.

Maintenance of Ownership and Existence of the LLC and the Trust

The Bank will agree under the LLC Subordinated Guarantee that for so long as the LLC Preferred Securities remain outstanding, 100 per cent. of the LLC Common Securities will be held by the Bank, a branch of the Bank or, with the prior approval of the Bank of Italy, if then required, by one or more subsidiaries of the Bank each of which is deemed to be a “company controlled by the parent company” within the meaning of Rule 3a-5 of the 1940 Act.

The Bank will agree under the Trust Subordinated Guarantee that for so long as the Trust Preferred Securities remain outstanding, it will cause 100 per cent. of the Trust Common Securities to be held by the LLC or, with the prior approval of the Bank of Italy, if then required, by one or more subsidiaries of the Bank incorporated under the laws of any State in the United States each of which is deemed to be a “company controlled by the parent company” within the meaning of Rule 3a-5 of the 1940 Act.

The Bank will agree under the Subordinated Guarantees that, (1) for so long as any of the LLC Preferred Securities are outstanding, the Bank will not permit, or take any action to cause, the liquidation, dissolution or winding-up of the LLC unless the Bank is itself in liquidation and, if then required, the approval of the Bank of Italy to such action has been received and all claims under the Subordinated Guarantees shall have been paid in full and (2) for so long as any of the Trust Preferred Securities are outstanding, the Bank will not permit, or take any action to cause, the dissolution, liquidation, winding-up or termination of the Trust, unless a Trust Special Event occurs or the Bank is itself in liquidation and, if then required, the approval of the Bank of Italy to such action has been received and all claims under the Subordinated Guarantees shall have been paid in full.

See also “Banca Popolare di Bergamo Capital Trust” and “Banca Popolare di Bergamo Funding LLC” for certain additional covenants to be made by the Bank.

No Assignment

The Bank will agree under the Subordinated Guarantees that it may not assign its obligations under the Subordinated Guarantees, except in the case of merger, de-merger (“*scissione*”) under Italian law, consolidation or a sale of substantially all of its assets, where the Bank is not the surviving entity.

Termination

The Subordinated Guarantees shall terminate and be of no further force and effect from the earlier of (1) the payment of the applicable Redemption Price for all Trust Securities or purchase and cancellation of all Trust Securities, (2) if the Trust Securities are no longer outstanding but clause (1) is not satisfied, the payment of the applicable Redemption Price for all LLC Preferred Securities or purchase and cancellation of all LLC Preferred Securities, (3) full payment of the liquidation preference of € 1,000 per Trust Preferred Security for all Trust Preferred Securities plus any unpaid Dividends and any Additional Amounts thereon or (4) if the Trust Preferred Securities are no longer outstanding but clause (1) is not satisfied, full payment of the liquidation preference of € 1,000 per LLC Preferred Security for all LLC Preferred Securities plus any unpaid Dividends and any LLC Additional Amounts thereon; *provided, however*, that the Subordinated Guarantees will continue to be effective or will be reinstated, as the case may be, if at any time payment of any sums paid under the LLC Preferred Securities, the Trust Preferred Securities or the Subordinated Guarantees must be restored by a holder thereof for any reason whatsoever.

Amendment

Except for those changes provided for in the last sentence of this paragraph (in which case no approval will be required) and changes to the provisions of the Subordinated Guarantees in respect of the Subordinated Guarantee Payments and the circumstances under which Dividends are deemed to have been declared (in which case approval of each holder of the LLC Preferred Securities and the Trust Securities is required), the Subordinated Guarantees may be modified only with the prior approval of the holders of not less than 66 2/3 per cent. of the LLC Preferred Securities and not less than 66% per cent. of the Trust Securities (excluding any LLC Preferred Securities and Trust Securities, as the case may be, held by the Bank or any of its affiliates, other than Trust Securities purchased or acquired by the Bank or its affiliates in connection with transactions effected by or for the account of customers of the Bank or any of its affiliates or in connection with the distribution, trading or market-making in respect of such securities and except that persons (other than affiliates of the Bank) to whom the Bank or any of its subsidiaries have pledged LLC Preferred Securities or Trust Securities may vote or convert with respect to such pledged securities pursuant to the terms of such pledge).

In accordance with the terms of the Subordinated Guarantees, the Subordinated Guarantees may be amended without the consent of the holders of the Trust Securities or LLC Securities to (1) cure any ambiguity, (2) correct or supplement any provision in the Subordinated Guarantees that may be defective or inconsistent with any other provision of the Subordinated Guarantees, (3) add to the covenants, restrictions or obligations of the Bank, (4) conform to any change in the 1940 Act or the rules or regulations thereunder and (5) modify, eliminate and add to any provision of the Subordinated Guarantees to such extent as may be necessary or desirable; *provided*, that no such amendment shall be made if such amendment would (A) cause the LLC or the Trust to require to register as an investment company under the 1940 Act, (B) cause the Trust to fail to be treated as a grantor trust and a domestic trust for United States federal income tax purposes, (C) cause the LLC to be treated as other than a partnership that is not a publicly traded partnership for United States federal income tax purposes or (D) have a material adverse effect on the rights, preferences or privileges of the holders of the Trust Securities or LLC Preferred Securities.

If the Subordinated Guarantees are amended, notice thereof will be provided in the manner indicated under “Description of the Trust Securities—Notices.” Copies of the amended Subordinated Guarantees will be made available to holders as indicated in “General Listing Information—Available Documents.”

Governing Law; Submission to Jurisdiction

The Subordinated Guarantees will be governed by, and construed in accordance with, the laws of the State of New York.

In relation to any legal action or proceedings arising out of or in connection with the Subordinated Guarantees, the Bank has irrevocably submitted to the jurisdictions of the courts of the State of New York and the United States Federal District Court located in the Borough of Manhattan in The City of New York and the courts of England, respectively, and has appointed Hackwood Secretaries Limited, at its registered office from time to time, presently at One Silk Street, London EC2Y 8HQ, as its agent for service of process in England and CT Corporation, presently of 111 Eighth Avenue, 13th Floor, New York, NY 10011, U.S.A., as its agent for service of process in New York. Further, the Bank will agree to waive (i) any objection which it may have at any time to the laying of venue of any proceeding brought in any such court, (ii) any claim that such proceedings have been brought in an inconvenient forum and (iii) the right to object, with respect to such proceeding, that such court does not have any jurisdiction over such party.

DESCRIPTION OF THE ELIGIBLE INVESTMENTS

The following summary sets forth the material terms and provisions of the Eligible Investments, including the Initial Subordinated Deposit, and the description of the Initial Subordinated Deposit is qualified in its entirety by reference to the terms and provisions of the Initial Subordinated Deposit.

Eligible Investments

The LLC will use the proceeds from the issuance of the LLC Securities and the up-front fee payable by the Bank under the Initial Derivative Contract (the “Initial Proceeds”) to invest in Eligible Investments. “Eligible Investments” means cash or book-entry securities, negotiable instruments, bank deposits (including the Subordinated Deposits), or other investments which are identified as a permitted investment of a finance subsidiary pursuant to Rule 3a-5 under the 1940 Act at the time such investment is acquired by the LLC.

The LLC will initially invest €300,000,000 in the Initial Subordinated Deposit and invest the remainder of the Initial Proceeds in other Eligible Investments. The purchase of the initial Eligible Investments by the LLC will occur contemporaneously with the issuance of the LLC Preferred Securities.

Initial Subordinated Deposit

General

Any subordinated deposit with an Eligible Borrower, including the Initial Subordinated Deposit, is referred to in this offering memorandum as a “Subordinated Deposit” and will constitute an unconditional, unsecured subordinated obligation of the Bank and will rank in right of payment after all trade debt (including unsubordinated unsecured creditors and depositors) of the Bank, but at least *pari passu* with all other subordinated obligations of the Bank which rank equally with the most subordinated debt instruments of the Bank.

The Initial Subordinated Deposit will mature on 15th February 2021, *provided, however*, that if the Initial Derivative Contract is renewed or replaced, the LLC will, to the extent necessary, make one or more other Subordinated Deposits from the proceeds of the Subordinated Deposits then outstanding to secure its obligations under such renewed or replacement Derivative Contract, subject to the reinvestment criteria described in “—Reinvestment of Proceeds” below.

The Subordinated Deposits will secure the LLC’s obligations under the Derivative Contracts. In the event that under a Derivative Contract the LLC is obligated to make a Shift Payment to the Bank, unless the LLC pays such Shift Payment in cash, such obligation will be satisfied by applying the amount of such Shift Payment as a set-off against each Subordinated Deposit then outstanding on a *pro rata* basis by the Bank.

Interest

Interest on the Subordinated Deposits will accrue and be payable as follows: (i) interest will accrue at the annual rate of 8.364 per cent. of the principal amount thereof from the Issue Date to but excluding 15th February 2011 and will be payable annually in arrear on the same date as the annual Dividend Payment Date of the Trust Preferred Securities and the LLC Preferred Securities and (ii) thereafter, interest will accrue at the annual rate of 4.60 per cent. above EURIBOR of the principal amount of such Subordinated Deposit and will be payable quarterly in arrear, on the same dates as the quarterly Dividend Payment Dates of the Trust Preferred Securities and the LLC Preferred Securities.

It is expected that the aggregate interest income paid on the Subordinated Deposits on any payment date therefor will be sufficient to permit the LLC to make the aggregate Dividend payments on the LLC Preferred Securities on the corresponding Dividend Payment Date.

The payment of interest on each of the Subordinated Deposits will not be deferrable.

Redemption

A Subordinated Deposit may be redeemed by the related Eligible Borrower (with the prior approval, if then required, of the Bank of Italy), at its option, at any time, in whole or in part, at 100 per cent. of the principal amount thereof plus interest accrued but unpaid to the date fixed for redemption plus any Subordinated Deposit Additional Amounts (as defined below) thereon.

Payment of Subordinated Deposit Additional Amounts

All payments made by or on behalf of any Eligible Borrower in respect of the Subordinated Deposits will be made without withholding or deduction for or on account of any Relevant Tax payable by or on behalf of any Eligible Borrower, unless the withholding or deduction of such Relevant Tax is required by law. In that event, such Eligible Borrower will pay, as further interest, such additional amounts ("Subordinated Deposit Additional Amounts") as may be necessary in order that the net amounts received by the holders of the Subordinated Deposits (or to a third party on such holders' behalf) after such withholding or deduction will equal the amount which would have been received in respect of the Subordinated Deposits in the absence of such withholding or deduction, except that no such Subordinated Deposit Additional Amounts will be payable to a holder of Subordinated Deposits (or to a third party on the holder's behalf) with respect to any Subordinated Deposits to the extent that such Relevant Tax is imposed or levied by virtue of such holder (or the beneficial owner of such Subordinated Deposits) (i) having some connection with the Relevant Jurisdiction, other than being a holder (or beneficial owner) of such Subordinated Deposits or (ii) not having made a declaration of non-residence in, or other lack of connection with, the Relevant Jurisdiction or any similar claim for exemption, if the Bank or its agent has provided the beneficial owner of such Subordinated Deposits or its nominee with at least 60 days' prior written notice of an opportunity to make such a declaration or claim.

Reinvestment of Proceeds

The LLC may reinvest the proceeds from the repayment of a Subordinated Deposit only if (1) there would be no adverse tax consequences to the Bank as a consequence of such reinvestment, (2) there would be no adverse withholding tax consequences to holders of the Trust Preferred Securities or the LLC Preferred Securities, (3) the Bank receives written confirmation from the Bank of Italy approving such reinvestment and that the Trust Preferred Securities would continue to qualify as Tier 1 capital of the Bank on a consolidated and stand-alone basis, (4) neither the Trust nor the LLC would be required to register as an investment company under the 1940 Act, (5) the LLC would continue to be treated as a partnership and the Trust would be classified as a grantor trust, in each case, for US federal income tax purposes and (6) the Bank delivers to the LLC an officers' certificate and an opinion of counsel stating that all conditions precedent to any reinvestment have been complied with.

Governing Law

The Subordinated Deposits will be governed by the laws of the State of New York.

TAXATION

The following is a summary of the principal US Federal and Italian income tax consequences of the purchase, ownership and disposition of the Trust Preferred Securities. The US Federal income tax summary addresses only the tax consequences to a person that acquires Trust Preferred Securities on their original issue at their original offering price and that holds the Trust Preferred Securities as capital assets. It does not address all tax consequences that may be relevant to a beneficial owner of Trust Preferred Securities (a “Trust Preferred Securityholder”), nor does it address the tax consequences to persons that may be subject to special treatment under Italian or US Federal income tax law (such as banks, insurance companies, regulated investment companies, real estate investment trusts and dealers in securities or currencies), persons that will hold Trust Preferred Securities as part of a larger transaction, such as a position in a “straddle” or as part of a “hedging” or “conversion” transaction or persons whose functional currency is not the US dollar or the Italian lira, respectively. In addition, the summary does not address the US Federal or Italian income tax treatment of a Trust Preferred Securityholder on or after the occurrence of a Shift Event. The US tax summary is based upon the Internal Revenue Code of 1986, as amended, the Treasury regulations promulgated thereunder and other administrative and judicial authorities in effect as of the date hereof, all of which are subject to change (possibly with retroactive effect). The Italian tax summary is based upon legislation in effect as of the date hereof and administrative practice, all of which are subject to change (possibly with retroactive effect).

PROSPECTIVE PURCHASERS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE US FEDERAL AND ITALIAN INCOME TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE TRUST PREFERRED SECURITIES, AS WELL AS THE EFFECT OF ANY STATE, LOCAL OR FOREIGN TAX LAWS.

Italian Income Tax Considerations

The following is a general summary of the material Italian tax consequences of the purchase, ownership and disposition of the Trust Preferred Securities for Italian resident beneficial owners who will hold non qualified interests in the Banca Popolare di Bergamo Capital Trust.

Payments Under The Trust Preferred Securities

The following is a general summary of Italian taxes applicable as at the date hereof in relation to payments made under the Trust Preferred Securities to Italian resident beneficial owners.

No Italian withholding or substitute tax applies on payments on Trust Preferred Securities received by beneficial owners who are not residents of Italy for tax purposes, except as indicated below for payments made by the Guarantor.

The following analysis is based on the assumption that no redemption occurs within eighteen months from the date of issue. The Italian tax treatment of the Trust Preferred Securities concerning payments received by Italian residents will depend upon the qualification under Italian law principles of such securities.

Treatment as Bonds

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

Interest (including any proceeds deriving from the ownership of the securities) paid, amongst others, to the following Italian resident persons and/or entities is subject to a 12.5 per cent. final substitute tax (*imposta sostitutiva*):

- (i) Real estate investment funds. This *imposta sostitutiva* is required to be levied by the Italian bank or qualified financial intermediary, if any, used to channel the interest in Italy. If interest is received directly by the recipient, it will be required to declare the interest in its tax return and subject it to the 12.5 per cent. final substitute tax.
- (ii) Noncommercial entities, government entities and tax exempt organisations, in relation to which the same considerations as in (i) hereabove apply as to the application of *imposta sostitutiva* in the absence of an interposing Italian qualified financial intermediary. The substitute tax is final and discharges all tax liabilities of the recipient in connection with the interest payments received.
- (iii) Individuals holding Trust Preferred Securities not in connection with entrepreneurial activities. The 12.5 per cent. final *imposta sostitutiva* is required to be applied by Italian resident qualified financial intermediaries that intervene, in any way, in the collection of interest payments on the Trust Preferred Securities or in the transfer of the Trust Preferred Securities.

Where 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 per cent. 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 per cent. final substitute tax.

Interest paid to Italian beneficial owners who are investment funds, SICAVs⁽¹⁾ or Pension Funds (in case of Pension Funds for interest accrued starting from 1st January 2001) is not subject to any withholding tax or substitute tax. The interest is included in the aggregate management result of these funds accrued in each year, which is subject to a substitute tax at the rate of 12.5 per cent. (11 per cent. in case of Pension Funds).

No “entrance” withholding tax is applicable to interest paid to resident corporate entities, commercial partnerships and non-limited liability corporate entities and permanent establishments in Italy of foreign entities. Interest will generally be included in their aggregate taxable business income subject to tax in Italy according to the ordinary tax provisions. A tax credit may be generally available for taxes withheld abroad, if any.

Treatment as Shares

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

(1) SICAVs (“*société d’investissement à capital variable*”) are limited companies used in France, Luxembourg and Italy for the purpose of managing security portfolios for subscribers. As new subscribers arrive, SICAVs issue units in the form of equity. Every subscriber thus becomes a shareholder and holds that fraction of the capital corresponding to his units.

- (i) Dividends paid to corporate entities and commercial partnerships are not subject to withholding tax. In such cases, the Dividends received will form part of the aggregate taxable business income of the investors and will be subject to taxation pursuant to their ordinary regime. Therefore, the investors must include the gross amount of the Dividends in their income tax return and may generally benefit from a tax credit equal in principle to withholding taxes applied outside Italy, if any.
- (ii) Dividends paid to Pension Funds (for Dividends which become payable starting from 1st January 2001), investment funds or SICAVs will form part of the aggregate management result of the funds accrued in each year, calculated on the difference between the value of the assets at the beginning of the tax year and the adjusted value of the assets at the end of the same tax year. The management result is subject to a 12.5 per cent. substitute tax or 11 per cent. in case of Pension Funds.
- (iii) Dividends paid to real estate investment fund or Pension Funds are subject to a definitive 12.5 per cent. withholding tax. This withholding tax is required to be levied by the Italian bank or financial intermediary, if any, used to channel the Dividends in Italy. If Dividends are received directly by the funds, they will be required to declare the Dividends in their tax return and subject them to the 12.5 per cent. final substitute tax.
- (iv) Dividends paid to entities exempt from corporate income tax are subject to a definitive 27 per cent. withholding tax. This withholding tax is required to be levied by the Italian bank or financial intermediary, if any, used to channel the Dividends in Italy. 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 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 per cent.
- (v) Dividends paid to individuals holding Trust Preferred Securities not in connection with entrepreneurial activities are subject to Italian withholding tax at a rate of 12.5 per cent. on account of personal income tax due, if the payments are collected through an account maintained with an Italian bank or an Italian financial intermediary. Such payments are then included in the individual beneficial owners' taxable income and subject as such to the progressive tax rates 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 withholding tax is required, such payments are 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, the "*risparmio gestito*" regime may be available, as an alternative method of taxation. 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 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 per cent. final substitute tax.

Treatment as Atypical Securities⁽²⁾

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

- (i) Payments made to corporate entities and commercial partnerships are not subject to any Italian “entrance” withholding tax. In such cases, the payments received will form part of the aggregate taxable business income of the recipients and will be subject to taxation pursuant to their ordinary regime. Therefore, the recipients must include the gross amount of the payments in their income tax return and may generally benefit from a tax credit equal in principle to withholding taxes applied outside Italy, if any.
- (ii) Payments made to individuals holding Trust Preferred Securities not in connection with entrepreneurial activities will be subject to a 27 per cent. final withholding tax. This withholding tax is required to be levied by the entrusted Italian resident bank or financial intermediary, if any, that intervenes in the collection of payments on the Trust Preferred Securities, in the repurchase or in the transfer of the Trust Preferred Securities.

If payments on the Trust Preferred Securities are not received through an entrusted Italian resident bank or financial intermediary that intervenes in the collection of payments on the Trust Preferred Securities, in the repurchase or in the transfer thereof, and as such no withholding tax is required, 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 per cent. 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.

- (iii) Payments made to any other Italian resident entity will be subject to a 27 per cent. final withholding tax. This withholding tax is required to be levied by the entrusted Italian bank or financial intermediary (or permanent establishment in Italy of a foreign entity), if any, that intervenes in the collection of payments on the Trust Preferred Securities, in the repurchase or in the transfer thereof, or applied directly by the recipient in its income tax return.

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

Payments made by the Bank

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 under the Guarantee may be subject in certain circumstances to a final withholding tax at a rate of 12.5 per cent. if the holder is an Italian real estate fund, pension fund, investment fund or SICAV. 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 may be subject to withholding tax at a rate of 12.5 per cent. 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. For beneficial owners who are Italian resident corporate entities, the payments will form part of the annual taxable income subject to tax according to the ordinary rules.

However, in the case of a noteholder which is a non-resident of Italy, final withholding tax may be applied at a rate of 27 per cent. (if the payment is treated as dividend) or 12.5 per cent. (if treated as interest). Double

(2) “Atypical Securities” are defined as securities different from shares or bonds, which do not guarantee the restitution of the initial investment at maturity or in case of early redemption.

taxation treaties entered into by the Republic of Italy may apply allowing for a lower (or, in certain cases, nil) rate of withholding tax.

In case of payments under the Guarantee to non-Italian residents who are resident for tax purposes in tax haven countries listed by Ministerial Decree 24 April 1992, final withholding tax should in any case apply at a rate of 27 per cent.

In accordance with another interpretation, any such payments will be treated in certain circumstances as a payment by the Trust and subject to the tax treatment described in the preceding paragraphs.

Capital Gain

Italian investment funds, SICAVs, Pension Funds (in case of Pension Funds, for Capital Gains Realised starting from 1st January 2001). Capital gain deriving from the sale of the Trust Preferred Securities is included in the aggregate management result of these funds accrued in each year and subject to a 12.5 per cent. (11 per cent. in case of Pension Funds) substitute tax.

Italian Corporate Investors. The gains realised by corporations and commercial partnerships will form part of the aggregate income subject to the ordinary corporate tax. The gains are calculated as the difference between the acquisition cost and the sale price. Certain tax rate reductions may be available in certain circumstances.

Italian Individual Investors. Any gain realised 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 per cent. 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 depositaries will apply a 12.5 per cent. 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 per cent. 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 realised by an adjustment factor (referred to as *equalizzatore*).

Receipt of LLC Preferred Securities upon the Liquidation of the Trust

Under certain circumstances, as described under the caption “Description of Trust Securities—Redemption,” LLC Preferred Securities may be distributed to Trust Preferred Securities Holders upon liquidation of the Trust. Such a distribution to an Italian resident Holder would be treated as a taxable event for Italian tax purposes.

For the LLC Preferred Securities received in exchange, the cost will be equal to the redemption value of Trust Preferred Securities.

Early Redemption

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

Transfer Tax

Italian transfer tax does not apply, *inter alia*, to the following:

- (i) contracts concluded in regulated markets regarding the transfer of the Trust Preferred Securities;
- (ii) off-market transactions regarding the Trust Preferred Securities, provided that the Trust Preferred Securities are listed on a regulated market and such transactions occur either:
 - (a) between resident or non-resident banks or other investment companies regulated by Legislative Decree No. 58 of February 24th, 1998, or stock brokers; or
 - (b) between the qualified intermediaries mentioned above, on the one hand, and non-Italian residents, on the other hand; or
 - (c) between the qualified intermediaries mentioned above, on the one hand, and investment funds or SICAVs, on the other hand; and
- (iii) contracts related to public sale offering ordered to the listing on regulated markets or involving financial instruments already listed on regulated markets.

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 ITL 140 and a minimum of ITL 9 per ITL 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 ITL 1,800,000 for each transaction.

Inheritance and Gift Tax

Italian inheritance and gift tax is 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 tax is in general not due on inheritances and gifts up to ITL 350 million.

Inheritance and gift taxes paid in a State outside Italy in respect of the same estate on assets existing in that State 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 holding Trust Preferred Securities not in connection with entrepreneurial activity 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 occurring abroad, related to the Trust Preferred Securities, occurring during each tax year, if these transfers exceed in the aggregate 20 million

lire. This also applies in the case that at the end of the tax year, Trust Preferred Securities are no longer held by Italian individuals.

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

US Federal Income Tax Considerations

Classification of the Trust and the LLC

Under current law, and assuming compliance with the terms of the Trust Agreement, the Trust will be classified as a grantor trust and will not be classified as an association taxable as a corporation for United States Federal income tax purposes. Accordingly, for such purposes, each Trust Preferred Securityholder will be considered the owner of an undivided interest in the LLC Preferred Securities and, as described below, will be required to include in its gross income its share of the LLC's income allocated to the LLC Preferred Securities. In purchasing the Trust Preferred Securities, each Trust Preferred Securityholder agrees with the Bank, the Trust and the LLC that such Trust Preferred Securityholder will treat itself as a holder of the Trust Preferred Securities (and an owner of an undivided interest in the LLC Preferred Securities) for all purposes, and not as a holder of an interest in the Bank or any other person, and will follow allocations made by the LLC pursuant to its LLC Agreement.

The LLC will be treated as a partnership for US Federal income tax purposes and therefore will not be treated as a taxable entity for such purposes.

Certain Non-US Holders

In the following discussion the term "Non-US Holder" refers to a beneficial owner of Trust Preferred Securities who is not a US Holder. A "US Holder" means a beneficial owner of Trust Preferred Securities who is, for United States Federal income tax purposes: (i) a citizen or resident of the United States; (ii) a corporation or other entity created or organised in or under the laws of the United States or any political subdivision thereof; (iii) an estate the income of which is subject to United States Federal income taxation regardless of its 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 US persons have the authority to control all substantial decisions of the trust. The term also includes certain former citizens or long-term residents of the United States.

The LLC intends to operate so that it will not be engaged in the conduct of a US trade or business for US Federal income tax purposes. Accordingly, a Non-US Holder will not be subject to withholding of US federal income tax on payments in respect of the Trust Preferred Securities, provided that the withholding agent receives a certification, signed under penalties of perjury on Internal Revenue Service ("IRS") Form W-8BEN (or similar substitute form), that the Non-US Holder is not a United States person and providing its name and address. A Non-US Holder also will not be subject to US federal income tax on its allocable share of the LLC's income unless the income is effectively connected with the conduct by the Non-US Holder of a trade or business in the United States.

A Non-US Holder will not be subject to US federal income or withholding tax on gain realised on the sale or exchange of the Trust Preferred Securities, unless (i) the gain is effectively connected with the conduct by the Non-US Holder of a trade or business in the United States or (ii) in the case of gain realised by an individual Non-US Holder, the Non-US 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

Generally, income on the Trust Preferred Securities will be reported to holders on IRS Forms 1099, which forms should be mailed to holders of Trust Preferred Securities by 31st January following each calendar year.

Non-US Holders may be required to provide the certification described above to establish their non-US status in order to avoid the application of information reporting requirements and backup withholding tax. Generally, any amounts withheld as a result of backup withholding will be allowed as a credit against the United States federal income tax liability of the holder of Trust Preferred Securities, provided the required information is timely filed with the IRS.

The treatment of the Trust Preferred Securities for United States estate tax purposes is uncertain. Individuals who are not citizens or residents of the United States should consult their tax advisers about the possibility that Trust Preferred Securities will be includable in their gross estate for purposes of the United States federal estate tax.

THE UNITED STATES FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A HOLDER'S PARTICULAR SITUATION. HOLDERS SHOULD CONSULT THEIR TAX ADVISERS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE TRUST PREFERRED SECURITIES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, FOREIGN, AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN UNITED STATES FEDERAL OR OTHER TAX LAWS.

SUBSCRIPTION AND SALE

Merrill Lynch International, UniCredit Banca Mobiliare and Banca Popolare di Bergamo Credito Varesino (each a “Manager” and together the “Managers”), pursuant to a Subscription Agreement dated 9th February 2001 (the “Subscription Agreement”), have severally agreed with the Trust, the LLC and the Bank, subject to the satisfaction of certain conditions, to purchase the Trust Preferred Securities at their issue price of €1,000 per Trust Preferred Security (or €300,000,000 in the aggregate). The Subscription Agreement provides that each of the Trust, the LLC and the Bank will indemnify the Managers against certain liabilities. The Managers will receive a commission of €10 per Trust Preferred Security or €3,000,000 in total.

Selling Restrictions

General

No action has been or will be taken in any jurisdiction by the Trust, the LLC, the Bank or the Managers that would, or is intended to, permit a public offering of the Trust Preferred Securities, or possession or distribution of this offering memorandum or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this offering memorandum comes are required by the Trust, the LLC, the Bank and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Trust Preferred Securities or have in their possession, distribute or publish this offering memorandum or any other offering material relating to the Trust Preferred Securities, in all cases at their own expense.

United States Selling Restrictions

The Trust Preferred Securities and the Subordinated Guarantees have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act (“Regulation S”).

The Managers have agreed that, except as permitted by the Subscription Agreement, they will not offer or sell the Trust Preferred Securities (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, within the United States or to, or for the account or benefit of, US persons, and they will have sent to each dealer to which they sell Trust Preferred Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Trust Preferred Securities within the United States or to, or for the account or benefit of, US persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The Trust Preferred Securities are being offered and sold outside of the United States to non-US persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Trust Preferred Securities, an offer or sale of the Trust Preferred Securities within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom Selling Restrictions

The Managers have represented and agreed that they (or any affiliate):

- (i) have not offered or sold, and prior to the expiry of the period of six months from the issue 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 (as principal or agent) for the 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, as amended;

- (ii) have complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by them in relation to the Trust Preferred Securities in, from or otherwise involving the United Kingdom; and
- (iii) have only issued or passed on or will only issue or pass on in the United Kingdom any document received by them in connection with the issue of the Trust Preferred Securities to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996, as amended, or is a person to whom such document may otherwise lawfully be issued or passed on.

Netherlands Selling Restrictions

The Managers have represented and agreed that they have not, directly or indirectly, offered or sold and will not, directly or indirectly, offer to sell in The Netherlands any Trust Preferred Securities other than to persons who trade or invest in securities in the conduct of a profession or business (which include banks, stockbrokers, insurance companies, pension funds, other institutional Investors and finance companies and treasury departments of large enterprises).

Italian Selling Restrictions

The offering of the Trust Preferred Securities has not been cleared by CONSOB (the Italian securities authority) pursuant to Italian securities legislation and, accordingly, no Trust Preferred Securities may be offered, sold or delivered, nor may copies of the offering memorandum or of any other document relating to the Trust Preferred Securities be distributed in the Republic of Italy, except:

- (i) to professional investors (“*operatori qualificati*”), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of July 1st, 1998 as amended;
- (ii) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of February 24th, 1998 (the “Financial Services Act”) and Article 33, first paragraph, of CONSOB Regulation No. 11971 of May 14th, 1999, as amended; or
- (iii) to an Italian resident who submits an unsolicited offer to purchase the Trust Preferred Securities.

Any offer, sale or delivery of the Trust Preferred Securities or distribution of copies of the offering memorandum or any other document relating to the Trust Preferred Securities in the Republic of Italy under (i) or (ii) above must be:

- (A) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act and Legislative Decree No. 385 of September 1st, 1993, as amended (the “Banking Act”); and
- (B) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy pursuant to which the issue or the offer of securities in the Republic of Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy depending, *inter alia*, on the aggregate value of the securities issued or offered in the Republic of Italy and their characteristics.

GENERAL LISTING INFORMATION

Listing

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

The Certificate of Trust of the Trust and the legal notice relating to the issue of the Trust Preferred Securities will be deposited prior to the listing with the Registrar of the District Court in Luxembourg (*Greffier en Chef du Tribunal d'Arrondissement de et a Luxembourg*), where such documents are available for inspection and where copies can be obtained upon request. As long as the Trust Preferred Securities are listed on the Luxembourg Stock Exchange, an agent for making payments and effecting transfers on the Trust Preferred Securities will be maintained in Luxembourg.

Subject to the selling restrictions described in “Subscription and Sale—Selling Restrictions” required in order to comply with applicable law, according to Chapter VI, Article 3, point A/II/2 of the rules and regulations of the Luxembourg Stock Exchange, the Trust Preferred Securities shall be freely transferable and therefore no transaction made on the Luxembourg Stock Exchange shall be cancelled.

Consents

The Trust has obtained all necessary consents, approvals and authorisations in connection with the issue of the Trust Preferred Securities. The issuance of the Trust Preferred Securities was authorised by the Trustees of the Trust on 1st February 2001. The issuance of the Subordinated Guarantees was authorised by the Bank on 30th January 2001.

No Material Change

Except as disclosed in this offering memorandum, there has been no material adverse change in the financial position of the Bank and the Group since 31st December 1999.

There has been no material adverse change in the financial position of the Trust since its creation and formation on 1st February 2001.

There has been no material adverse change in the financial position of the LLC since its creation and formation on 1st February 2001.

Litigation

Save as disclosed in this offering memorandum, neither the Group, the Trust nor the LLC is involved in any litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Trust Preferred Securities nor, so far as the Group, the Trust or the LLC is aware, is any such litigation or arbitration pending or threatened.

Available Documents

So long as the Trust Preferred Securities and the LLC Preferred Securities are outstanding, the documents incorporated by reference herein (see “Incorporation by Reference”) and the annual audited consolidated and non-consolidated financial statements and interim unaudited consolidated and non-consolidated financial statements of the Bank will be available and can be obtained free of charge at the specified offices of the Principal Paying Agent and the Luxembourg Paying Agent (for so long as the Trust Preferred Securities are listed on the Luxembourg Stock Exchange).

Financial statements will not be published by the Trust or the LLC.

For so long as the Trust Preferred Securities and the LLC Preferred Securities are outstanding, copies of the following documents (and any amendments or modifications thereto) may be obtained free of charge at the specified offices the Principal Paying Agent and the Luxembourg Paying Agent (for so long as the Trust Preferred Securities are listed on the Luxembourg Stock Exchange):

- Articles of Association of the Bank;
- the LLC Agreement;
- the Trust Agreement and Certificate of Trust of the Trust;
- the Subordinated Guarantees;
- the Services Agreement; and
- the Agency Agreement.

Clearing Systems and Settlement

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

The ISIN number for the Trust Preferred Securities sold pursuant to Regulation S is XS0123998394 and the Common Code is 0129399839.

Notices

All notices shall be deemed to have been given upon (i) the mailing by first class mail, postage prepaid, of such notices to holders of the Trust Preferred Securities at their registered addresses as recorded in the register of holders of Trust Preferred Securities and (ii) so long as the Trust Preferred Securities are listed on the Luxembourg Stock Exchange and it is required by the rules of the Luxembourg Stock Exchange, publication of such notice to the holders of Trust Preferred Securities in English in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if such publication is not practicable, in one other leading English language newspaper with general circulation in Europe, such newspaper being published on each business day in morning editions, whether or not it shall be published in Saturday, Sunday or holiday editions provided that, so long as securities are held in registered global form and if the rules of the Luxembourg Stock Exchange would so permit, notifications may be made through Euroclear and Clearstream Luxembourg in place of publication in a newspaper as described above.

PRINCIPAL EXECUTIVE OFFICE OF THE TRUST

Two Wall Street, 7th Floor
New York, New York 10005
USA

REGISTERED OFFICE OF THE LLC

One Rodney Square, 10th Floor
Tenth and King Streets
Wilmington, New Castle County
Delaware 19801
USA

REGISTERED OFFICE OF THE BANK

Piazza Vittorio Veneto, 8
24122 Bergamo
Italy

LEGAL ADVISERS TO THE BANK, THE LLC AND THE TRUST

As to US federal, New York and English law:

Linklaters
One Silk Street
London EC2Y 8HQ
United Kingdom

As to Delaware law:

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One Rodney Square
P.O. Box 551
Wilmington, Delaware 19899
USA

As to Italian law:

Grande Stevens Pedersoli
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20121 Milano
Italy

LEGAL ADVISERS TO THE MANAGERS

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Brown & Wood LLP
One World Trade Center
New York, New York 10048
USA

Brown & Wood MNP
Princes Court
7 Princes Street
London EC2R 8AQ
United Kingdom

As to Italian tax law:

Studio Tremonti e Associati
Via Crocefisso, 12
20122 Milano
Italy

As to Italian law:

Grimaldi e Clifford Chance
Via Clerici, 7
20121 Milano
Italy

AUDITORS TO THE BANK

PricewaterhouseCoopers S.p.A.
Corso Europa, 2
20122 Milano
Italy

**PRINCIPAL PAYING AGENT AND
CALCULATION AGENT**

The Bank of New York (London Branch)
One Canada Square, 48th Floor,
London E14 5AL
United Kingdom

REGISTRAR AND PROPERTY TRUSTEE

The Bank of New York
101 Barclay Street, Floor 21 West
New York, New York 10286
USA

**LUXEMBOURG LISTING, TRANSFER AND
PAYING AGENT**

Deutsche Bank Luxembourg S.A.
P. O. Box 807
14 Boulevard F.D. Roosevelt
L-2450 Luxembourg

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300,000 Trust Preferred Securities

Banca Popolare di Bergamo Capital Trust

**Noncumulative Fixed/Floating Rate Guaranteed
Trust Preferred Securities**

**(Liquidation Preference €1,000 per Trust Preferred Security)
guaranteed to the extent described herein by**

Banca Popolare di Bergamo–Credito Varesino

OFFERING MEMORANDUM

Merrill Lynch International

UniCredit Banca Mobiliare

Banca Popolare di Bergamo–Credito Varesino

9th February 2001