



## UniCredito Italiano Capital Trust IV

£300,000,000 Aggregate Liquidation Preference

Non-cumulative Guaranteed Fixed/Floating Rate Perpetual Trust Preferred Securities

(liquidation preference £50,000 and integral multiples of £1,000 above £50,000 per Trust Preferred Security)

representing a corresponding amount of

Non-cumulative Guaranteed Fixed/Floating Rate Perpetual LLC Preferred Securities of

## UniCredito Italiano Funding LLC IV

guaranteed on a subordinated basis by

UniCredito Italiano S.p.A.

Each non-cumulative guaranteed fixed/floating rate perpetual trust preferred security (a "Trust Preferred Security", and collectively, the "Trust Preferred Securities") issued by UniCredito Italiano Capital Trust IV (the "Trust") represents an undivided beneficial ownership interest in the assets of the Trust. The Trust Preferred Securities will be perpetual, will be denominated in sterling and will have a fixed rate of cash distributions of 5.396% per annum of the liquidation preference until October 27, 2015. After October 27, 2015, the Trust Preferred Securities will have a floating rate of cash distributions equal to 1.76% per annum above the London Interbank Offered Rate for three month sterling deposits on the liquidation preference as described in this Offering Circular. The assets of the Trust will consist of a corresponding amount of non-cumulative guaranteed fixed/floating rate perpetual preferred limited liability company interests (the "LLC Preferred Securities" and, together with the Trust Preferred Securities, the "Preferred Securities") in UniCredito Italiano Funding LLC IV (the "LLC").

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

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

**See "Risk Factors" beginning on page 20 for a discussion of certain risks relating to an investment in the Trust Preferred Securities.**

Application has been made to the Irish Financial Services Regulatory Authority ("IFSRA"), as competent authority under Directive 2003/71/EC of the European Parliament and of the Council (the "Prospectus Directive") for the Prospectus (as defined below) to be approved. Application has been made to the Irish Stock Exchange Limited (the "Irish Stock Exchange") for the Trust Preferred Securities to be admitted to the Official List and trading on its regulated market. The Trust Preferred Securities will be listed on the Official List of the Irish Stock Exchange on or about October 27, 2005. This Offering Circular constitutes the prospectus (the "Prospectus") for the purposes of the Prospectus Directive in connection with the application for the Trust Preferred Securities to be admitted to the Official List of the Irish Stock Exchange. In accordance with Article 18 of the Prospectus Directive, application will be made to the IFSRA to provide the Commission de Surveillance du Secteur Financier (the "CSSF"), in its capacity as competent authority in Luxembourg, with a certificate of approval attesting that this Offering Circular has been drawn up in accordance with the Prospectus Directive, so that the Trust Preferred Securities may be admitted to trading on the Luxembourg Stock Exchange's regulated market and listed on the Luxembourg Stock Exchange. It is expected that the Trust Preferred Securities will be listed on the Luxembourg Stock Exchange on or as soon as practicable after the date of approval of this Offering Circular by the IFSRA. Reference throughout this document to "Offering Circular" shall be taken to read "Prospectus."

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

The Trust Preferred Securities are expected to be assigned on issue a rating of A by Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies Inc. ("Standard & Poor's"), a rating of A1 by Moody's Investors Service Limited ("Moody's") and a rating of A+ by Fitch Ratings Ltd. ("Fitch"). Investors should be aware that the ratings on the Preferred Securities are subject to change. See "Risk Factors – The proposed Business Combination could result in rating downgrades which would increase the re-financing costs of the Combined Group." for a discussion of certain risks that could have a material adverse effect on the ratings of the Preferred Securities and the Bank.

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

The Trust Preferred Securities will be represented on issue by a single global certificate in registered form (the "Global Certificate"). The Global Certificate will be registered in the name of a nominee for, and will be deposited with, a common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear system ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg") on or around October 27, 2005.

**Merrill Lynch International**

*Structuring Advisor and Global Co-ordinator*

**HSBC**

**JP Morgan**

**Merrill Lynch International**

October 24, 2005

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

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

The Bank, the Trust and the LLC accept responsibility for the content of this Offering Circular and, having made all reasonable inquiries, confirm that the information contained in this Offering Circular is in accordance with the facts and contains no omissions likely to affect its import. The information contained in the section entitled “Business of the HVB Group” has been derived from information published and/or reported publicly by the HVB Group (as defined under “Certain Defined Terms”) and has not been independently verified by the Bank.

The Managers accept no responsibility for, and make no representations or warranty, express or implied, as to the accuracy or completeness of, the information set forth in this Offering Circular and nothing in this Offering Circular is, or should be relied upon as, a promise or representation by the Managers as to the past or the future.

This Offering Circular contains industry and customer-related data as well as calculations taken from industry reports, market research reports, publicly available information and commercial publications (“External Data”). It is hereby confirmed that (a) to the extent that information reproduced herein derives from a third party, such information has been accurately reproduced and (b) in so far as the Trust, the Bank and the LLC are aware and are able to ascertain from information derived from a third party, no facts have been omitted which would render the information reproduced inaccurate or misleading.

The following sources of information, among others, have been used:

- National Central Banks, *Ufficio Italiano Cambi*, UniCredit research and national statistics offices: Data on annual GDP growth, inflation rates, interest rates and exchange rates of local currencies against euro;
- Bankscope: Data on market positions of the UniCredit Group and entities belonging to it;
- Bank of Italy: Data used for the Bank’s internal estimate of the market shares for loans and direct deposits the Bank holds in Italy; data on the Italian banking market, in particular the number of active bank branches and financial promoters;
- Italian association of asset managers (*Assogestioni – Associazione del Risparmio Gestito*): Data used for the Bank’s internal estimates of market shares in mutual funds in Italy;
- Italian Association of Leasing Companies (*Assilea*): Data used for the Bank’s internal estimates of market shares in leasing in Italy;
- Italian Association of Asset Gatherers (*Assoreti*): Data used for the Bank’s internal estimates of market shares in asset gathering in Italy;
- KPMG, e.Retail Finance in Italy: Data regarding on-line customers in Italy; and
- Consolidated financial statements, securities prospectuses and other materials published by the HVB Group.

Commercial publications generally state that the information they contain originates from sources assumed to be reliable, but that the accuracy and completeness of such information is not guaranteed, and that the

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calculations contained therein are based on a series of assumptions. External Data have not been independently verified by the Bank.

Many of the UniCredit Group's customers maintain customer relationships with several banks. For this reason, persons who are UniCredit Group customers may also be regarded as customers of other financial institutions. Calculations of market shares or other similar data on the basis of customer numbers may therefore result in one individual customer being counted by different institutions.

## **RESTRICTIONS ON OFFERS AND SALES**

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any securities and may not be used for the purpose of an offer to sell or the solicitation of an offer to buy in any circumstances in which such offer or solicitation is unlawful.

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

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

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

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

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

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 AS STABILIZING MANAGER (THE "STABILIZING MANAGER") (OR ANY PERSON ACTING FOR THE STABILIZING MANAGER) MAY OVER-ALLOT OR EFFECT TRANSACTIONS (PROVIDED THAT THE AGGREGATE PRINCIPAL AMOUNT OF THE TRUST PREFERRED SECURITIES ALLOTTED DOES NOT EXCEED 105% OF THEIR AGGREGATE PRINCIPAL AMOUNT) OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE TRUST PREFERRED SECURITIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, IN DOING SO, THE STABILIZING MANAGER (OR ANY AGENT OF THE STABILIZING MANAGER) SHALL ACT AS PRINCIPAL AND NOT AS AGENT OF THE ISSUER, THE LLC OR THE BANK. FURTHERMORE, THERE IS NO OBLIGATION ON THE STABILIZING MANAGER (OR ANY PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGER) TO UNDERTAKE STABILIZATION ACTION. SUCH STABILIZING, IF COMMENCED, MAY BE ENDED AT ANY TIME AND MUST END NO LATER THAN THE EARLIER OF (I) 30 DAYS AFTER THE ISSUE DATE OF THE TRUST PREFERRED SECURITIES AND (II) 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE TRUST PREFERRED SECURITIES. SUCH STABILIZING SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES. ANY LOSS OR PROFIT SUSTAINED AS A CONSEQUENCE OF ANY SUCH OVER-ALLOTMENT OR STABILIZING**

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SHALL BE FOR THE ACCOUNT OF THE STABILIZING MANAGER. THE STABILIZING MANAGER ACKNOWLEDGES THAT THE ISSUER HAS NOT AUTHORIZED THE CREATION AND ISSUE OF IN EXCESS OF AN AGGREGATE LIQUIDATION PREFERENCE OF £300,000,000 OF TRUST PREFERRED SECURITIES.

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## Certain Defined Terms

In this Offering Circular and unless otherwise specified, references to the “Bank” are to UniCredito Italiano S.p.A. and references to the “UniCredit Group” are to the Bank and its subsidiaries; references to “HVB” are to HypoVereinsbank AG and references to the “HVB Group” are to HVB and its subsidiaries; references to the “Combined Group” are to the UniCredit Group and the HVB Group assuming that the proposed business combination is successfully completed.

References to “Italy” are to the Republic of Italy; references to laws and regulations are to the laws and regulations as amended and supplemented from time to time; references to “EU” are to the European Union; references to “€” or “euro” are to the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended; references to “£” and to “sterling” are to the lawful currency of the United Kingdom; references to “dollar”, “dollars”, “U.S. dollars”, “US\$” or “\$” are to the lawful currency of the United States of America; and references to “billions” are to thousands of millions.

References to the “Managers” are to HSBC Bank plc, J.P. Morgan Securities Ltd. and Merrill Lynch International.

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## Forward-Looking Statements

Certain sections of this Offering Circular, including, among others, “Risk Factors”, “Summary”, “Business of the UniCredit Group”, “Business of the HVB Group” and “The Combined Group” contain various forward-looking statements which represent management’s expectations or beliefs concerning future events and are subject to known and unknown risks and uncertainties. Forward-looking statements can be identified by, among other things, the use of forward-looking terminology such as “believes”, “estimates”, “expects”, “may”, “should”, “seeks”, “anticipates” or “intends” or other similar expressions or by discussions of strategy or intentions. A number of factors, including the investment considerations noted under “Risk Factors” and other risks and uncertainties noted throughout the Offering Circular, could cause actual results, performance or events to be materially different from those expressed or implied by such forward-looking statements. These factors include, but are not limited to, the following: the competitive environment in the business of the Bank and the UniCredit Group in general and in the UniCredit Group’s specific market segments; changes in or failure to comply with applicable regulations; economic conditions in general and in the UniCredit Group’s specific market segments; changes in operating strategy or development plans and other factors referenced herein including under the heading “Risk Factors.” Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. The UniCredit Group does not have any obligation to release publicly any revisions to any forward-looking statement to reflect events, circumstances or unanticipated events occurring after the date of this Offering Circular.

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## Incorporation by Reference

The following documents which have previously been published or are published simultaneously with this Offering Circular have been filed with the Irish Stock Exchange and are incorporated by reference in, and form part of, this Offering Circular:

- (i) the audited consolidated and non-consolidated annual financial statements of the Bank as at and for the years ended December 31, 2004 and 2003; and
- (ii) the unaudited consolidated interim financial statements of the Bank as at and for the six-month periods ending June 30, 2005 and 2004.

A copy of any or all of the documents incorporated herein by reference will be available free of charge from the principal office of AIB/BNY Fund Management (Ireland) Limited (the “Irish Paying Agent”) so long as the Trust Preferred Securities are listed on the Irish Stock Exchange. (See “General Listing Information—Notices”).

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## Summary

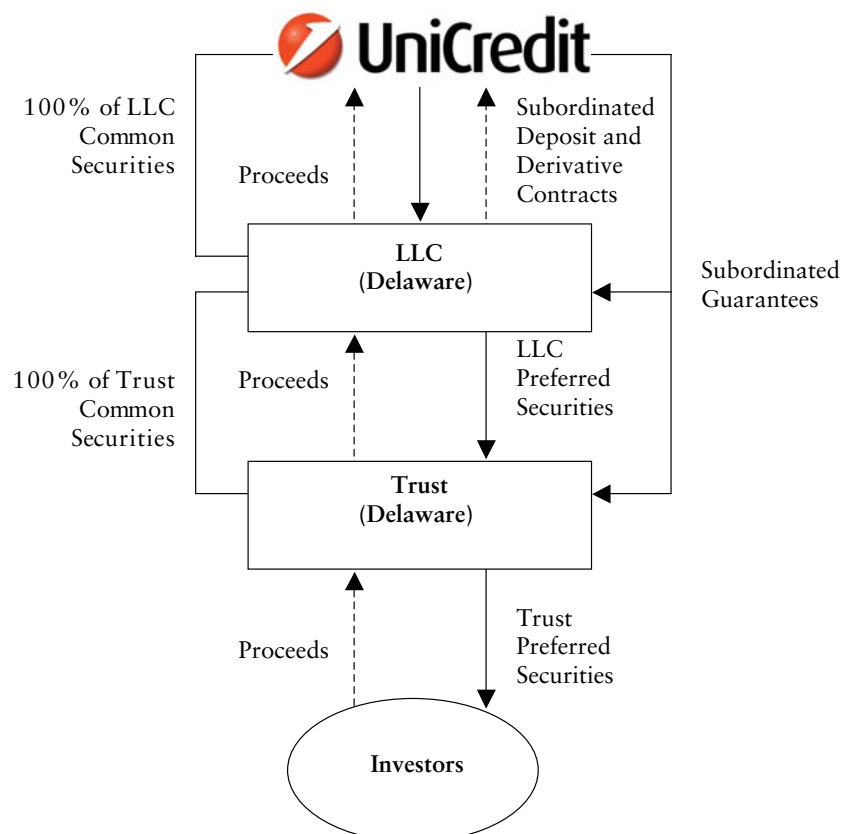
*This summary must be read as an introduction to this Offering Circular and any decision to invest in any Trust Preferred Securities should be based on a consideration of this Offering Circular as a whole, including the documents incorporated by reference.*

*The following summary has been extracted without material adjustment from, and is qualified in its entirety by, the more detailed information included elsewhere in this Offering Circular, with which it should be read in conjunction. Special attention should be paid to the “Risk Factors” section to determine whether an investment in the Trust Preferred Securities is appropriate to that investor. For a more complete description of the terms of the Trust Preferred Securities, the LLC Preferred Securities, the Derivative Contracts, the Subordinated Guarantees and the Subordinated Deposits referred to in the following summary, see “Description of the Trust Securities,” “Description of the LLC Securities,” “Description of the Initial Derivative Contract,” “Description of the Subordinated Guarantees” and “Description of the Eligible Investments” and the documents described therein. Capitalized terms used and not otherwise defined below have the respective meanings given to those terms under those headings.*

### INTRODUCTION

#### Explanatory Diagram

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



#### General

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

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

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

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

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

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

### Capital Treatment

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

## THE BANK AND THE UNICREDIT GROUP

The Bank is the parent company of the UniCredit Group, a full-service financial services group engaged in a wide range of banking, financial and related activities throughout Italy and certain Central and Eastern European countries. The UniCredit Group’s activities include deposit-taking, lending, asset management, securities trading and brokerage, investment banking, international trade finance, corporate finance, leasing, factoring and the distribution of certain life insurance products through bank branches (*bancassurance*). As of June 30, 2005, the UniCredit Group’s multi-channel distribution network comprised 4,415 branches (of which 3,086 were located in Italy), various licensed banks held either directly as subsidiaries or through joint ventures in a number of countries and a network of 2,250 licensed financial consultants (*promotori finanziari*), as well as internet and telephone banking capabilities.

As of June 30, 2005, the UniCredit Group was the largest banking group in Italy in terms of market capitalization (approximately €28 billion) and had 68,247 employees (of which 38,527 were based in Italy). In terms of total assets, as of June 30, 2005, the UniCredit Group was the second largest bank in Italy and controlled the largest commercial banks in Croatia and Bulgaria, the second largest commercial bank in Poland and had significant operations in Slovakia, the Czech Republic, Romania, Bosnia-Herzegovina and Turkey. As of June 30, 2005, the Bank believes that it holds, in Italy, a 10.8% market share for loans and 9.2% for direct deposits (Source: internal estimates based on Bank of Italy data), and a market share of 14.9% for mutual funds (Source: internal estimates based on data of the Italian association of asset managers, *Assogestioni – Associazione del Risparmio Gestito*).

The principal place of business of the Bank is Piazza Cordusio, 2, 20123 Milan, Italy, and its telephone number is + 39 02 8862 8136 (Investor Relations).

### The HVB Offer and Business Combination

On June 12, 2005, the Bank announced its intention to launch three public tender offers (the “Offers”) in Germany, Austria and Poland for all of the shares of (i) Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Munich, Germany (“HypoVereinsbank” or “HVB” and, together with its affiliated companies, the “HVB Group”, and such offer, the “HVB Offer”), (ii) Bank Austria Creditanstalt AG, Vienna, Austria (“Bank Austria” and, together with its affiliated companies, the “BA-CA Group”, and such offer, the “Bank Austria Offer”), and (iii) Bank BPH Spółka Akcyjna, Kraków, Poland (“Bank BPH” and, together with its affiliated companies, the “Bank BPH Group”, and such offer, the “BPH Offer”).

## Summary

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In each Offer, the Bank will offer new ordinary shares of UniCredit S.p.A. (“New UniCredit Ordinary Shares”) (the “Exchange Offers”). The Bank Austria Offer and the BPH Offer will also include an alternative cash offer.

The HVB Offer and the Bank Austria Offer were both launched on August 26, 2005, and, unless extended in accordance with the applicable laws, the acceptance period for the HVB Offer will end on October 24, 2005, and that for the Bank Austria Offer will end on October 31, 2005. The BPH Offer is expected to be launched following approval of all relevant Polish authorities. However, given the uncertainties related to the timing of such approvals, the BPH Offer will probably follow a different timeline than that envisaged for the HVB Offer and the Bank Austria Offer.

The Offers are launched pursuant to an agreement dated June 12, 2005 between the Bank and HypoVereinsbank (the “Business Combination Agreement”) relating to the proposed business combination of the UniCredit Group and the HVB Group (the “Business Combination”).

### **UniCredito Italiano Capital Trust IV**

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

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

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

The principal executive office of the Trust is located at 430 Park Avenue, 9<sup>th</sup> Floor, New York, New York 10022-3258, United States and its telephone number is +1 212 546 9600.

### **UniCredito Italiano Funding LLC IV**

The LLC is a Delaware limited liability company formed solely for the purpose of this transaction. The LLC will:

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

The principal executive office of the LLC is located at 430 Park Avenue, 9<sup>th</sup> Floor, New York, New York 10022-3258, United States.

### **Contemporaneous Offering**

Simultaneously with the offering of the Trust Preferred Securities by the Trust hereby, UniCredito Italiano Capital Trust III (the “Other Trust”), is offering an aggregate of €750,000,000 in liquidation preference of Non-cumulative Guaranteed Fixed/Floating Rate Perpetual Trust Preferred Securities (the “Other Trust Preferred Securities”). The Other Trust Preferred Securities represent preferred beneficial ownership interests in UniCredito Italiano Funding LLC III, a Delaware limited liability company (the “Other LLC”). The Other

Trust Preferred Securities differ from the Trust Preferred Securities offered hereby, as to, among other things, currency of denomination, but otherwise have terms that are substantially identical to those of the Trust Preferred Securities. The completion of the offering of the Trust Preferred Securities is not contingent upon the completion of the offering of the Other Trust Preferred Securities.

### THE OFFERING

#### Offered Securities

The Trust Preferred Securities issued by the Trust shall have an aggregate liquidation preference of £300,000,000, and liquidation preferences of £50,000 plus integral multiples of £1,000 above £50,000 per Trust Preferred Security (each a “Trust Liquidation Preference”). The Trust Preferred Securities represent undivided beneficial ownership interests in the assets of the Trust. The assets of the Trust will consist of a corresponding amount of LLC Preferred Securities. The Trust Preferred Securities will have terms substantially identical to the terms of the LLC Preferred Securities.

#### Issue Date

On or about October 27, 2005 (the “Issue Date”).

#### Risk Factors

There are certain risk factors which may affect the Trust and/or the Bank’s ability to fulfil their obligations under the Trust Preferred Securities. These are set out under “Risk Factors” beginning on page 20 and include risks relating to the proposed Business Combination with HVB, risks relating to competition and other general banking risks, including credit risk and exchange rate risk. In addition, there are certain factors which are material for the purpose of assessing risks associated with the Trust Preferred Securities.

#### Dividends

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

Dividends on the LLC Preferred Securities will accrue on a non-cumulative basis at a fixed rate per annum (the “Fixed Dividend Rate”) of 5.396% of the liquidation preferences of £50,000 plus integral multiples of £1,000 above £50,000 per LLC Preferred Security (each an “LLC Liquidation Preference”) during each Dividend Period until the Dividend Period that begins on October 27, 2015 (the “Dividend Reset Date”), and during each Dividend Period thereafter at a floating rate per annum (each a “Floating Dividend Rate”) of 1.76% above STERLING LIBOR for three-month deposits.

Dividends at the Fixed Dividend Rate will be payable, if declared or deemed declared, annually in arrear on October 27 of each year commencing October 27, 2006 to and including October 27, 2015, and thereafter at the Floating Dividend Rate if declared or deemed declared quarterly in arrear on each January 27, April 27, July 27 and October 27 commencing January 27, 2016 (each a “Dividend Payment Date”).

*Mandatory Dividends.* The LLC is required to pay Dividends in full (“Mandatory Dividends”) on the LLC Preferred Securities on each Dividend Payment Date unless: (1) the Bank does not have, according to

the non-consolidated annual accounts of the Bank relating to the financial year immediately preceding the financial year in which the relevant Dividend Payment Date falls or, where such accounts are not available, the last set of annual non-consolidated 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 of any class of its share capital, or the Bank has not declared or paid dividends on any class of its share capital based on the 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 Capital Deficiency Event has occurred and is continuing or would result from the payment thereof; provided that the LLC will be prohibited from paying Dividends for any Dividend Period upon the occurrence and during the continuation of a Capital Deficiency Event; 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 or any Junior Securities (as defined below), the LLC will be required to declare and pay Dividends on the LLC Preferred Securities.

**The Subordinated Guarantees**

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

*Related Guarantee Provisions.* Notwithstanding the restrictions on the declaration and payment of Dividends by the LLC, the Bank will be permitted to make payments to the Trust, as holder of the LLC Preferred Securities, or to holders of the Trust Preferred Securities, in each case under the Subordinated Guarantees or otherwise in its discretion; provided, that the Bank will be prohibited from making any Subordinated Guarantee Payment so long as a Capital Deficiency Event (as defined below) has occurred and is continuing; provided, further, that, notwithstanding the foregoing, if Mandatory Dividends are declared or deemed declared, the Bank may be required to make a Subordinated Guarantee Payment in respect of Mandatory Dividends on the LLC Preferred Securities as described herein under “Description of the LLC Securities–LLC Preferred Securities–Dividends” and “Description of the Subordinated Guarantees–General”.

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

### Derivative Contracts

Upon entering into the Initial Derivative Contract, the Bank will pay an up-front fee to the LLC in the amount of £3,300,000, which the LLC will invest in Eligible Investments. Under the Derivative Contracts, the LLC will agree to make a Capital Deficiency Payment to the Bank upon the occurrence of a Capital Deficiency Event.

The Subordinated Deposits will secure the LLC's payment obligations under the Derivative Contracts. The Derivative Contract can only be terminated by the mutual consent of the Bank and the LLC, with the prior approval, if then required, of the Bank of Italy in the event of redemption of the LLC Preferred Securities.

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

### Capital Deficiency Event

A "Capital Deficiency Event" will be deemed to have occurred if: (1) as a result of losses incurred by the Bank, on a consolidated or stand-alone basis, the total risk-based capital ratio of the Bank, on a consolidated or stand-alone basis, as calculated in accordance with applicable Italian banking laws and regulations, and either (A) reported in the Bank's annual or semi-annual consolidated or stand-alone accounts or (B) determined by the Bank of Italy and communicated to the Bank, in either case, falls below the then minimum requirements of the Bank of Italy specified in its February 2000 regulation governing *Strumenti Innovativi di Capitale* or such other applicable regulation, as from time to time amended; 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.

*Loss Absorption Through the Derivative Contracts.* Upon the occurrence of a Capital Deficiency 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 Capital Deficiency Event; and (2) the outstanding amount payable by the LLC under the Derivative Contracts (which may not exceed amounts standing to the credit, for the time being, of the Subordinated Deposit). If the LLC fails to make a Capital Deficiency Payment in cash, the obligation of the LLC to pay the Bank a Capital Deficiency Payment under the Derivative Contracts will be satisfied by the Bank reducing the amount standing to the credit of the Subordinated Deposits by the amount of such Capital Deficiency Payment, according to set-off arrangements contained in the Subordinated Deposits and the Derivative Contracts.

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

### Ranking

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

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



### Payment of Additional Amounts

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

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

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

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

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

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

### 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 October 27, 2015, with the prior approval, if then required, of the Bank of Italy.

Upon the occurrence of an LLC Special Event (as defined below) (other than a Change in Law Tax Event and an Interpretation Tax Event (as defined below)), the LLC Preferred Securities may be redeemed by the LLC, at its option, in whole but not in part, at the Regular Redemption Price on any Dividend Payment Date if such redemption occurs on or after October 27, 2015 (a “Regular Redemption Date”), or at the Special Redemption Price (as defined below) on any Dividend Payment Date if such redemption occurs prior to October 27, 2015 (the “Special Redemption Date” and, together with a Regular Redemption Date, a “Redemption Date”), in each case, with the prior approval, if then required, of the Bank of Italy. Upon the occurrence of a Change in Law Tax Event or an Interpretation Tax Event, the LLC Preferred Securities may be redeemed by the LLC, at its

option, in whole but not in part, at the Regular Redemption Price on any Dividend Payment Date, with the prior approval, if then required, of the Bank of Italy.

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

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 subsidiaries will be entitled to redeem, repurchase or otherwise acquire, or set apart funds for the redemption, repurchase or other acquisition of, any Parity Securities or Junior Securities, through a sinking fund or otherwise, unless and until: (A) full Dividends on all LLC Preferred Securities for the prior financial year (or such lesser period during which the LLC Preferred Securities have been outstanding) and any Dividend Periods that have occurred during the current financial year have been paid or a sum sufficient for payment has been paid over to the paying agent for payment of such Dividends; and (B) the LLC has declared Dividends on the LLC Preferred Securities in full at the Dividend Rate for the then current Dividend Period and sufficient funds have been paid to the paying agent for the payment of such Dividends. It is an obligation of the Bank to ensure that its Subsidiaries observe the foregoing limitations.

**Liquidation Preference**

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

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

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

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

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

**Regular Independent Director**

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



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

So long as any LLC Preferred Securities are outstanding, certain actions by the LLC must be approved by the Regular Independent Director as well as by a majority of the entire Board, including the payment of Dividends or the making of distributions on the LLC Common Securities other than in accordance with the LLC Agreement.

### Voting Rights

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

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

### Subordinated Deposits

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

Each Subordinated Deposit will constitute an unsecured obligation of the Bank and will rank subordinate and junior to indebtedness of the Bank (including bonds, notes and debentures, whether senior or subordinated, and instruments constituting "Upper Tier II" or "Lower Tier II" capital of the Bank, excluding any instrument or contractual right effectively ranking *pari passu* with the Subordinated Deposits), *pari passu* with the most senior preference shares of the Bank, if any, the subordinated guarantees issued by the Bank to secure the obligations arising from the Outstanding UniCredit Tier I Securities and each other and senior to the share capital of the Bank, including *Azioni Privilegiate*, ordinary shares and *Azioni di Risparmio* and any other instruments issued by the Bank and expressed to rank *pari passu* with the share capital of the Bank.

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

Upon the occurrence of a Capital Deficiency Event, the Subordinated Deposit may be reduced by an amount equivalent to the Capital Deficiency

Payment according to set-off arrangements contained in the Subordinated Deposits and the Derivative Contracts.

**Governing Law**

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

**Listing**

Application has been made to the IFSRA, as competent authority under the Prospectus Directive, for the Offering Circular to be approved. Application has been made to the Irish Stock Exchange for the Trust Preferred Securities to be admitted to the Official List and trading on its regulated market. This Offering Circular constitutes the Prospectus in connection with the application for the Trust Preferred Securities to be admitted to the Official List of the Irish Stock Exchange. In accordance with Article 18 of the Prospectus Directive, application for notification of the Offering Circular will be made to the CSSF in its capacity as competent authority in Luxembourg for approval of the Offering Circular so that the Trust Preferred Securities may be admitted to trading on the Luxembourg Stock Exchange's regulated market and listed on the Luxembourg Stock Exchange. It is expected that the Trust Preferred Securities will be listed on the Luxembourg Stock Exchange on or as soon as practicable after the date of approval of this Offering Circular by the IFSRA.

**Form and Denomination**

The Trust Preferred Securities will be issued in denominations of £50,000 plus integral multiples of £1,000 above £50,000 per Trust Preferred Security. The Trust Preferred Securities will initially be represented by 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 Preferred Securities-Form, Denomination and Transfer," the Permanent Global Certificate may be exchanged for definitive Trust Preferred Securities, in each case, upon certification of non-U.S. beneficial ownership in the manner required by Regulation S. No payment will be made in respect of any beneficial interest in the Temporary Global 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."

**Use of Proceeds**

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

**U.S. Transfer Restrictions**

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

## Summary

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	transferred in the United States or to any U.S. person, except as described under “Subscription and Sale.”
<b>Ratings</b>	<p>Each of the Trust Preferred Securities and the LLC Preferred Securities are expected to be assigned on issue a rating of A by Standard &amp; Poor’s, A1 by Moody’s and A+ by Fitch.</p> <p>A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organization.</p>
<b>Clearing Systems and Settlement</b>	The Trust Preferred Securities have been accepted for clearance through the facilities of Euroclear and Clearstream, Luxembourg.
<b>Securities Identification Numbers</b>	Common Code: 023143666. ISIN: XS0231436667.

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## Risk Factors

*Prospective investors should read the entire Offering Circular. Prospective investors should carefully read and assess the specific risks set forth below and the other information contained in the Offering Circular. The description of the risks below does not purport to be exhaustive and these risks are not the only risks to which the UniCredit Group and the HVB Group are currently exposed and to which the Combined Group, in the future, may be exposed. In addition, as a result of the Business Combination (if successfully completed), the risks described below, in particular risks that currently have been identified in relation to each of the UniCredit Group and the HVB Group, may be further aggravated. The order in which the individual risks are presented is not indicative of their likelihood to occur nor of the severity or significance of the individual risks. Furthermore, an investment in the Trust Preferred Securities may be associated with other risks and aspects of significance of which the Bank is currently unaware or which it does not consider to be material but which may nonetheless have a material adverse effect on the business, prospects, financial condition and results of operations of the Combined Group.*

### **RISKS ASSOCIATED WITH THE BUSINESS COMBINATION OF THE UNICREDIT GROUP AND THE HVB GROUP**

On June 12, 2005, the Bank and HVB resolved to enter into a business combination agreement setting out the terms of the aggregation of HVB and UniCredit Group. The transaction will consist of three voluntary share-for-share offers by the Bank for the shares of HVB, Bank Austria and Bank BPH (the “Offers”), which will have to be approved by the competent local authorities. Regulatory approval from the competent authorities in Germany, Austria and Italy has been obtained, and the HVB Offer and the Bank Austria Offer were both launched on August 26, 2005. The BPH Offer is expected to be launched following approval of the relevant Polish authorities (banking supervisory and merger control clearances). Certain adverse consequences for the UniCredit Group’s business and results of operations could result from an acquisition of HVB, if it were to be successful. Such adverse effects could result from the following:

#### **The Bank’s ability to foresee its post-acquisition regulatory capital obligations are based on assumptions that are subject to change and uncertainty.**

The Bank’s ability to foresee its capital requirements, to meet its regulatory capital obligations and to anticipate its Tier I and total capital ratios depend on a number of assumptions, among which the number and allocation of the shares tendered pursuant to the Offers and the negotiations of, and market conditions relating to, the capital raising transactions planned by the Bank for the purpose of funding the offers. Any or all of these assumptions may not prove accurate and deviations from these assumptions could result in regulatory capital results that differ materially from those expected by the Bank. As a result, prospective investors should not unduly rely on the Bank’s indications in relation to regulatory capital.

#### **The Bank may not be able to integrate and to centralize HVB into its existing group effectively.**

The proposed acquisition of HVB requires the integration and combination of different management, strategies, procedures, products and services, client bases and distribution networks with the aim of streamlining the business structure and operations of the newly-enlarged group. This process of integration may require significant additional investment and expense. There can be no assurance that the UniCredit Group will be able to assimilate HVB’s structure, management and client base. Failure to so integrate or assimilate HVB, or the need for significant further investment in order to do so, could have a material adverse effect on the Group’s business and results of operations.

#### **Unforeseen difficulties in connection with the proposed Business Combination of the UniCredit Group and the HVB Group may have a material adverse effect on the Combined Group’s business, financial condition and results of operations.**

The proposed Business Combination will result in the integration of two large banking groups that were previously managed and operated independently and as competitors. This complex integration poses specific challenges that will expose the Combined Group and, by extension, the shareholders of the Bank to certain risks, including the following:

- **Uncertainties of achieving synergies.** Although the Bank expects the proposed Business Combination to create synergies, the integration of two large banking groups based in different countries, with differing

cultural backgrounds, business cultures, operating languages and compensation structures, which are active throughout a large geographical area, presents significant managerial challenges. There can be no assurance that this integration, and the synergies expected to result from the integration, will be achieved as rapidly or to the extent currently anticipated.

- **Complex harmonization of the UniCredit Group's and the HVB Group's IT systems.** Harmonizing the UniCredit Group's and the HVB Group's information technology ("IT") systems to create a consistent IT architecture across the Combined Group poses specific challenges and risks to the Combined Group.
- **Complex integration of the UniCredit Group's and the HVB Group's risk management systems.** The UniCredit Group and the HVB Group currently use different methodologies to measure and manage risks. The integration of the two risk management systems following the proposed Business Combination will likely aggravate the risk of a potential failure or inadequacy of the Combined Group's risk management systems, in particular during the initial integration phase.
- **Diversion of management resources to address integration issues.** The integration of the UniCredit Group and the HVB Group will require significant time and attention of the Combined Group's management. To the extent that integration issues divert attention from management's other responsibilities, the Combined Group's business may be adversely affected.
- **Need to communicate effectively with partners and customers.** The Combined Group will need to communicate effectively with its partners and customers so that they understand the expanded range of products and services offered by the Combined Group and the relative strengths of such product and services range. The failure to communicate effectively may result in a failure to exploit opportunities and the loss of existing business and customers.
- **Potential loss of key personnel.** The Combined Group will rely on the senior management of the UniCredit Group and the HVB Group to successfully integrate the two groups and implement the combined strategy. If the Combined Group loses key personnel, it may have more difficulty completing the integration quickly and in a manner that takes advantages of the respective strengths of the UniCredit Group and the HVB Group.
- **Tax Implications.**

*Tax Loss Carry Forwards.* HVB and certain of its subsidiaries have substantial tax loss carry forwards. In Germany and Austria, such tax loss carry forwards can be used for an indefinite period of time to offset future positive income, within certain limits. According to German tax law, the use of tax loss carry forwards is disallowed when the company that incurred the losses is not economically identical with the company seeking to use the corresponding loss carry forward. In particular, following the acquisition of more than 50% of the HVB shares by the Bank, the use of the tax loss carry forwards depends on a number of conditions that are subject to conflicting interpretations by the fiscal courts and the tax authorities. Under Austrian law, a loss carry forward may be denied if a substantial change in the shareholder structure, as well as in the organizational and economic structure, takes place.

*Real Estate Transfer Tax Liability.* The transfer of shares in HypoVereinsbank to the Bank may under certain conditions result in real estate transfer tax liability with respect to German real estate owned by HVB or its subsidiaries.

Each of the factors discussed above may have a material adverse effect on the Combined Group's business, financial condition and results of operations. There can be no assurance that the integration process will be successful and that the Combined Group will be operated and managed as efficiently as the UniCredit Group and the HVB Group, respectively, have been operated and managed in the past.

**Merger control and bank regulatory clearance of the proposed Business Combination is still outstanding.**

As of the date of this Offering Circular, the proposed Business Combination between the UniCredit Group and the HVB Group is still subject to merger control clearance by the European Commission and by certain local regulators. It cannot be ruled out that such merger control clearance will be subject to certain conditions, which may include the sale of subsidiaries or participations in other banks. Compliance with such conditions may adversely affect the Combined Group's ability to achieve the expected synergies in certain markets.

In addition, the proposed Business Combination must be notified to and/or cleared by the banking and other supervisory authorities in the various countries in which the UniCredit Group and the HVB Group operate, including the Bank of Italy and the German Federal Financial Services Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* - “BaFin”), and it cannot be ruled out that the Combined Group will be affected as a consequence thereof.

### **RISKS RELATED TO THE BUSINESS OF THE UNICREDIT GROUP, THE HVB GROUP AND THE COMBINED GROUP**

#### **The UniCredit Group and the HVB Group are, and the Combined Group will be, exposed to interest rate risks.**

In 2004, the UniCredit Group and the HVB Group generated approximately 50% and 61% of their total revenues, respectively, through net interest income. The failure to generate funding or to raise capital at attractive rates may significantly reduce the Combined Group’s interest margins, and unexpected fluctuations in interest rates across all maturities (changes in the yield curve) on both the domestic and international money and capital markets may have a material effect on the Combined Group’s business, financial condition and results of operations.

#### **The UniCredit Group and the HVB Group are, and the Combined Group will be, exposed to credit risks.**

Through their banking operations, the UniCredit Group and the HVB Group each are, and the Combined Group will be, exposed to the risk that receivables from third parties owing money, securities or other assets to them will not be collected when due and must be written off (in whole or in part) due to the deterioration of such third parties’ respective financial standing (counterparty risk). This risk is present in both the traditional on-balance sheet uncollateralized and collateralized lending business and off-balance sheet business, e.g., when extending credit by means of a bank guarantee. Credit risks have historically been aggravated during periods of economic downturn or stagnation, which are typically characterized by higher rates of insolvencies and defaults. As part of their respective businesses, entities of the UniCredit Group and the HVB Group operate, and entities of the Combined Group will operate, in countries with a generally higher country risk than in their respective home markets (“emerging markets”). Entities of the UniCredit Group and the HVB Group hold, and entities of the Combined Group will hold, assets located in such countries.

While both the UniCredit Group and the HVB Group monitor credit quality and manage the specific risk of each counterparty and the overall risk of the respective loan portfolios, and the Combined Group will continue to do so, there can be no assurance that such monitoring and risk management will suffice to keep the Combined Group’s exposure to credit risk at acceptable levels. Any deterioration of the creditworthiness of significant individual customers or counterparties, or of the performance of loans and other receivables, as well as wrong assessments of creditworthiness or country risks may have a material adverse effect on the Combined Group’s business, financial condition and results of operations.

#### **Non-traditional banking activities expose the UniCredit Group and the HVB Group and, in future, will expose the Combined Group to additional credit risks.**

Many of the business activities of the UniCredit Group, the HVB Group and, in future, the Combined Group, that go beyond the traditional banking business of lending and deposit-taking will expose the Combined Group to additional credit risk. Non-traditional credit risk can, for example, arise from:

- entering into derivative contracts under which counterparties have obligations to make payments to entities of the Combined Group;
- executing securities, futures, currency or commodity trades that fail to settle timely due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries (including the Combined Group);
- owning securities of third parties; and
- extending credit through other arrangements.

Parties to these transactions, such as trading counterparties or counterparties issuing securities held by entities of the Combined Group, may default on their obligations to entities of the Combined Group due to insolvency, political and economic events, lack of liquidity, operational failure or other reasons. Defaults



with respect to a significant number of transactions or one or more transactions that involve significant volumes would have a material adverse effect on the Combined Group's business, financial condition and results of operations.

**Loan losses associated with the exposure of the Combined Group to certain significant clients may exceed anticipated levels and require an increase in loan loss provisions.**

Both the HVB Group and the UniCredit Group are, and the Combined Group will be, major lenders to several large corporate customers, particularly in Germany, Austria and Italy, that have filed for the initiation of insolvency proceedings in the past years or are currently undergoing restructurings.

The book value of non-performing and doubtful loans (to customers and to banks) of the UniCredit Group amounted to a total of €9.6 billion (5.2% of total volume of lending) as at December 31, 2004. The HVB Group's credit exposure includes, in addition to placements with, and loans and advances to, other banks and loans and advances to customers, money market transactions, securities that function as credit substitutes, credit line commitments and contingent liabilities, in all cases risk-weighted based on product. The HVB Group, as of December 31, 2004, reported loans classified as 9 and 10, deemed to be non-performing loans, of €24.1 billion (7.4% of total volume of lending).

The provisioning process involves certain assumptions regarding the realization value of the collateral in the case of secured loans and the amount of provisions for losses on loans and advances and allowances for loans or portions thereof not covered by adequate collateral. These assumptions, even when made based on independent legal opinions or valuation reports, may prove to be inaccurate, in which case the Combined Group may require provisions for some of these exposures in excess of provisions already made. Also, the number of insolvencies and payment defaults to be expected in the future among customers of the Combined Group is unpredictable. If such number exceeds anticipated levels, the Combined Group may require provisions for losses on loans and advances or incur loan losses in excess of the budgeted amounts. Any increase in loan loss provisions and any loan losses in excess of provisioned amounts would have a material adverse effect on the Combined Group's business, financial condition and results of operations.

**A failure of the Combined Group to fully implement its strategy may have a material adverse effect on the Combined Group's business, financial condition and results of operations.**

The objective of the Combined Group is to create a new force in European banking with leading positions in its core markets in Italy, Germany, Austria and Central and Eastern Europe as well as a balanced business portfolio and enhanced growth prospects and it has defined a number of strategic goals in order to achieve this objective (see "The Combined Group-Strategy of the Combined Group"). There can be no assurance that the Combined Group will be successful in achieving these strategic goals or that achievement thereof is sufficient to achieve the objectives of the Combined Group. Further, there is no guarantee that the Combined Group will be able to realize all the synergies envisaged by the Bank and HVB in relation to the proposed Business Combination. A number of factors, some of which are outside the control of the Combined Group (such as market declines and unfavorable macroeconomic conditions in the Combined Group's core markets), the failure to establish clear governance rules within the Combined Group and to align the strategies of the Combined Group's entities with the strategy of the Combined Group as a whole, as well as the failure to integrate the businesses of the Combined Group, could result in an inability to implement some or all of the Combined Group's strategic goals or to fully realize expected synergies, all of which could have a material adverse effect on the Combined Group's business, financial condition and results of operations.

**If the Combined Group is not successful in managing the regulatory capital effects of the proposed Business Combination on its regulatory capital, it could experience a significant decrease in regulatory capital, which, in turn, could have rating consequences, as well as certain regulatory consequences in the countries in which the Combined Group operates, including in the United States.**

As of December 31, 2004, the Tier I capital ratio of the UniCredit Group was 7.9%, and the Tier I capital ratio of the HVB Group was reported at 6.6%. Due to consolidation effects, the proposed Business Combination (in addition to other acquisitions by the UniCredit Group) will lead to a decrease of the Tier I capital ratio of the Bank on a consolidated level, unless the UniCredit Group and/or the HVB Group succeed in improving their Tier I capital ratios prior to the consummation of the proposed Business Combination. Although the UniCredit Group intends to improve its regulatory capital ratios both prior to and after the

consummation of the proposed Business Combination, which may involve the issuance of hybrid bank capital instruments and an optimization of risk-weighted assets, there can be no guarantee that this will be successful as these measures are dependent on a number of factors outside the control of the Bank, such as the general market environment and regulatory approval of hybrid bank capital instruments. In addition, other factors outside the control of the Bank, for example to what extent shares are tendered for cash in the Offers, may adversely affect the Tier I capital ratio of the Combined Group. Any failure by the Combined Group to achieve satisfactory regulatory capital ratios following consummation of the proposed Business Combination may lead to rating downgrades, jeopardize potential future acquisitions or lead to regulatory intervention in each of the countries in which the Combined Group operates, all of which could have a material adverse effect on the business, financial condition and results of operations of the Combined Group.

In particular, in the United States, the Bank's status as a "Financial Holding Company" pursuant to Regulation Y under the U.S. Bank Holding Company Act is dependent, among other requirements, on certain levels of capitalization, which could be jeopardized following consummation of the proposed Business Combination. As a result, the UniCredit Group may have to agree on a capital recovery plan with the U.S. Federal Reserve Board. Any failure by the Bank to reach an agreement with the U.S. Federal Reserve Board or with any other competent regulators, and to agree appropriate grace periods to the extent necessary, may result in adverse regulatory consequences, including the loss by the Bank of its Financial Holding Company status in the United States. As a result, the Combined Group may be adversely affected, and, with regard to the U.S., may be required to divest certain of its businesses in the U.S., including asset management, deposit taking and commercial lending activities. Any such measures or divestitures could have a material adverse effect on the business, financial condition and results of operations of the Combined Group.

**The proposed Business Combination could result in rating downgrades which would increase the re-financing costs of the Combined Group.**

The Bank's current medium and long-term credit ratings are "AA-" by Standard & Poor's, "AA-" by Fitch and "Aa2" by Moody's. Following the announcement of the proposed Business Combination, Moody's, Standard & Poor's and Fitch have put the Bank's ratings on creditwatch and, consequently, may downgrade the current ratings. Furthermore, HVB has experienced several downgrades of its ratings by Moody's, Standard & Poor's and Fitch in recent years. HVB has reported its current medium and long-term credit ratings to be "A-" by Standard & Poor's, "A-" by Fitch and "A3" by Moody's. While the HVB Group's operating performance has improved in 2004 compared to 2003, there can be no assurance that these improvements will be sustainable.

Any rating downgrades of the Bank or other entities of the Combined Group (including HVB) would increase the re-financing costs of the Combined Group and may limit its access to the financial markets and other sources of liquidity, all of which could have a material adverse effect on its business, financial condition and results of operations.

**Competition in European commercial banking is intense and the operating environment of the Combined Group is challenging.**

Competition in commercial banking in the Combined Group's core markets of Italy, Germany, Austria and Central and Eastern Europe is intense, particularly in the retail sector, as a result of excess capacity. In certain of these markets, the companies of the Combined Group are competing against public sector banks and co-operative banks as well as other private sector Italian, German, Austrian and international banks, some of which may be larger and better capitalized than the Combined Group or, in the case of certain public sector banks, can rely, to some extent, on support from governmental entities. In addition, the Italian and German banking sectors, as well as other markets in which the Combined Group will operate, are undergoing, or may in future undergo, consolidation which may result in increased competition. As a result of significant competition in the past, interest margins have been under pressure and credit pricing, in many instances, has not fully reflected credit default risk associated with individual loans. In the current competitive environment, the Combined Group may not be able to improve interest margins to levels which adequately reflect the credit default risks of its borrowers and other counterparties. Any sustained increase of competitive pressure on the Combined Group or the failure to improve interest margins or maintain them at current levels may have a significant negative impact on the Combined Group's business, financial condition and results of operations.



**There are risks associated with the international business of the Combined Group.**

Both the UniCredit Group and the HVB Group conduct their businesses to a significant extent on an international level. This is associated with a variety of different risks for the Combined Group, such as currency fluctuations, currency controls, the political and economic conditions in the countries where entities of the Combined Group will operate and the difficulties associated with the co-ordination of management and operation of banking services over a variety of different countries (in particular with regard to differing regulatory conditions) while complying with the laws and regulations in the various countries. These factors may have a material adverse effect on the business, financial condition and results of operations of the Combined Group.

**The Combined Group's further expansion in Central and Eastern Europe poses challenges.**

An important element of the Combined Group's strategy is to expand and develop its business in Central and Eastern Europe. The countries of Central and Eastern Europe have undergone rapid political, economic and social change since the end of the 1980s, and this process was accelerated by the accession to the European Union in May 2004 of many of the Central and Eastern European countries in which companies of the Combined Group operate. Economic growth in Central and Eastern Europe may slow in coming years by European Union legal, fiscal and monetary disciplines, which may limit a country's ability to respond to local economic circumstances. Moreover, a delay in, or the disruption of, the accession process with regard to the Central and Eastern European countries that have not yet joined the European Union (Bulgaria, Croatia, Romania and Turkey) may have material adverse consequences for the economies of these countries and the Combined Group's business in these countries.

In addition, the Bank expects that competitive pressures in Central and Eastern Europe will increase, as banking groups already active in the banking markets will seek to expand their presence, and new entrants may also move into these markets.

**The Combined Group's transactions in currencies other than the euro and operations outside the euro zone give rise to foreign currency risks.**

Both the UniCredit Group and the HVB Group currently have, and the Combined Group will continue to have, a significant presence and will generate a significant amount of its income and incur a significant amount of its expenses outside the euro zone, most importantly in Central and Eastern Europe, and will be significantly exposed to transactions in U.S. dollars. Since the Combined Group's financial statements will be prepared in euros, the Combined Group's foreign currency transactions and the financial statement items of its foreign operations that are included in the Combined Group's financial statements for any fiscal period will be translated into euros in accordance with the exchange rates to be applied pursuant to applicable accounting provisions. Although the Combined Group is expected to hedge its foreign currency exposure on a selective basis, these translation effects may expose its results to fluctuations in the exchange rate of the euro vis-à-vis Central and Eastern European and other foreign currencies, including the U.S. dollar. These translation effects could have a material adverse effect on the Combined Group's business, financial condition and results of operations. In addition, the Combined Group will also have trading positions in foreign currencies exposing it to foreign currency transaction risks.

**The Combined Group's trading income will be volatile.**

The trading income of both the UniCredit Group and the HVB Group has historically been volatile. The Bank expects that the Combined Group's trading income will also be volatile and will depend on numerous factors beyond the Combined Group's control, such as the general market environment, overall trading activity, interest rate levels, fluctuations in exchange rates and general market volatility, as well as judgment errors. Therefore, there is no guarantee that the level of trading income achieved by the UniCredit Group and the HVB Group, respectively, in prior years will be sustainable or can be improved by the Combined Group. A significant decline in the Combined Group's trading income would have a material adverse effect on the Combined Group's profitability.

**The UniCredit Group's and/or HVB Group's risk management strategies and techniques may leave the Combined Group exposed to unidentified or unanticipated risks.**

Although both the UniCredit Group and the HVB Group have invested substantially in their respective risk management strategies and techniques, and it is planned that the Combined Group will continue to do so,

such strategies and techniques may nonetheless fail, particularly if the Combined Group is confronted with risks it has not identified or anticipated. Some of the methods used by the UniCredit Group and the HVB Group for managing risk are based upon observations of historical market behavior. Statistical techniques are applied to these observations in order to quantify the respective risk exposure.

**There are risks associated with complex information technology systems.**

Large-scale banking activities are increasingly dependent on highly sophisticated IT systems. IT systems are vulnerable to a number of problems, such as computer virus infection, malicious hacking, physical damage to vital IT centers and software or hardware malfunctions. In addition, IT systems need regular upgrading to meet the needs of changing business and regulatory requirements. In particular, compliance with the New Basel Capital Accord (“Basel II”) on capital requirements for financial institutions and the resulting implementation of an internal ratings-based (“IRB”) Advanced Approach will place significant additional requirements on the functionality of the UniCredit Group’s and the HVB Group’s respective IT systems. These risks and the adverse effects resulting from them may be further aggravated by the complex integration of the information technology systems of the UniCredit Group and the HVB Group. Any failure of the Combined Group’s information technology systems may have a material adverse effect on the Combined Group’s business, financial condition and results of operations.

**Adverse market or economic conditions may result in a decline of commission- and fee-based business.**

Market downturns may lead to declines in the number of securities transactions and the number of investment products sold to customers and, therefore, to declines in commission income. In addition, because the fees of both the UniCredit Group and the HVB Group for securities and custodian services are in many cases based on the value or performance of the securities portfolio, or size of securities transaction concerned, a market downturn that reduces the value of the portfolios of, or size of transactions executed by, the Combined Group’s customers would reduce the commission income. Similarly, a sustained market downturn could have a negative impact on the demand of the Combined Group’s customers for capital markets-oriented financing solutions.

**Continued economic sluggishness and weak financial markets and volatility can materially adversely affect the Group’s revenues and profits.**

The results of the Group are affected by general economic, financial and other business conditions. During recessionary periods, there may be less demand for loan products and a greater number of the Group’s customers may default on their loans or other obligations. Interest rate rises may also impact the demand for mortgages and other loan products. The risk arising from the impact of the economy and business climate on the credit quality of the Group’s borrowers and counter-parties can affect the overall credit quality and the recoverability of loans and amounts due from counterparties.

In addition, protracted or steep declines in the stock or bond markets in Italy and elsewhere may adversely impact the Group’s investment banking, securities trading and brokerage activities, the Group’s asset management and private banking services, as well as the Group’s investments in and sales of products linked to financial assets performance.

**Intense competition, especially in the Italian market, where the Group has the vast majority of its businesses, could have a material adverse effect on the Group’s results of operations and financial condition.**

Competition is intense in all of the Group’s primary business areas in Italy and the other countries in which the Group conducts its business. The Group derives most of its total banking income from its banking activities in Italy, a mature market where competitive pressures have been increasing quickly. If the Group is unable to continue to respond to the competitive environment in Italy with attractive product and service offerings that are profitable for the Group, it may lose market share in important areas of its business or incur losses on some or all of its activities. In addition, downturns in the Italian economy could add to the competitive pressure, through, for example, increased price pressure and lower business volumes for which to compete.

**The regulatory environment in which the UniCredit Group and the HVB Group operate may change; non-compliance with regulatory requirements may result in enforcement measures.**

The operations of the UniCredit Group and the HVB Group are, and the operations of the Combined Group will continue to be, regulated and supervised by the central banks and regulatory authorities in each of the jurisdictions where it conducts business. In particular, in Italy the UniCredit Group is subject to regulation and supervision by the Bank of Italy and the CONSOB. In Germany, the HVB Group is regulated by the Deutsche Bundesbank and BaFin.

The regulatory requirements in a relevant jurisdiction are subject to change, and may impose additional obligations on entities of the Combined Group or result in a significant increase in administrative expenses. In addition, there is a risk that in the case of a repeated violation of the regulatory requirements in any relevant jurisdiction, the banking or other financial services license granted to a company of the Combined Group in such jurisdiction may be revoked or limited. The Combined Group must also comply with financial services laws that govern its marketing and selling practices, many of which have been adopted recently and are still evolving. The implementation of Basel II or any changes in the application of existing regulations may have a material adverse effect on the Combined Group's business and operations.

**Since the Basel II rules have only recently been adopted and have not yet been implemented, their effects on the UniCredit Group, the HVB Group and, ultimately, the Combined Group are still subject to uncertainty.**

The Basel II rules have only recently been adopted and have not yet been passed into law by the European Union or implemented by its member states, or by other countries in which the Combined Group will operate. It is therefore too soon to predict with certainty the effects which the Basel II rules will have on the UniCredit Group's, the HVB Group's and, ultimately, the Combined Group's requirements for bank regulatory capital. In addition, the costs for the implementation of the Basel II rules currently cannot be definitively determined. The implementation process will likely become more complex, and the costs of implementation will likely increase, as a result of the proposed Business Combination.

**There can be no assurances of the HVB Group's profitability in future periods.**

For the financial years ended 2002, 2003 and 2004, the HVB Group reported a net loss of €858 million, €2,639 million and €2,278 million, respectively. Although for the financial years ended 2003 and 2004, the HVB Group reported an operating profit of €1,432 million and €1,389 million, respectively, this does not necessarily indicate profitability in future periods. Any failure by the HVB Group to improve its results, in particular as a consequence of downturns in the capital markets or the real estate markets, could have a material adverse effect on the business, financial condition and results of operations of the Combined Group.

**The spin-off by HVB of Hypo Real Estate in 2003 exposes HVB to certain ongoing liabilities and operational risks.**

In 2003, HVB transferred a substantial part of its commercial real estate financing business to the newly formed Hypo Real Estate Holding AG ("Hypo Real Estate") by way of a spin-off. Although the HVB Group and the Hypo Real Estate group are now two distinct corporate groups and HVB does not hold any equity interest in Hypo Real Estate, there are a variety of potential or actual ongoing statutory and contractual liabilities and exposures of the HVB Group vis-à-vis Hypo Real Estate as a result of, or related to, the spin-off. Should any of these liabilities materialize or should Hypo Real Estate default under certain credit facilities or lines covered by comfort letters issued by HVB, this would adversely affect the HVB Group's results of operations, results before taxes and/or net results, and, by extension, could have a material adverse effect on the business, financial condition and results of operations of the Combined Group.

**THERE ARE RISKS ASSOCIATED WITH THE ACQUISITION OF OTHER ENTITIES.**

In addition to the proposed Business Combination, the Bank, directly and/or through its subsidiaries and participations, concluded or negotiated a number of acquisition agreements both in Italy and abroad. The integration of these acquisitions has involved and will involve integration challenges, particularly where management information and accounting systems differ materially from those used elsewhere in the UniCredit Group. The UniCredit Group also faces ongoing integration challenges associated with the combination of the activities of its predecessor entities. Although the Bank believes it has the resources needed to successfully integrate these operations, it is possible that further integration difficulties will arise or that unanticipated problems will be discovered in one or more of the acquired entities. If the Combined

Group were to conclude further significant acquisitions in the near future, these risks would be further enhanced.

**The UniCredit Group and the HVB Group each faces certain litigation risks, which may adversely affect the Combined Group.**

The outcome of legal proceedings in which the Bank, HVB and/or certain of their respective subsidiaries are involved, or of potential future litigation, may adversely affect the business, financial condition and results of operations of the Combined Group. For more information on current legal proceedings affecting the UniCredit Group, see “Business of the UniCredit Group—Legal Proceedings.” For more information on current legal proceedings affecting the HVB Group, see “Business of the HVB Group—Litigation and Other Proceedings.”

**Changes from Italian GAAP to IFRS may make comparison with the Bank’s current audited consolidated financial statements difficult.**

Pursuant to European Community Regulation EC 1606/2002, all companies listed on stock exchanges in the European Union, including the Bank, are required to prepare their financial statements in accordance with international financial reporting standards (“IFRS”), beginning with the accounts for the financial year ended December 31, 2005. The nature and scope of the changes the Bank will be required to make to its accounting policies and practices are still under discussion. The Bank cannot exclude the possibility that the change to IFRS could have a significant impact on individual line items in its consolidated financial statements and make any comparison with its current financial statements extremely difficult.

**RISKS RELATING TO THE PREFERRED SECURITIES**

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

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

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

**Trust Preferred Securities have substantially the same economic risks as an investment in non-cumulative perpetual preference shares of the Bank**

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

**Rights under the Subordinated Guarantees; Ranking of the Subordinated Guarantees.**

The Subordinated Guarantees are intended to provide the holders of the LLC Preferred Securities and the Trust Preferred Securities, as nearly as possible, with rights to dividends and payments upon redemption and liquidation equivalent to those to which the holders would have been entitled if the LLC Preferred Securities or the Trust Preferred Securities, as the case may be, had been issued directly by the Bank. Such rights are independent of the assets, income or cash flows of the LLC or the Trust. The Bank’s obligations under the Subordinated Guarantees constitute unsecured obligations and will rank subordinate and junior

to indebtedness of the Bank (other than any instrument or contractual right expressed to rank *pari passu* with the Subordinated Guarantees) and senior to all its share capital. See “Description of the Subordinated Guarantees”.

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

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

**Optional redemption 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 or an Interpretation Tax Event) 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 Special Redemption Price on any Dividend Payment Date if such redemption occurs prior to October 27, 2015 and at the Regular Redemption Price on any Dividend Payment Date, if such redemption occurs on or after October 27, 2015. In addition, upon the occurrence of a Change in Law Tax Event or an Interpretation 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.

*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 any stock exchange. In addition, the LLC will furnish holders of the LLC Preferred Securities, or their nominees, with a Schedule K-1 each year in accordance with the U.S. Internal Revenue Code, which may result in the ineligibility of the LLC Preferred Securities to clear and settle through Euroclear and Clearstream Luxembourg. As a result, the liquidity and market price of the LLC Preferred Securities distributed upon the liquidation of the Trust may vary from the liquidity and market price of the Trust Preferred Securities prior to such liquidation.

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

**No voting rights.**

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

The LLC Preferred Securities will also be non-voting, except that, upon the occurrence of a Capital Deficiency Event or the failure of the LLC to pay Mandatory Dividends or LLC Additional Amounts, or of the Bank to pay amounts in respect thereof under the LLC Subordinated Guarantee, for any Dividend Period, the holders of the LLC Preferred Securities will have the right to elect one Special Independent Director of the Board. Any Special Independent Director of the Board so elected will vacate office if Dividend payments are paid on the LLC Preferred Securities, either by the LLC or by the Bank under the LLC Subordinated Guarantee, on each Dividend Payment Date for 12 consecutive months.

**Absence of prior public market.**

The Trust Preferred Securities are a new issue of securities. Prior to this offering, there has been no public market for the Trust Preferred Securities. There can be no assurance that an active public market for the Trust Preferred Securities will develop. 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 UniCredit 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.

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## Use of Proceeds

The net proceeds of the offering (after deducting the management and underwriting commissions) are estimated to be approximately £297,750,000. All of the proceeds from the sale of the Trust Preferred Securities will be invested by the Trust in the LLC Preferred Securities. The LLC will use the proceeds from the 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 and to strengthen its Tier I regulatory capital ratios.



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## Capitalization and Indebtedness of the UniCredit Group

*This section contains certain historical consolidated financial data of the UniCredit Group as of the six months ended June 30, 2005. The Bank expects that following implementation of the proposed Business Combination, its capitalization will change materially and the capitalization of the Combined Group will not be comparable to the historical capitalization. For more information on the proposed Business Combination and certain expected consequences thereof, see “The Combined Group” (which includes certain pro forma information in relation to the Combined Group). For information regarding the HVB Group, see “Business of the HVB Group.”*

*The consolidated financial data set forth in this section has been derived from the Bank’s consolidated financial statements as of and for the six months ended June 30, 2005, which have been prepared in accordance with Italian GAAP. Italian GAAP differs in various material respects from IFRS. Investors should read “Management’s Discussion and Analysis of Financial Conditions and Results of Operations of the UniCredit Group—Process of Transition to International Financial Reporting Standards” for a discussion of a summary of significant differences between Italian GAAP and IFRS, and that there are certain risks associated with the Combined Group being required to report its consolidated financial statements in accordance with IFRS from 2005 onwards (see “Risk Factors—Risks related to the Business of the UniCredit Group, the HVB Group and the Combined Group”). The changeover from Italian GAAP to IFRS and the first-time consolidation of HVB will make the comparison of the Bank’s future consolidated financial statements with the Bank’s historical consolidated financial statements difficult.*

The following table sets forth the consolidated capitalization and consolidated indebtedness of the UniCredit Group as of June 30, 2005.

	<b>At June 30, 2005</b>
	<b>€ thousands)</b>
	<b>(unaudited)</b>
<b>Debt</b>	
Long-term debt <sup>(1)</sup> .....	13,343,600
Subordinated debt <sup>(2)</sup> .....	5,878,275
Total debt .....	<u>19,221,875</u>
<b>Shareholders’ Equity</b>	
Share capital .....	3,169,025
Paid-in surplus .....	2,308,639
Reserves	
Legal reserve .....	633,805
Other reserves .....	6,529,497
Revaluation reserve .....	280,635
Net profit for the period .....	1,301,196
Total shareholders’ equity .....	<u>14,222,797</u>
<b>Total Capitalization and Indebtedness</b> .....	<u>33,444,672</u>

*[(1) Long-term debt is debt to clients (as opposed to banks) and securities issued with a term of maturity over five years. After June 30, 2005, €1 billion in senior bonds (September 2005 – September 2013) was issued.*

*(2) Of which €912,147,000 are preferred securities.*

For information on the capitalization and indebtedness of the HVB Group, see “Business of the HVB Group—Capitalization of the HVB Group.”



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## Selected Financial Information

### PRESENTATION OF FINANCIAL INFORMATION

The historical financial information for the UniCredit Group presented in this Offering Circular has been derived from the UniCredit Group's audited annual consolidated financial statements as of and for the years ended December 31, 2004 and 2003 and its unaudited consolidated financial statements as of and for the six months ended June 30, 2005. The historical financial information for the HVB Group presented herein has been derived from the HVB Group's audited annual consolidated financial statements as of and for the years ended December 31, 2004 and 2003 and its unaudited consolidated financial statements as of and for the six months ended June 30, 2005.

Until December 31, 2004, the Bank maintained its books and records and prepared its financial statements in euro in accordance with Italian accounting principles prescribed by applicable Italian law, Legislative Decree no. 87 of 1992 and Bank of Italy regulation no. 166 of 1992, as supplemented by the accounting principles issued by the *Consiglio Nazionale dei Dottori Commercialisti* and the *Consiglio Nazionale dei Ragionieri* (collectively, accounting principles generally accepted in Italy or "Italian GAAP"). From the financial year beginning on January 1, 2005, the Bank will begin reporting its consolidated financial information in accordance with the IFRS, as prescribed by European Union Regulation no. 1606 of July 19, 2002.

In April 2005, CONSOB revised articles 81 and 82 of the regulations concerning issuers (CONSOB Regulation no. 11971/99, as amended) regarding quarterly and half-year reports, respectively, and amended the issuer regulations to cover the transition mechanism for 2005 (articles 81-bis and 82-bis). In particular, this mechanism enables gradual implementation of IFRS for quarterly and half-year reports in 2005. Pursuant to the provisions of Art. 81-bis of the CONSOB Regulation implementing Legislative Decree No. 58 dated February 24, 1998 ("Issuers Regulation"), the half-year report as at June 30, 2005 is to be prepared in accordance with Italian GAAP and accompanied by the following reconciliations with amounts determined on the basis of IFRS:

- reconciliations of shareholders' equity as at June 30, 2005 and as at December 31, 2004 and of net profit for the first half of 2005 (see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Process of Transition to International Financial Reporting Standards" below); and
- reconciliations, as required by paragraphs 39 and 40 of IFRS 1—First Adoption of IFRS, of shareholders' equity as at January 1, 2004, December 31, 2004 and January 1, 2005 and net profit for 2004 (see the attached "Annex—Transition to IFRS" in this half-year report).

The reconciliations are to be accompanied by a summary of the main IFRS applied and the options followed when preparing these reconciliations.

The UniCredit Group's audited annual consolidated financial statements as of and for the years ended December 31, 2004 and 2003 and its unaudited consolidated financial statements as of and for the six months ended June 30, 2005 were prepared in accordance with Italian GAAP as applicable at the time of the preparation of the respective consolidated financial statements, including the notes thereto, incorporated by reference in this Offering Circular. In addition, Italian banks have the option, starting with the financial year 2005, of preparing their unconsolidated financial statements in accordance with IFRS, the Bank has not yet decided whether it will make use of this option.

The audited annual consolidated financial statements of the HVB Group as of and for the years ended December 31, 2004 and 2003 and the unaudited consolidated financial statements of the HVB Group as of and for the six months ended June 30, 2005 were prepared in accordance with IFRS applicable from time to time.

The financial information with regard to the UniCredit Group's divisions presented in this Offering Circular has been derived from the report on operations section of the UniCredit Group's annual reports for the years ended December 31, 2004 and December 31, 2003, and from the UniCredit Group's interim reports for the six months ended June 30, 2005 and 2004, which have been prepared and approved by the Bank's board of directors (the "Board") and are not included herein. This information derives from the UniCredit Group's management information systems and has not been audited or reviewed by the Bank's independent auditors.

Rounding adjustments have been made in calculating some of the financial information incorporated by reference in this Offering Circular. As a result, numerical figures shown as totals in some tables may not be exact arithmetic aggregations of the figures that precede them.

**INDEPENDENT AUDITORS**

The Bank's annual financial statements must be audited by external auditors appointed by the shareholders' meeting. The board of statutory auditors of the Bank (the "Board of Statutory Auditors") expresses an opinion on such appointment. The shareholders' resolution and the Board of Statutory Auditors' opinion are communicated to CONSOB. The external auditors examine the Bank's annual financial statements and issued an opinion on whether the Bank's annual financial statements comply with the Italian regulations governing their preparation, and therefore, whether they are clearly stated and give a true and fair view of the financial position and results of the UniCredit Group. Their opinion is made available to the Bank's shareholders prior to the annual shareholders' meeting.

Listed companies may not appoint the same auditors for more than three consecutive three-year terms. At the annual ordinary shareholders' meeting of the Bank held on May 4, 2004, KPMG S.p.A., with its registered office at Via Vittor Pisani 25, 20124 Milan, Italy, was appointed to act as the Bank's external auditor for a period of three years. KPMG S.p.A. succeeds PricewaterhouseCoopers S.p.A., with its registered office at Via Vittor Pisani 20, 20124 Milan, Italy, which had acted as the external auditor of the Bank for three consecutive three-year terms.

**SELECTED FINANCIAL DATA OF THE UNICREDIT GROUP**

*This section contains certain audited historical consolidated financial data of the UniCredit Group as of and for the years ended December 31, 2004 and 2003 and certain unaudited historical consolidated financial data of the UniCredit Group as of and for the six months ended June 30, 2005 and 2004. The Bank expects that following implementation of the proposed Business Combination, its business and financial condition will change materially and future financial condition and results of the Combined Group will not be comparable to the historical results discussed in this section. For more information on the proposed Business Combination and certain expected consequences thereof, see “The Combined Group.” For information regarding the HVB Group, see “Business of the HVB Group.”*

*The consolidated financial data set forth in this section has been derived from the Bank’s audited annual consolidated financial statements as of and for the years ended December 31, 2004 and 2003 and its unaudited consolidated financial statements as of and for the six months ended June 30, 2004 and 2003, all of which have been prepared in accordance with Italian GAAP. Italian GAAP differs in various material respects from IFRS. Investors should read “Management’s Discussion and Analysis of Financial Condition and Results of Operations of the UniCredit Group—Process of Transition to International Financial Reporting Standards” for a discussion of a summary of significant differences between Italian GAAP and IFRS.*

*The financial information with regard to the UniCredit Group’s divisions presented herein has been derived from the report on operations section of the UniCredit Group’s annual reports for the years ended December 31, 2004 and December 31, 2003, which have been prepared and approved by the UniCredit Group’s board of directors and are not included in this Offering Circular. This information derives from the UniCredit Group’s management information systems and has not been audited or reviewed by the Bank’s independent auditors.*

The following tables present selected unaudited consolidated information that has been derived from the UniCredit Group’s annual audited consolidated financial statements as of and for the years ended December 31, 2004 and 2003 and unaudited consolidated financial statements as of and for the six months ended June 30, 2004 and 2005.

The UniCredit Group prepared its consolidated financial statements in accordance with Italian GAAP, which differs in certain significant respects from IFRS. For a description of significant differences between Italian GAAP and IFRS, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations of the UniCredit Group—Process of Transition to International Financial Reporting Standards”. The following information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations of the UniCredit Group” and the UniCredit Group’s audited consolidated financial statements as of and for the years ending December 31, 2004 and 2003 and unaudited consolidated financial statements as of and for the six months ended June 30, 2004 and 2005, and the related notes thereto, incorporated by reference in this Offering Circular.

	Six months ended June 30,		Year ended December 31,	
	2005	2004	2004	2003
	(unaudited)		(unaudited)	
	(€ millions)			
INCOME STATEMENT DATA:				
Net interest and similar income.....	2,560	2,399	4,920	4,795
Dividends and other income from equity investments .....	148	121	280	293
Net interest income.....	2,708	2,520	5,200	5,088
Net commissions .....	1,799	1,653	3,289	3,316
Trading profit .....	564	587	993	1,288
Net other operating income .....	533	443	893	773
Net non-interest income .....	2,896	2,683	5,175	5,377
Total revenues .....	5,604	5,203	10,375	10,465
Payroll costs .....	(1,768)	(1,689)	(3,388)	(3,281)
Administrative expenses .....	(1,070)	(1,014)	(2,081)	(1,936)
Write-downs of intangible and depreciation of tangible and fixed assets.....	(210)	(220)	(472)	(486)
Operating expenses.....	(3,048)	(2,923)	(5,941)	(5,703)
Net operating income.....	2,556	2,280	4,434	4,762
Amortization of goodwill.....	(159)	(143)	(276)	(264)
Provisions for risks and charges .....	(86)	(36)	(273)	(230)
Net write-downs of loans & provisions for guarantees and commitments .....	(430)	(438)	(891)	(957)
Provisions for possible loan losses.....	—	—	—	(44)
Net write-downs of financial investments .....	4	—	(6)	(10)
Total amortization, write-downs and provisions .....	(671)	(617)	(1,446)	(1,505)
Profit before extraordinary income and taxes .....	1,885	1,663	2,988	3,257
Extraordinary income (expense), net .....	263	102	218	215
Change in fund for general banking risks.....	—	—	130	4
Income tax for the period .....	(730)	(631)	(1,036)	(1,386)
Net income for the period .....	1,418	1,134	2,300	2,090
Minority Interests .....	(117)	(85)	(169)	(129)
Group portion of net income for the period .....	1,301	1,049	2,131	1,961

## Selected Financial Information

	As of June 30, 2005 (unaudited)	As of December 31, 2004 (unaudited) (€ millions)	2003
<b>BALANCE SHEET DATA:</b>			
<b>Assets</b>			
Cash and deposits with central banks and post offices.....	1,945	2,083	1,952
Loans and advances to customers.....	149,480	140,438	126,709
Loans and advances to banks .....	25,946	36,521	32,783
Trading securities.....	28,957	19,917	18,256
Investment securities.....	9,427	9,999	11,271
Equity investments.....	3,673	3,536	3,505
Intangible and tangible fixed assets .....	4,138	4,082	4,406
Positive consolidation differences and net equity differences.....	1,010	1,062	1,232
Treasury shares .....	358	358	—
Other asset items .....	62,694	47,859	38,142
<b>Total Assets</b> .....	<b>287,628</b>	<b>265,855</b>	<b>238,256</b>
<b>Liabilities</b>			
<b>Deposits:</b>			
Due to customers .....	99,698	103,817	97,976
Securities in issue.....	62,737	53,106	37,298
Due to banks .....	38,669	37,702	44,252
<b>Total Deposits</b> .....	<b>201,104</b>	<b>194,625</b>	<b>179,526</b>
Specific reserves .....	3,958	4,476	4,830
Other liabilities .....	61,293	44,994	33,591
Reserve fund for possible loan losses .....	—	—	69
Subordinated debt .....	5,878	6,541	6,190
Negative differences on consolidation and net equity .....	49	54	64
Minority portion of shareholder's equity .....	1,123	1,129	973
<b>Shareholders' Equity:</b>			
Capital, reserves and fund for general banking risks.....	12,922	11,905	11,052
Group portion of net income for the period .....	1,301	2,131	1,961
<b>Total Shareholders' Equity</b> .....	<b>14,223</b>	<b>14,036</b>	<b>13,013</b>
<b>Total Liabilities</b> .....	<b>287,628</b>	<b>265,855</b>	<b>238,256</b>

## Selected Financial Information

The following table sets forth certain key financial ratios for the periods indicated.

	Six months ended June 30,		Year ended December 31,	
	2005	2004	2004	2003
	(unaudited)		(unaudited unless otherwise specified)	
Profitability ratios				
ROE <sup>(1) (2)</sup> .....	20.1%	17.5%	17.90%	17.70%
ROE <sup>(1) (2)</sup> (excluding amortization of goodwill) .....	22.6%	19.9%	20.20%	20.10%
Net Operating Income/Total assets <sup>(2)</sup> .....	1.78%	1.87%	1.67%	2.00%
Cost/Income ratio <sup>(3)</sup> .....	54.4%	56.2%	57.30%	54.50%
Risk Ratios				
Net non-performing loans/Loans to customers .....	1.80%	1.91%	1.87%	1.87%
Net doubtful loans/Loans to customers .....	3.46%	3.64%	3.49%	3.72%
Capital Ratios				
Core capital <sup>(4)</sup> /Total risk-weighted assets .....	7.46%	7.35%	7.36% *	6.96% *
Capital for regulatory purposes <sup>(5)</sup> /Total risk-weighted assets	11.06%	11.43%	11.64% *	11.10% *
Productivity ratios <sup>(6)</sup> € thousands)				
Total revenues/Number of employees .....	164	150	151	152
Total assets/Number of employees.....	4,215	3,517	3,877	3,450
Payroll Costs/Number of employees.....	52	49	49	48

\* Audited.

- (1) Defined as the UniCredit Group's portion of net income for the period (after preferred share dividends but before dividends on ordinary shares) divided by the book value of shareholders' equity (excluding the UniCredit Group's portion of net income for the period) as of the end of the period, expressed as a percentage.
- (2) The June 30 group portion of net income for the period or net operating income were considered on an annual basis.
- (3) Cost to income ratio is defined as the ratio between operating expenses (excluding amortization of goodwill) and total revenues.
- (4) Core capital is defined as Tier I capital less the Bank's preferred shares.
- (5) Capital for regulatory purposes is defined as the sum of Tier I capital (including preferred shares) plus Tier II capital, less deductions, plus Tier III instruments.
- (6) The number of employees used to calculate these ratios is that at the end of each period.

## SELECTED FINANCIAL DATA OF THE HVB GROUP

For selected consolidated financial data of the HVB Group, see "Business of the HVB Group—Selected Consolidated Financial Information."

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## Management's Discussion and Analysis of Financial Condition and Results of Operations of the UniCredit Group

*This section contains a discussion of the unaudited historical consolidated financial data of the UniCredit Group as of and for the six months ended June 30, 2005 and 2004 and of the audited historical consolidated financial data of the UniCredit Group as of and for the years ended December 31, 2004 and 2003. The Bank expects that following implementation of the proposed Business Combination, its business and financial condition will change materially and future financial condition and results of the Combined Group will not be comparable to the historical results discussed in this section. For more information on the proposed Business Combination and certain expected consequences thereof, see "The Combined Group" (which includes certain pro forma information in relation to the Combined Group). For information regarding the HVB Group, see "Business of the HVB Group."*

*The following discussion should be read in conjunction with the UniCredit Group's audited consolidated financial statements as of and for the years ended December 31, 2004, and 2003, and unaudited consolidated financial statements for the six months ended June 30, 2005 and 2004, including in each case the notes related thereto (together, the "Consolidated Financial Statements"), incorporated by reference in the Offering Circular. The Consolidated Financial Statements have been prepared in accordance with Italian GAAP, which differs in various material respects from IFRS. Prospective investors should read "Process of Transition to International Financial Reporting Standards", below, for a discussion of a summary of significant differences among Italian GAAP and IFRS. The financial information with regard to the UniCredit Group's divisions presented herein has been derived from the report on operations section of the UniCredit Group's annual reports for the years ended December 31, 2004 and December 31, 2003 and from the UniCredit Group's interim reports for the six months ended June 30, 2005 and 2004, which have been prepared and approved by the UniCredit Group's board of directors and are not included in this Offering Circular. This information derives from the UniCredit Group's management information systems and has not been audited or reviewed by the Bank's independent auditors.*

### **GENERAL FACTORS AFFECTING THE UNICREDIT GROUP'S BUSINESS**

#### **Impact of General Economic Conditions**

##### **The International Economy**

In the first half of 2005, the U.S. economy continued to display robust growth, even if the expansion in the second quarter lost some momentum compared to the preceding quarter, and higher energy prices translated into slightly increasing inflationary pressures.

According to preliminary figures, the U.S. economy expanded by an annualized rate of 3.3% during the second quarter, slowing down from 3.8% in the first quarter but unchanged with respect to the fourth quarter of 2004. The deceleration in real GDP growth in the second quarter primarily reflected a downturn in private inventory investment that was partly offset by a deceleration in imports and an acceleration in exports.

Retail sales increased by 1.8% in July and 1.7% in June after having decreased by 0.5% in May, while business spending continued to send out rather ambiguous signals. Following an increase of 5.5% in May and 1.4% in June, durable goods orders declined 4.9% in July. Shipments of manufactured durable goods in July decreased by 0.1% as compared to the June figure, while new orders for manufactured non-durable goods increased by 1.7% in July compared to the June figure. Shipments of manufactured non-durable goods increased at the same rate, led by petroleum and coal products, which increased 5.6%. Finally, industrial production was up by 0.4% in May, 0.9% in June and 0.1% in July.

On the inflation front, U.S. consumer prices in July 2005 were up 3.2% compared to July 2004, accelerating from 2.8% in May and 2.5% in June. On a month-to-month basis inflation was up by 0.5% in July, reflecting mainly higher energy prices (an increase of 3.8% in July) and higher costs of transportation (an increase of 1.5% in July). The growing inflationary pressure will probably lead the Federal Reserve to stick to its restrictive monetary policy stance and to continue to raise the federal funds rate during the remaining months of the year.

Regarding the U.S. labor market, notwithstanding the slower GDP growth, in the second quarter non-farm payrolls increased by nearly 600,000 units, the biggest quarterly increase since the second quarter of 2004,



pushing unemployment down from 5.2% in March to 5.0% in July and 4.9% in August. Further, 411,000 units were added to the non-farm payrolls in the months of July and August, probably indicating above-average employment growth in the third quarter as well. The rate at which new jobs were being created during recent months could, however, only be sustained if third quarter GDP were to pick up from the growth rate seen in the second quarter.

Elsewhere in the world economy, growth in the second quarter of 2005 in the major economies was less robust than in the U.S. GDP advanced by 0.3% in the eurozone and in Japan, while it increased by 0.5% in the United Kingdom. The main downside risks for the major world economies in the upcoming months continue to come from the possibility of higher energy prices, the U.S. dollar exchange rate, the U.S. deficit and fears of a further slowdown in global growth, which already decelerated from approximately 4% in 2004 to 3% in 2005, paired with an economic slowdown in the U.S.

#### **The Eurozone and the Italian Economy**

The underlying performance of the eurozone economy was weak in the first half of this year. During the second quarter of 2005, eurozone and EU25 (the 25 member states comprising the EU) GDP grew by 0.3% compared to the first quarter; year-on-year, GDP advanced 1.1% in the eurozone and 1.3% in the EU25 during the second quarter of 2005. Naturally, growth at the country level was very mixed. GDP in Spain increased by 0.9%, in Italy by 0.7% and in France by 0.1%, while GDP in Germany remained unchanged in the second quarter of 2005.

Eurozone growth continued to be limited in the first half of 2005 by broadly the same combination of factors that had led activity to moderate significantly in the second half of 2004. These included very high oil prices (which continued to climb to new record highs), the strength of the euro, slower global growth than the first half of 2004, and persistently weak domestic demand in a number of eurozone countries.

Eurozone private consumption contracted marginally in the second quarter after very modest growth in the first, while investment posted only a modest rebound in April-June after edging down in January-March. Disappointingly, a rise in inventories provided the largest impetus to growth from domestic demand in the second quarter, boosting overall quarterly GDP growth by 0.2 percentage points. Meanwhile, net trade failed to boost the eurozone's second-quarter growth, but the picture here was at least more encouraging. This is because exports increased by 2.1% quarter-on-quarter, following a 0.7% decline in the first quarter.

Eurozone inflation in recent months has been more subdued than U.S. inflation, advancing at 2.1% according to the August flash estimate, after figures of 2.1% in June and 2.2% in July. A recently stronger euro trading back around U.S.\$1.25 at the beginning of September in conjunction with weak eurozone growth will most likely contain inflationary pressures in the eurozone and may lead the European Central Bank to leave policy rates on hold for the rest of 2005. Interbank rates have been stable during 2005, as well.

Strong oil prices are likely to remain a threat to growth for some time, as Brent oil reached a new record high around U.S.\$67.5/barrel in August.

The Italian economy remained substantially weak during the first half of 2005, with all the main economic indicators being prevalently negative and only sporadic signals of improvement.

Italian GDP grew 0.7% in the second quarter of 2005 after an unexpected 0.5% decline in the first quarter. The jump of quarterly GDP growth in the second quarter conflicted with other key indicators which failed to gain momentum in the second quarter, particularly industrial production, retail sales, and the purchasing managers' indices for both the service and manufacturing sectors. The annual comparison reveals more accurately the underlying weakness of the economy, with real GDP growing by a mere 0.1% on a yearly basis. This compares with a growth rate of 1.1% for fiscal year 2004.

In 2004, industrial production in Italy fell by 0.4%, primarily due to difficulties in the manufacturing sector which continued through the first two quarters of 2005. Industrial production declined by 1.9% in the first six months of 2005 compared to the first six months of 2004 and by 0.7% in June 2005 compared to May 2005.

Aggregate demand, especially investments and spending on durable goods, remained weak. At the same time, Italy's share on international trade fell as a result of the decrease in demand from Italy's main export markets and a decrease in demand for products of specialized sectors. Moreover, the significant appreciation of the



euro against other currencies, particularly the U.S. dollar, created a highly competitive international environment. The sectors that suffered most were leather goods and footwear, textiles, clothing, transport and electronics, whereas the sector that showed the highest growth rates was construction.

The difficult economic conditions also weighed on Italy's public deficit. Government net borrowing failed to meet the target of the E.U. Stability Pact, as it had in 2003, increasing to 3.1% of GDP. The total amount of outstanding government debt as a percentage of GDP increased to 106.6% in 2004 from 105.6% in 2003.

### New Europe

During 2004 and the first half of 2005, the macroeconomic environment in the countries the UniCredit Group defines as "New Europe" (Bosnia-Herzegovina, Bulgaria, Croatia, the Czech Republic, Poland, Romania, Slovakia and Turkey) moved in a generally positive direction.

After a strong economic performance in 2004, in the first half of 2005 GDP has been moving, all over the region, on a more sustainable pattern, with domestic demand being the main driver of growth. Despite the recent slowdown in the eurozone, exports have recorded good performances, as well, especially in Poland.

The economic and legislative convergence process, which is under way for the purposes of joining the European Union, for some countries, and the Monetary Union for others, made it possible for New Europe to receive stable or rising credit ratings. Overall, country risk in New Europe continues to decline, as reflected in the tightening spreads to the euro rate curve.

The following table sets forth annual GDP growth for the years ended December 31, 2005 (estimated), 2004 and 2003 and inflation rates, interest rates and exchange rates of local currencies against the euro as of June 30, 2005 and December 31, 2004 and 2003 in New Europe.

	Annualized real GDP growth rate as of			Annualized inflation rate (CPI) as of			Average interest rates <sup>(1)</sup> as of			Exchange rate of local currency <sup>(2)</sup> against euro as of		
	December 31, 2005E	December 31, 2004	December 31, 2003	June 30, 2005	December 31, 2004	December 31, 2003	June 30, 2005	December 31, 2004	December 31, 2003	June 30, 2005	December 31, 2004	December 31, 2003
	%			%			%			(currency units)		
Poland.....	4.1	5.4	3.8	1.4	4.4	1.7	5.2	6.7	5.60	4.04	4.08	4.70
Croatia .....	3.2	3.8	4.3	2.9	2.7	1.7	4.2	4.9	6.1	7.65	7.65	7.65
Bulgaria .....	5.0	5.6	4.3	5.1	4.0	5.6	2.1	2.4	2.67	1.96	1.96	1.95
Turkey .....	6.0	8.9	5.8	9 <sup>(3)</sup>	9.4	18.4	15.4 <sup>(4)</sup>	21.1	26.0	1.84	1.84	1,771,638
Czech Republic..	4.2	4.4	3.7	1.8	2.8	1.0	1.75	2.53	2.04	30.03	30.46	32.41
Slovakia .....	5.3	5.5	4.5	2.5	5.9	9.3	2.8	3.68	5.94	38.41	38.8	41.2
Romania .....	6.0	8.3	4.9	9.7	9.3	14.1	7.97	17.08	20.20	36,030	39,390	41,158
Bosnia-Herzegovina	5.0	5.0	2.7	n.a.	0.4	0.6	n.a.	n.a.	n.a.	1.96	1.96	1.96

Sources: National Central Banks, *Ufficio Italiano Cambi*, UniCredit research and national statistics offices.

(1) *Average Interest Rates:*

- a. *Poland: three-month WIBOR, end of June and December, respectively*
- b. *Croatia: 1W ZIBOR, average of June and December, respectively*
- c. *Bulgaria: December 31, 2004 and 2003: basic interest rate average for the respective year; June 30, 2005: basic interest rate average for June 2005*
- d. *Turkey: interest rate reference is the O/N simple rate*
- e. *Czech Republic: average monthly PRIBOR*
- f. *Slovakia: average monthly BRIBOR*
- g. *Romania: average monthly BUBOR*

(2) *Exchange rate of local currency to euro as of the end of the relevant period.*

(3) *Turkey CPI, as of January 2005 in the new index (2003 = 100).*

(4) *As of January 1, 2005, the currency of the Republic of Turkey is the New Turkish Lira (NTL). 1 NTL = 1 million Turkish Lira (TRL).*

**Bulgaria.** Domestic demand, especially investment expenditure, were the main driving force in Bulgarian economic growth in 2004 and the first half of 2005. Despite robust internal demand, inflation receded to an estimated annualized rate of 4.0% at the end of 2004 in line with government's annual target of 3.9%. However, inflation was up again as of June 30, 2005 at 5.1% (on a year-on-year basis). In light of the current account deficit, tight fiscal control was a priority in the country. The banking industry continued to grow at a fast pace in terms of both stock deposits and gross stock loans, which grew in local currency terms

by approximately 31% and 47% on a yearly basis (respectively). By the end of 2005, we expect loans to increase by 30% and deposits to increase by 24%, on a yearly basis.

*Croatia:* In 2004, the annualized rate of GDP growth slowed down to 3.8% compared to 4.3% in the previous year. The weak domestic demand and the export decline were at the basis of the GDP deceleration in the first months of 2005, as well. In general, monetary policy continues to stabilize external debt, while preserving relative stability of prices, exchange rates and interest rates. At the end of 2004, overall lending growth was 13.9% on a yearly basis, thus almost reaching the growth level recorded the year before, while growth in deposits slowed down to 8.4% on a yearly basis from 10.8% in 2003. By the end of 2005, we expect loans to increase by 12% on a yearly basis, and deposits to increase by 7.7%.

*Poland:* In 2004, Polish GDP grew by 5.4%, mainly driven by the recovery in domestic demand and a favourable export dynamics, only partly influenced by the Zloty appreciation. As a result of strong economic growth and increasing inflation, the Monetary Policy Council raised rates by 125 basis points in the first half of 2004, and returned to an easing bias, at the end of 2004 and, particularly in the first months of 2005, due to receding inflation pressures and decelerating GDP growth. In the first six months of 2005 the Central Bank cut interest rates by 150 basis points. In 2004, loans growth (3.3% on a yearly basis) was driven primarily by credit to individuals, while deposits increased by 8.0% on a yearly basis largely due to increased business deposits (+25% on a yearly basis). By the end of 2005 we expect a recovery in lending growth (+8% on a yearly basis) and a deceleration in deposit volumes to about 5% on a yearly basis.

*Turkey:* In 2004, Turkey's GDP grew by 8.9%, and in the first months of 2005 it has been moving on a more sustainable pattern. Turkish economic growth in 2004 and the first half of 2005 was driven primarily by consumption and private investments. The success in countering inflation and stabilizing growth contributed to increased market confidence in the country. In May 2005, Turkey signed a new Stand-by agreement with the IMF and, on October 3, 2005, it is expected to start negotiations for EU accession. Interest rates remained on a downward trend. Since January 2005 the Central Bank has cut interest rates by 375 basis points. Due to lower interest rates, the volume of loans (where retail loans are the main driver) increased by 52% on a yearly basis during 2004, while the increase in deposits (26%) was primarily driven by the corporate side. After closing 2004 at 1.83 against the euro, the Turkish lira has moved on an appreciation trend.

*Other countries:* The other countries in New Europe generally showed a positive economic performance and continued progress in the stabilization and convergence processes. In particular, Slovakia recorded a dynamic growth in the region, with GDP being mainly sustained by household consumption. In order to counter the progressive appreciation of the Slovak currency, the Central Bank cut interest rates by an aggregate 200 basis points during 2004, and by a further 100 basis points in the first months of 2005. The Romanian economy also registered positive growth, primarily led by consumer and investment spending and sustained by decreasing inflation. The Czech Republic showed signs of economic recovery in 2004 and sustainable growth in the first half of 2005. The Czech Central Bank, after raising interest rates by 50 basis points in 2004, has cut the 2-week repay rate by 75 basis points in the first half of 2005, due to fears of excessive inflation deceleration and economic slowdown. The total lending growth in the Czech Republic increased to 8.1% on a yearly basis in May 2005 from 5.8% on a yearly basis at the end of 2004, while the overall deposit growth, in the same month, was 6.1% on a yearly basis from 5.5% on a yearly basis at the end of 2004.

### **Impact of Industry Conditions**

#### **The Italian Banking Sector**

The economic environment in which Italian banks operate continues to appear relatively unfavorable, mainly due to the weakness of the European and Italian economies and the consequent evolution of interest rates.

Albeit in an environment of demonstrated weakness of the economic cycle, the aggregate amount of loans (net of non-performing loans and repurchase agreements) by banks to Italian residents continued to increase strongly in 2005, accelerating to 8.1% on a yearly basis in the second quarter (from 5.5% in 2004). The general trend was sustained by an increase in medium- and long-term loans (+14.4% in the second quarter of 2005, compared to 14.5% in 2004), partially offset by the weakness of short-term loans (-0.3% on a yearly basis from -5.7% in 2004). The evolution of these two components reflected the continuing structural trend to extend the maturity of bank loans.

In 2004, declining market interest rates stimulated demand from retail customers (households), resulting in a 13.5% increase in loans (including non-performing loans) to this sector, primarily driven by increases in residential mortgage loans (+18.7% in the second quarter from 19.8% in 2004) and consumer credit extended by banks (+17.1% in the second quarter from 15.5% in 2004). Loans (including non-performing loans) to non-financial corporations showed an increase of 6.4% (4.7% in 2004).

The prolonged weakness of the manufacturing sector triggered a slight deterioration of the credit quality of Italian bank loans, a trend exacerbated last year by the crisis suffered by certain Italian corporations, including Parmalat. The situation has gradually improved in 2005; gross non-performing loans increased by 2.2% in the second quarter from 6.0% in 2004.

Bank deposits and bonds increased by 9.1% in the second quarter 2005, compared to 7.7% in 2004, still reflecting the general increase in all the main forms of funding. Total deposits (net of repurchase agreements) increased by 6.6% in the period, primarily due to a 7.9% increase in current accounts, resulting from the high demand for liquidity typically associated with uncertain phases in the economic cycle. Bank bonds increased by 13.2%. In June 2005, the short-term spread fell to 4.36%, a reduction of 13 basis points compared to December 2004.

#### **The International and Italian Equity Markets**

In 2005, the Dow Jones Industrial Average and the Nasdaq Composite decreased by 2.8% and 1.1%, respectively, as of August 31, 2005. More positive during the first eight months of 2005 was the development of Borsa Italiana, which saw increases of 7.4% and 8.5% in the MIB30 and S&P/MIB30 indices, respectively.

As a result of the recovery in share prices in 2004 and 2005, according to Borsa Italiana data, the stock market capitalization of Italian companies listed on domestic exchanges rose to approximately €617 billion (44.6% of GDP) by August 31, 2005 from approximately €581 billion (43.0% of GDP) in 2004, with one new company listed in 2005.

#### **The Italian Asset Management Sector**

In 2005, the Italian asset management industry benefited from the improved performance of the domestic stock market, as the aggregate amount under management of Italian mutual funds and foreign mutual funds managed by Italian asset managers increased by 5.9% to approximately €569 billion up to the end of August. After a positive first quarter which saw net funding increase by €1.6 billion, net funding decreased by €0.9 billion in the second quarter but bounced back to €2.7 billion in July and €3.9 billion in August.

While the first half of the year was characterized by heavy outflows in equity and money market funds, the strong inflow of bond funds, flexible funds and hedge funds guaranteed a positive first quarter, whereas an even heavier outflow of equity funds during the second quarter was responsible for the aggregated net outflows in the second quarter. In August 2005 equity funds reversed their negative trend for the first time since June 2004, and with money market funds also showing a tendency to reverse their negative outlook, net inflows recorded their best results since July 2003.

#### **Changes in the Scope of Consolidation of the UniCredit Group**

The inter-period comparability of the information presented in this section is affected by the changes that have occurred in the UniCredit Group's scope of consolidation during the period under review. The most significant transactions that resulted in a change in the scope of consolidation during this period are:

##### *For 2003*

- The UniCredit Group's establishment of a 50/50 joint venture with the Koç Group to form Koç Finansal Hizmetler A.Ş. ("KFS") in December 2002. The UniCredit Group accounted for its interest in this joint venture using the equity method for purposes of its balance sheet as of December 31, 2002 and during the first quarter of 2003. The UniCredit Group has accounted for its interest in KFS on a proportional basis since March 2003.
- The UniCredit Group's acquisition of Živnostenská Banka a.s. ("Živnostenská") in February 2003, consolidated at equity as of March 31, 2003, and fully consolidated since June 30, 2003.
- The UniCredit Group's acquisition of the Italian retail and private banking assets of ING Bank N.V. and of ING Sviluppo Finanziaria S.p.A. ("ING Sviluppo"), which have been fully consolidated since December 1, 2003.

- The UniCredit Group's acquisition of the assets relating to the medium-term and mortgage loan business of Abbey National Bank Italy S.p.A. ("ANBI"), which have been fully consolidated since December 31, 2003 (accordingly, this acquisition was reflected in the UniCredit Group's balance sheet as of that date but did not have an impact on the UniCredit Group's income statement for 2003).

*For 2004*

- The UniCredit Group's acquisition of ANBI, which has been fully consolidated since December 31, 2003, has impacted the UniCredit Group's income statement from January 1, 2004. Other transactions affecting the comparability of 2003 with 2004 include the UniCredit Group's acquisition of ING Sviluppo.

*For the six months ended June 30, 2005*

During the first six months of 2005, there were no significant changes to the UniCredit Group's scope of consolidation.

**Recent Corporate Developments**

UniCredit Group companies have recently entered into the following acquisition and disposal agreements:

- On February 25, 2005, the Boards of Directors of UniCredit Real Estate and Cordusio Immobiliare passed a resolution approving the merger of Cordusio Immobiliare into UniCredit Real Estate. On June 23, 2005, the merger deed was drawn up and executed effective June 30, 2005.
- On March 29, 2005, the UniCredit Group sold its 20.3% stake in Autostrada Brescia Verona Vicenza Padova (the *Autostrada Serenissima*).
- On September 29, 2005, KFS, which is 50% owned by the Bank and 50% owned by Koç Group, purchased 57.4% of the issued share capital of Yapi ve Kredi Bankasi A.Ş. ("Yapi Kredi") from Çukurova Holding A.Ş. and certain of its subsidiaries (together "Çukurova") and the Turkish Savings Deposits Insurance Fund. The purchase price paid by KFS for the above-mentioned stake was €1.182 million.
- In May 2005, the Swiss trust company UniCredit (Suisse) Trust SA was incorporated by UniCredit (Suisse) Bank. This initiative was aimed at satisfying Swiss customers' demand for "ancillary services" over purely banking services such as the acceptance and execution of trust mandates for the incorporation and management of Swiss and foreign legal entities, as well as advisory services on tax, civil law and structured finance matters.
- In June 2005, Pioneer Investment Management Inc. signed a definitive agreement to purchase AmSouth Bancorporation's mutual fund management business, comprising 23 mutual funds and managed assets of US\$5.5 billion. The completion of the transaction is subject to certain closing conditions.
- In June 2005 the subsidiary Zagrebačka Banka (Croatia) acquired the Croatian bank Dresdner Bank Croatia d.d. As at December 31, 2004 the above bank had total assets of HRK 117 million (approximately €16 million) and shareholders' equity of HRK 100 million (about €14 million). At the end of June, Dresdner Bank Croatia was merged into Zagrebačka Banka.
- In Russia, Locat established the company ZAO Locat Leasing Russia, which is 51% owned by Locat, 25% owned by Simest SpA, 8% owned by Finest SpA, and the remaining 16% by the Russian insurance company OAO Rosno. The company, which has share capital of 107 million roubles (about €3 million), will initially operate in the area of Moscow where it is headquartered, and will subsequently expand its operations throughout the Russian Federation.
- Effective June 30, 2005, Ventura Finance S.p.A. was merged into UniCredito Banca d'Impresa S.p.A.
- Effective June 30, 2005, UniCredit Private Wealth Advisory S.r.l. was merged into UniCredit Private Banking S.p.A.
- UniCredit Private Banking S.p.A.'s holding in FRT Fiduciaria Risparmio Torino S.p.A. was sold to Pioneer Global Asset Management S.p.A.
- Effective July 1, 2005, Banca dell'Umbria and CR Carpi were merged into the Bank and the Bank's holding of 100% of Medioinvest S.r.l., acquired from Banca dell'Umbria as part of this transaction, was sold to UniCredit Banca d'Impresa.

- At a meeting held on June 22, 2005, the Bank's Board of Directors approved a Corporate reorganisation plan for UniCredit Banca Mediocredito S.p.A. ("UBMC"), pursuant to which UBMC will have a new corporate mission focused, in particular, on the securities services business.

**Critical Accounting Policies****Critical accounting estimates with respect to the UniCredit Group's Italian GAAP financial statements**

The discussion and analysis of the UniCredit Group's results of operations and financial condition are based on the UniCredit Group's Consolidated Financial Statements, which have been prepared in accordance with Italian GAAP. The preparation of these financial statements requires the management to apply accounting methods and policies that are based on difficult or subjective judgments, estimates based on past experience and assumptions determined to be reasonable and realistic based on the related circumstances. The application of these estimates and assumptions affects the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of income and expenses during the reporting period. Actual results may differ from these estimates given the uncertainty surrounding the assumptions and conditions upon which the estimates are based. Summarized below are the UniCredit Group's accounting estimates that require the more subjective judgment of management in making assumptions or estimates regarding the effects of matters that are inherently uncertain and for which changes in conditions may significantly affect the results reported in the Consolidated Financial Statements.

Detailed information regarding the UniCredit Group's accounting policies is provided in the Notes to the Bank's Consolidated Financial Statements, incorporated by reference in this Offering Circular.

**Allowance for Loans, Guarantees and Commitments**

Loans are valued at their estimated realizable value, which is determined by taking into account market prices, when available, and on the basis of the borrower's solvency and the difficulty of servicing debt in countries where borrowers reside. Specifically, estimated realizable value is determined on the basis of a careful assessment of all elements characterizing the history of the relationship, and also taking into account information available as to the operating performance and financial condition of the borrower. Consideration is also given to the industry sector of the borrower, the particular type of credit facility, and the nature of any guarantees received. The following should be noted regarding the various categories of "bad and doubtful loans":

- Non-performing loans are those loans that have formally deteriorated, and consist of exposure to customers that find themselves in a state of insolvency, even if not determined by a court, or in similar situations; valuations are performed on a specific basis;
- Doubtful loans are defined as loans to borrowers that find themselves in temporary difficulties, which are expected to be resolved within a reasonable period of time. They are usually assessed for an overall amount on a historical and statistical basis, and on a specific basis when circumstances make this advisable;
- Loans to borrowers located in "countries at risk" (*i.e.*, those experiencing difficulties in servicing their sovereign debt) are valued using the general write-down percentages adopted by the Italian banking industry, subject to periodic review; when specific elements recommend it, general write-downs are supplemented by specific write-downs; and
- Consolidated or restructured exposure, or exposure subject to possible consolidation or restructuring, represent exposure to counterparties with which agreements have been or are being concluded that call for the granting of a moratorium on debt repayment and the simultaneous renegotiation of terms and conditions at below-market terms and interest rates, the conversion of a portion of the loans into shares and/or potential principal write-offs. They are valued on a specific basis with the inclusion in write-downs of the present value of the charge resulting from any renegotiated rates and terms which are lower than the related cost of funds.

Bad and doubtful debts are identified by the relevant relationship managers through the use of specialized scoring systems and subject to oversight from a centralized credit monitoring team at each UniCredit Group bank that is responsible for monitoring and overseeing the entire customer portfolio. Each UniCredit Group bank also makes a general write-down in a percentage of its overall performing loans portfolio in order to account for so-called "inherent risk" on exposures related to the entire loan portfolio or those business sectors which have a higher risk profile at that time.



Guarantees issued and commitments assumed that incorporate credit risks are reported at the total amount of the commitment assumed and are valued using the same criteria as for loans. Reserves are established to cover the estimated losses that could arise from the UniCredit Group's portfolio of guarantees and commitments.

In the event the reasons for making a write-down cease to apply, a corresponding write-back is made.

#### **Fair Values of Financial Instruments**

Quoted market prices in active and liquid markets are the most reliable measure of fair value of financial instruments because they accurately represent the prices paid for and received for financial assets and liabilities. However, if such prices are not readily determinable, the UniCredit Group calculates fair value based on either internal valuation models or management's estimate of amounts that could be realized under current market conditions, assuming an orderly liquidation over a reasonable period of time. Certain financial instruments, including OTC derivatives, are valued using pricing models that consider, among other factors, contractual and market prices, credit risk, the interest rate yield curve, volatility factors and/or prepayment rates of the underlying positions. The main areas of judgment in applying these models are:

- estimating the expected cash flows under the terms of each contract; and
- discounting these values using an appropriate discount rate.

The use of different pricing models and assumptions could produce materially different estimates of fair value. This will result in changes in the carrying value of the financial instrument where they are carried at fair value. Where the instrument is carried at amortized cost, or the lower of cost and market value, changes in their estimated fair value arising from changes in management's assumptions on the above variables may result in a write-down in their value. In this case, it will also be necessary for management to exercise judgment as to whether or not changes in the underlying valuation assumptions are only temporary.

#### **Goodwill**

The UniCredit Group capitalizes acquired goodwill and amortizes it over its useful economic life. There is a rebuttable presumption that the useful economic life of purchased goodwill is limited and does not exceed 20 years from the date of acquisition. This assessment involves management making judgments and assumptions over:

- the nature of the acquired business;
- the economic environment in which it operates; and
- the period of time over which the value of the business is expected to exceed the value of assets.

Different assumptions and judgments may lead to a different amortization charge being recognized in income during the period.

#### **Pensions**

The UniCredit Group participates directly and indirectly into defined benefit pension schemes for certain of its employees. The pension cost for these schemes is assessed in accordance with the advice of a qualified actuary. This cost is charged to the income statement annually. In determining this cost, the actuarial value of the assets and liabilities of the scheme is calculated. This involves modeling their future growth and requires management and the actuary to make assumptions as to factors such as:

- price inflation;
- dividends and earnings growth;
- pension increases;
- return on new investments; and
- employee lives.

There is an acceptable range in which these estimates can validly fall. If different estimates within that range had been selected the cost recognized in the income statement could be significantly altered.

#### **Deferred Tax Asset Valuation Allowance**

The UniCredit Group has recorded its deferred tax assets for tax loss carryforwards in an amount that it believes is likely to be recovered. The recoverability of the deferred tax assets associated with the tax loss



carryforwards of loss-making entities is subject to the achievement of future profitability by such entities. While the Bank believes that it has been prudent in assessing the need for valuation allowances, should the UniCredit Group determine that it would not be able to realize all or part of its net deferred tax assets in the future, the resulting write-down would be charged to income in the period in which such determination was made. Deferred tax assets are reported if there is a reasonable certainty of their recovery, which would occur in relation to the capacity to generate future taxable income. Deferred tax liabilities are reported unless it is unlikely that they will be incurred.

#### **Process of transition to International Financial Reporting Standards**

European Union Regulation no. 1606 of July 19, 2002 requires that, starting in 2005, all European Union companies having equity securities listed on a European stock exchange adopt international financial reporting standards (IFRS) (known as international accounting standards, or IAS, until May 2002) in the preparation of their consolidated financial statements. Standards introduced prior to the renaming of IAS as IFRS are still referred to as IAS; the combined body of IAS and IFRS standards is referred to as "IFRS". The same European Union Regulation also provides a mechanism for inclusion ("endorsement") of the IFRS into the European Union's body of laws. Accordingly, pursuant to Regulation no. 1725 of September 29, 2003, the IFRS in effect as of July 19, 2002 and their respective interpretations were officially adopted. The Consolidated Financial Statements and other financial data for the Bank incorporated by reference in this Offering Circular have all been prepared in accordance with Italian GAAP, not IFRS.

Pursuant to Legislative Decree No. 38 of February 28, 2005 (the "IFRS Decree"), the adoption of IFRS standards relating to financial reporting was implemented in Italy. The IFRS Decree requires Italian listed companies, banks, insurance companies and financial services companies to prepare consolidated financial statements (effective from 2005) and non-consolidated financial statements (effective from 2006) in accordance with IFRS. The introduction of IFRS will result in a significant change in the way companies' results and balance sheets are presented. Current Italian accounting principles, which are based on historical cost, are based mainly on criteria whose purpose is to show financial results actually realized and that can be distributed. The goal of IFRS, however, is to provide information aimed mainly at investors, presenting changes in the economic value of company capital.

In relation to Italian listed companies, CONSOB has revised the issuer regulation requirements (articles 81, 81-bis, 82 and 82-bis) in connection with the publication of interim financial statements during the transition period to IFRS reporting. This provides that if such companies prepare their six month interim report for the period ending June 30, 2005 under Italian GAAP, they must present a reconciliation of net equity and net income prepared under Italian GAAP with the corresponding figures prepared under IFRS.

The UniCredit Group will be preparing its consolidated financial statements for the financial year ending December 31, 2005 and its interim report for the period ending September 30, 2005 in accordance with IFRS. In order to manage the introduction of IFRS, the UniCredit Group began a dedicated project to study the effects of the new accounting standards on the UniCredit Group. Pursuant to this project, the UniCredit Group created several work groups responsible for studying each of the new standards, comparing them with current standards, and proposing operating solutions and monitoring their implementation. The work groups are coordinated and supported by a technical group, while a steering committee has been appointed to make decisions on the conclusions reached by the various work groups.

The UniCredit Group is also engaged in the development of a new information technology system which will support the preparation of the UniCredit Group's financial statements in accordance with IFRS. This new system will consist of two related units – the Financial Database and the Repository IAS. These units will analyze and measure the UniCredit Group's financial data using certain economic models, including by reference to amortization costs, fair value valuation and coverage costs. The UniCredit Group intends, however, to maintain its old technology system used in connection with the preparation of financial statements in accordance with Italian GAAP.

Described below are the principal differences that will have an effect on the UniCredit Group's financial results following the introduction of IFRS.

*General principles.* The adoption of the new body of accounting standards will involve a reassessment not only of the accounting valuation criteria the UniCredit Group uses, but also of the format of the UniCredit Group's financial statements and the contents of the related notes. As regards the principles of recognition and measurement of financial statement components, the most significant changes relate to the following:

- replacement of the principle of the transfer of risks and benefits in respect of the recording and reversal of certain transactions at the time of transfer of ownership, IFRS giving prevalence to the substance of the transaction over its legal form; and
- the use under IFRS of alternative valuation criteria to historical cost (where expressly required), such as fair value (particularly for financial instruments) and present value (for medium-long term reserves).

*Financial instruments.* IAS 32 and 39 require companies to classify financial instruments, as a function of their destination, in different categories than those used under Italian GAAP. The basis of recognition, measurement and valuation of financial instruments will derive from these classifications and, accordingly, in certain cases could differ substantially from that under the prior regime. In addition, under these standards, derivative financial instruments are also treated as financial assets and liabilities that must be recorded in the balance sheet, whereas Italian accounting principles provide that they be recorded in the memorandum accounts, and only when they are classified as trading position they are to be recorded in the balance sheet. These standards have been subject of extensive redrafting, which gave rise to broad debate in Europe, especially within the financial community, as to the impact of conversion to IFRS. The European Union has eventually adopted an amended version of IAS 39 (the so-called “IAS 39 Carve-out”). The IAS 39 Carve-out prohibits the use of fair value valuation with respect to financial liabilities not classified as trading positions. It also allows the use of core deposits as a basis for hedge transactions.

*Intangible fixed assets.* In contrast to practice under Italian GAAP, IAS 38 requires that the majority of start-up, expansion costs and advertising costs be recorded in the income statement when they are incurred. Changes to IAS 38 have introduced the concept of intangible fixed assets with an indefinite useful life, which, accordingly, will no longer be subject to amortization. This principle also extends to goodwill deriving from business combinations. These intangible fixed assets are to be subjected to annual impairment tests on the smallest group of assets that generates cash inflows that are largely independent of other cash inflows (a “cash generating unit”), comparing the carrying amount to the related market value or “value in use.”

*Employee benefits.* IAS 19 sets out the method of accounting for employee benefits. In particular, with regard to post-employment defined benefit programs, IAS 19 requires that the obligation accrued to the balance sheet date be projected into the future, in order to estimate the amount to be paid upon termination of employment, and subsequent determination of the present value in accordance with a specific actuarial method (“Project UniCredit Method”).

*Provisions for risks and charges.* In accordance with IAS 37, provisions for risks and charges are recorded only when there is a present obligation, as a result of a past event, which may be legal, contractual or derive from a company's declarations or actions that result in valid expectations by the parties involved (constructive obligations). Certain provisions that the UniCredit Group currently records in accordance with Italian GAAP, including the UniCredit Group's general funds (i.e. fund for general banking risks), may not be recognized under the conditions set forth under IFRS. Furthermore, in accordance with IAS 37, accruals are recorded at the value represented by the best estimate of the amount that a company would pay to settle the obligation and, where the effect of the time value of money is material, the estimated cost is to be discounted to present value, a technique not contemplated by current Italian GAAP.

*Consolidated financial statements.* In the UniCredit Group's first financial statements prepared in accordance with IFRS, at the transition date, the principles of consolidation set forth in IAS 27 will be applied. These principles differ from those currently mandated by Italian law, particularly in respect of the consolidation of subsidiaries that carry out dissimilar activities.

## RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2005 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2004

### Total Revenues

The following table sets forth the components of the UniCredit Group's total revenues for the six months ended June 30, 2005 and 2004.

	Six Months Ended June 30,	
	2005	2004
	(unaudited)	
	(€ millions)	
Net interest income .....	2,708	2,520
Net non-interest income .....	2,896	2,683
<b>Total revenues.....</b>	<b>5,604</b>	<b>5,203</b>

During the six months ended June 30, 2005, total revenues increased by €401 million, or 7.7%, compared to the six months ended June 30, 2004. This increase was primarily due to steady growth in net interest income (which increased by 7.5% overall, and by 5.6% net of exchange rate effects) and net non-interest income (which increased by 7.9% overall, and by 6.9% net of exchange rate effects).

### Net Interest Income

The following table sets forth the components of the UniCredit Group's net interest income for the six months ended June 30, 2005 and 2004.

	Six Months Ended June 30,	
	2005	2004
	(unaudited)	
	(€ millions)	
Interest and similar income.....	5,207	4,535
Interest and similar expense.....	(2,647)	(2,134)
Net interest and similar income .....	2,560	2,399
Dividends and other revenues from equity investments.....	148	121
<b>Net interest income .....</b>	<b>2,708</b>	<b>2,520</b>

During the six months ended June 30, 2005, net interest income increased by €188 million, or 7.5% (5.6% net of exchange rate effects), compared to the six months ended June 30, 2004. This increase was primarily due to the growth in the volume of loans in the Retail Banking Division, as described below, and to a lesser extent in the New Europe division, partially counterbalanced by a decrease in the volume of loans in the Corporate Division. In addition, the positive impact on net interest income of the increase in transaction volume was partially offset by a narrowing of the funding/lending rate spread due to a higher percentage of bonds in the mix of funding liabilities.

The increase of €27 million, or 22%, in dividends and other revenues from equity investments was primarily due to profits from companies valued at net equity, which increased by €18 million.

The following table sets forth a breakdown of the net interest income earned by each UniCredit Group division during the six months ended June 30, 2005 and 2004.

	Six Months Ended June 30,	
	2005	2004 <sup>(1)</sup>
	(unaudited) (€ millions)	
Retail.....	1,246	1,141
Corporate and Investment Banking.....	739	751
Private Banking and Asset Management .....	54	49
New Europe .....	609	536
Parent company and other companies <sup>(1)</sup> .....	59	46
Consolidation adjustments .....	1	(3)
<b>Net interest income .....</b>	<b>2,708</b>	<b>2,520</b>

(1) Includes the Bank and other consolidated UniCredit Group entities in which it directly owns shares (including the UniCredit Group's international representative offices) that are not allocated to the divisions.

(2) Historical figures.

During the six months ended June 30, 2005, net interest income increased by €188 million, or 7.5%, compared to the six months ended June 30, 2004, and was primarily driven by growth in the Retail Banking Division.

Net interest income at the Retail Banking Division increased by €105 million, or 9.2%, due primarily to strong volume growth of 10.4% in loans, notwithstanding a slight decrease in funding/lending spreads.

Net interest income at the Corporate and Investment Banking Division decreased by €12 million, or 1.6%, primarily due to the impact of a large securitization project involving approximately €2.5 billion in loans in September 2004, and partially offset by the transfer of UniCredito Gestione Crediti from the Corporate Division to the Global Banking Division in 2005.

Net interest income at the Private Banking and Asset Management Division increased by €5 million, or 10.2%.

Net interest income at the New Europe Division increased by €73 million, or 13.6%, primarily due to growth in loan and deposit volume throughout the division.

### Net Non-Interest Income

The following table sets forth the components of the UniCredit Group's net non-interest income for the six months ended June 30, 2005 and 2004.

	Six Months Ended June 30,	
	2005	2004
	(unaudited) (€ millions)	
Commission income .....	2,108	1,928
Commission expense .....	(309)	(275)
Net commissions .....	1,799	1,653
Trading profit .....	564	587
Other operating income .....	640	551
Other operating expense .....	(107)	(108)
Net other operating income .....	533	443
<b>Net non-interest income.....</b>	<b>2,896</b>	<b>2,683</b>

The €213 million, or 7.9% (6.9% net of exchange rate effects), increase in net non-interest income for the six months ended June 30, 2005, as compared to the same period in 2004, was primarily due to a €146 million (8.8%) increase in net commissions and a €90 million (20.3%) increase in net other operating income, and was partially offset by a €23 million (3.9%) decrease in trading profits. Each of these components of net non-interest income is discussed in turn below.

During the six months ended June 30, 2005, net commissions increased by €146 million, or 8.8%, compared to the six months ended June 30, 2004. This increase was primarily due to an increase in commissions from asset management and administration services of 8.5%, and commissions on other business (up by 9.3%). The latter included a substantial increase in commissions on guarantees and loans (up by 19.2%) due to results achieved by UBM in arranging loans. Included in asset management and administration service commissions was a significant increase in commissions for trading and selling securities under administration and performing other related services (up by 8.1%) resulting from the activities of the UniCredit Group's investment bank as well as segregated account transactions (up by 41%), an increase which is partly due to the success of the new customised product lines launched in 2004. There was also an increase in commissions on mutual funds (up by 8.4%) which was tied to a rise in inflows and asset levels, and commissions on the placement of insurance products were up by 7.8% after the decline reported in 2004.

During the six months ended June 30, 2005, trading profits decreased by €23 million, or 3.9%, compared to the six months ended June 30, 2004. This decrease was primarily due to a downturn in sales of derivative products to corporate customers and a lower volume of transactions with institutional customers, while the volume of market maker transactions for retail customers was substantially unchanged.

During the six months ended June 30, 2005, net other operating income increased by €90 million, or 20.3%, compared to the six months ended June 30, 2004. This increase was primarily due to income from securitization transactions (up by €42 million), the increase in reimbursements of indirect taxes, principally due to stamp duty (up by €35 million), and a similar increase in administrative expenses following measures contained in the Italian Budget, the reduction in monetary losses due to the drop in inflation in Turkey (up by €9 million) and other changes that had a lesser individual impact.

The following table provides a breakdown of the net non-interest income earned by each UniCredit Group division during the six months ended June 30, 2005 and 2004.

	Six Months Ended June 30,	
	2005	2004 <sup>(2)</sup>
	(unaudited)	
	(€ millions)	
Retail .....	1,124	933
Corporate and Investment Banking .....	776	871
Private Banking and Asset Management.....	588	521
New Europe.....	439	317
Parent company and other companies <sup>(1)</sup> .....	114	54
Consolidation adjustments .....	(145)	(13)
<b>Net non-interest income.....</b>	<b>2,896</b>	<b>2,683</b>

(1) Includes the Bank and other consolidated UniCredit Group entities in which it directly owns shares (including international representative offices) that are not allocated to the divisions.

(2) Historical figures.

During the six months ended June 30, 2005, net non-interest income in the Retail Banking Division increased by €191 million, or 20.5%, compared to the six months ended June 30, 2004. This increase was primarily due to growth in net commissions (up to €140 million) on the sale of asset management and administration products. Increases were registered both in up-front commissions on asset management products (up by €55 million) and in sales commissions of bonds (up by €41 million). Management fees grew by €12 million (or 8%); in addition Clarima registered a larger contribution (up by €11 million). Other net operating income increased (up by €50 million) primarily due to higher reimbursements from customers following the introduction of a higher rate on stamp revenue contracts) and fees generated from a large securitization transaction.

During the six months ended June 30, 2005, net non-interest income in the Corporate and Investment Banking Division decreased by €95 million, or 10.9%, compared to the six months ended June 30, 2004. This decrease was primarily due to the transfer of two companies (Uniscossioni and UniCredito Gestione Crediti) from the Corporate Division to the Global Banking Services Division and to a slight decrease in commissions from sales of derivative products. Net of this change of scope the decrease would be €3 million, or 0.4%.

During the six months ended June 30, 2005, net non-interest income in the Private Banking and Asset Management Division increased by €67 million, or 12.9%, compared to the six months ended June 30, 2004. This increase was primarily due to an increase in net commissions driven by a 9.5% increase in average assets under management and an improved product mix, increased sales at UPB and Xelion resulting in a larger contribution of up-front commissions, and an increase in productivity of financial consultants at Xelion.

During the six months ended June 30, 2005, net non-interest income in the New Europe Division increased by €122 million, or 38.5%, compared to the six months ended June 30, 2004. This increase was supported by service revenues.

### Operating Expenses

The following table sets forth the components of the UniCredit Group's operating expenses for the six months ended June 30, 2005 and 2004.

	Six Months Ended June 30,	
	2005	2004
	(unaudited)	
	(€ millions)	
Payroll costs.....	(1,768)	(1,689)
Administrative expenses.....	(1,070)	(1,014)
Write-downs of tangible and intangible fixed assets.....	(210)	(220)
<b>Operating expenses .....</b>	<b>(3,048)</b>	<b>(2,923)</b>

During the six months ended June 30, 2005, operating expenses increased by €125 million, or 4.3%, compared to the six months ended June 30, 2004 (2.9% net of exchange rate effects). This increase was primarily due to stronger growth in the New Europe banks, which operate in economies with higher average inflation rates, and to the rise in indirect taxes, paid on behalf of clients and for which reimbursement is included in net other operating income (excluding this element, the increase of operating expenses would be reduced to 1.6% net of exchange rate effects).

During the six months ended June 30, 2005, payroll costs increased by €79 million, or 4.7%, compared to the six months ended June 30, 2004 (3.5% net of exchange rate effects). About half of the increase (2.1%, 1.2% net of exchange rate effects) was due to the inclusion of additional banks in Eastern Europe in the Group's consolidation area, while the remaining part of the increase (2.6% is due to an increase in headcount at the UniCredit Group's pre-existing banks and other entities, resulting from the need to cover or introduce specific specialist positions, increased charges for the bonus system (owing to overall good performances reported in the last quarter of 2004 and increased provisions for the current period) and the impact of the renewal of the collective bargaining agreement which took place in the first quarter of 2005. These increases were only partially absorbed by the overall reduction in staff as compared to June 30, 2004.

During the six months ended June 30, 2005, administrative expenses increased by a total of €56 million, or 5.5%, compared to the six months ended June 30, 2004. Over two-thirds of the increase in other administrative expenses was the result of duties and taxes (especially stamp duty), which rose by 30.7% over the first six months of 2004. Excluding this item, the increase on an annual basis was 1.9% (0.2% at constant exchange rates), principally due to rental and other expenses related to real estate (up to €12 million). This increase is partially due to higher utilization of rented offices, resulting from the sale of some premises in 2004, and, on the other hand, is partially offset by the reduction in write downs on intangible and tangible fixed assets (which do not include goodwill amortization).

Write-downs of tangible and intangible fixed assets decreased by €10 million (4.5%, 7.1% net of exchange rate effects).



The following table provides a breakdown of the operating expenses recorded by each UniCredit Group division during the six months ended June 30, 2005 and 2004.

	Six Months Ended June 30,	
	2005	2004 <sup>(2)</sup>
	(unaudited) (€ millions)	
Retail .....	(1,532)	(1,468)
Corporate and Investment Banking .....	(452)	(502)
Private Banking and Asset Management.....	(369)	(372)
New Europe.....	(527)	(464)
Parent company and other companies <sup>(1)</sup> .....	(197)	(134)
Consolidation adjustments .....	29	17
<b>Operating expenses .....</b>	<b>(3,048)</b>	<b>(2,923)</b>

<sup>(1)</sup> Includes the Bank and other consolidated UniCredit Group entities in which it directly owns shares (including the UniCredit Group's international representative offices) that are not allocated to the divisions.

<sup>(2)</sup> Historical figures.

### Net Operating Profit

As a result of the factors set forth above, during the six months ended June 30, 2005, the UniCredit Group earned a net operating profit of €2,556 million, an increase of 12.1% over the €2,280 million recorded for the six months ended June 30, 2004. The following table shows the contribution of each division to the UniCredit Group's net operating profit during the six months ended June 30, 2005 and 2004.

	Six Months Ended June 30,	
	2005	2004 <sup>(2)</sup>
	(unaudited) (€ millions)	
Retail .....	838	606
Corporate and Investment Banking .....	1,063	1,120
Private Banking and Asset Management.....	273	198
New Europe.....	521	389
Parent company and other companies <sup>(1)</sup> .....	(24)	(34)
Consolidation adjustments .....	(115)	1
<b>Net Operating Profit.....</b>	<b>2,556</b>	<b>2,280</b>

<sup>(1)</sup> Includes the Bank and other consolidated UniCredit Group entities in which it directly owns shares (including the UniCredit Group's international representative offices) that are not allocated to the divisions.

<sup>(2)</sup> Historical figures.

### Write-Downs and Provisions

The following table sets forth the components of the UniCredit Group's write-downs and provisions for the six months ended June 30, 2005 and 2004.

	Six Months Ended June 30,	
	2005	2004
	(unaudited) (€ millions)	
Goodwill amortization .....	(159)	(143)
Provisions for risks and charges .....	(86)	(36)
Net write-downs of loans & provisions for guarantees and commitments .....	(430)	(438)
Net write-downs of financial investments.....	4	—
<b>Total amortization, write-downs and provisions.....</b>	<b>(671)</b>	<b>(617)</b>

During the six months ended June 30, 2005, goodwill amortization increased by €16 million, or 11.2%, compared to the six months ended June 30, 2004. The most relevant items of goodwill amortization are those related to the Pioneer Group (€53 million) and Pekao Group (€35 million).



As of June 30, 2005, provisions for risks and charges totaled €86 million (an increase of €50 million, or 139%, compared to the six months ended June 30, 2004), of which €40 million was due to risks for pending legal proceedings and revocatory actions, mainly in the Corporate and Investment Banking Division and, to a lesser extent, in the Retail Division.

During the six months ended June 30, 2005, net write-downs of loans and provisions for guarantees and commitments decreased by €8 million, or 1.8%, compared to the six months ended June 30, 2004. The decrease was primarily due to a reduction in write-downs in the Corporate and Investment Banking Division (€52 million), which during the six months ended June 30, 2004 has reported a high volume of write-downs for several large loans, partially compensated by an increase in write-downs in the Retail Banking Division relating to a substantial increase in loans.

During the six months ended June 30, 2005, net write-backs of financial investments totalled €4 million, compared to a negligible amount for the six months ended June 30, 2004.

### **Net Extraordinary Income**

The UniCredit Group recorded €263 million in net extraordinary income in the six months ended June 30, 2005, compared to €102 million of net extraordinary income recorded in the six months ended June 30, 2004. This increase was principally due to a capital gain of €199 million generated from the sale of the UniCredit Group's 20.3% stake in the *Autostrada Serenissima*, a capital gain of €11 million generated from the sale of the stake in *Società di Trasporto Telematico* ("STT"), net revenues of €25 million from the sale of premises, and surplus over previous provisions for €23 million.

### **Income Taxes**

During the six months ended June 30, 2005, income taxes increased by €99 million, or 15.7%, compared to the six months ended June 30, 2004, due to the increase in profit before extraordinary items and income taxes resulting in a decrease in the ratio (expressed as a percentage) of income taxes to profit before taxes (34% compared to 35.8% for the six months ended June 30, 2004), because of a large proportion of revenues not subject to income taxation (such as the capital gain on the sale of the stake in the *Autostrada Serenissima*).

### **Minority Interests**

During the six months ended June 30, 2005, minority interests increased by €32 million, or 37.6%, compared to the six months ended June 30, 2004. This increase was primarily due to the growth in net profit of Bank Polska Kasa Opieki S.A. ("Bank Pekao"), in which minorities hold approximately 47%.

### **Net Profit**

As a result of the foregoing factors, the UniCredit Group earned a net profit of €1,301 million in the six months ended June 30, 2005, an increase of €252 million, or 24.0%, from a net profit of €1,049 million in the six months ended June 30, 2004.

The following table provides a breakdown of the net profit earned by each UniCredit Group division during the six months ended June 30, 2005 and 2004.

	Six Months Ended June 30,	
	2005	2004 <sup>(2)</sup>
	(unaudited) (€ millions)	
Retail .....	375	258
Corporate and Investment Banking .....	501	553
Private Banking and Asset Management.....	200	159
New Europe.....	241	178
Parent company and other companies <sup>(1)</sup> .....	233	29
Consolidation adjustments .....	(249)	(128)
<b>Net profit.....</b>	<b>1,301</b>	<b>1,049</b>

(1) Includes the Bank and other consolidated UniCredit Group entities in which it directly owns shares (including the UniCredit Group's international representative offices) that are not allocated to the divisions.

(2) Historical figures.

## RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2004 COMPARED TO THE YEAR ENDED DECEMBER 31, 2003

### Total Revenues

The following table sets forth the components of the UniCredit Group's total revenues for the years ended December 31, 2004 and 2003.

	Year Ended December 31,	
	2004	2003
	(unaudited)	
	(€ millions)	
Net interest income .....	5,200	5,088
Net non-interest income .....	5,175	5,377
<b>Total revenues .....</b>	<b>10,375</b>	<b>10,465</b>

Total revenues declined by €90 million, or 0.9%, compared to 2003. This decline was due to a reduction in net non-interest income, that was partly offset by an increase in net interest income, as discussed below.

### Net Interest Income

The following table sets forth the components of the UniCredit Group's net interest income for the years ended December 31, 2004 and 2003.

	Year Ended December 31,	
	2004	2003
	(unaudited)	
	(€ millions)	
Interest and similar income .....	9,512	9,542
Interest and similar expense .....	(4,592)	(4,747)
Net interest and similar income .....	4,920	4,795
Dividends and other revenues from equity investments .....	280	293
<b>Net interest income .....</b>	<b>5,200</b>	<b>5,088</b>

Net interest income in 2004 increased by €112 million, or 2.2%, compared to 2003. This increase reflected a slight reduction in interest and similar income of €30 million, or 0.3%, the effect of which more than compensated by a stronger decline of €155 million, or 3.3%, in interest and similar expense. The decline of €13 million, or 4.4%, in dividends and other revenues from equity investments mainly reflected lower dividends received from the UniCredit Group's investment banking operations.

Net interest income increased, mostly due to the effect of the higher average balances of loans to customers, which more than compensated for the reduction in spread and a lower return from the investment of the UniCredit Group's excess capital caused by lower interest rates.

The interest rate that serves as a benchmark for short-term loans, the one-month Euribor rate, increased from 2.16% in December 2003 to 2.20% in December 2004 while averaged over the periods under review, it decreased from an average rate of 2.38% in 2003 to an average rate of 2.08% in 2004. The increase in net interest income was primarily attributable to a 14% increase in the average loan balance, which increased from €122 billion in 2003 to €139 billion in 2004, which was partially offset by a 35 basis points decrease in the UniCredit Group's loans-to-deposits rate spread, from 3.69% to 3.34%.

The following table sets forth a breakdown of the net interest income earned by each UniCredit Group division during the years ended December 31, 2004 and 2003.

	Year Ended December 31,	
	2004	2003
	(unaudited) (€ millions)	
Retail .....	2,360	2,381
Corporate and Investment Banking .....	1,504	1,512
Private Banking and Asset Management.....	101	83
New Europe.....	1,154	1,042
Other companies <sup>(1)</sup> .....	96	81
Consolidation adjustments .....	(15)	(11)
<b>Net interest income .....</b>	<b>5,200</b>	<b>5,088</b>

(1) Includes the Bank and other consolidated UniCredit Group entities in which it directly owns shares (including the UniCredit Group's international representative offices) that are not allocated to the divisions.

Overall net interest income increased by €112 million. Net interest income at the New Europe Division increased by €112 million or 10.7%, representing the largest contribution to the overall increase, while results of other UniCredit Group divisions compensated each other. The reduction by 35 basis points in the UniCredit Group's overall loans-to-deposits rate spread was driven both by the decline in market interest rates noted above and a change in the composition of the UniCredit Group's assets and liabilities, with mortgages accounting for an increasing percentage of the UniCredit Group's asset portfolio and fixed income securities accounting for an increasing share of the UniCredit Group's funding mix during the period under review (reducing gradually the interbank liability position). The higher volume of loans to customers more than offset the contraction in the average spread.

Net interest income at the Retail Banking Division remained substantially unchanged, with a €21 million (or 0.9%) decline, as an increase in the average volume of loans (benefiting from the addition of the ANBI assets), largely, but not fully, compensated for the effect of the decline in interest spread.

The net interest income earned by the Corporate and Investment Banking Division remained substantially stable, decreasing by only €8 million, or 0.5%, as the impact of an approximate 5% increase in medium-term loans to customers (including the securitization of performing lease contracts; for further details please refer to "Off Balance Sheet Arrangements" below) was more than offset by a contraction in average spread that was still more modest than that experienced by the Retail Banking Division. An important factor offsetting the positive trend in loan volumes was the contraction in net interest income attributable to the sale of derivatives to corporate customers.

The Private Banking and Asset Management Division recorded an increase in net interest income of €18 million, or 21.7%, primarily due to capital increases subscribed to for the benefit of Pioneer Global Asset Management S.p.A. ("PGAM"), for €496 million, and UniCredit Xelion Banca S.p.A. ("Xelion"), for €300 million, which allowed them to decrease their respective indebtedness and, therefore, their interest expense.

The New Europe Division reported a €112 million, or 10.7%, increase in net interest income due to a 18.6% increase in loans to customers and fixed income securities.

**Average Balances and Interest Rates**

The following table presents the average balances of loans to and deposits (and securities) from customers for the UniCredit Group for the years ended December 31, 2004 and 2003.

	Year Ended December 31,					
	2004			2003		
	Average Balance <sup>(1)</sup>	Interest <sup>(2)</sup>	Average Yield/Rate	Average Balance	Interest <sup>(2)</sup>	Average Yield/Rate
	(unaudited)					
	€ millions, except percentages)					
<b>Assets:</b>						
Interest-earning assets						
Loans to customers (face value).....	139,473	7,025	5.04%	122,435	6,756	5.52%
Fixed income securities .....	27,653	1,185	4.29%	29,224	1,293	4.42%
Interbank asset position .....	33,310	763	2.29%	30,591	822	2.69%
<b>Total average interest-earning assets .....</b>	<b>200,436</b>	<b>8,973</b>	<b>4.48%</b>	<b>182,250</b>	<b>8,871</b>	<b>4.87%</b>
Non interest-earning assets						
Stock and fixed assets <sup>(3)</sup> .....	11,941	130	1.09%	11,053	203	1.84%
<b>Total Net Assets .....</b>	<b>212,377</b>	<b>9,103</b>	<b>4.29%</b>	<b>193,303</b>	<b>9,074</b>	<b>4.69%</b>
<b>Liabilities and Shareholders' Equity:</b>						
Interest-bearing liabilities						
Customer deposits (and securities) .....	139,518	2,365	1.70%	125,909	2,298	1.83%
Interbank liability position .....	47,005	1,351	2.87%	42,434	1,451	3.42%
Subordinated debt.....	6,276	187	2.98%	6,919	237	3.43%
<b>Total average interest-bearing liabilities .....</b>	<b>192,799</b>	<b>3,903</b>	<b>2.02%</b>	<b>175,262</b>	<b>3,986</b>	<b>2.27%</b>
Non interest-bearing liabilities						
Shareholder's equity: capital .....	14,639	—	—	13,930	—	—
Special purpose reserves, write-downs and balance of other items .....	4,939	—	—	4,111	—	—
<b>Total Net Liabilities and Shareholders' Equity ...</b>	<b>212,377</b>	<b>3,903</b>	<b>1.84%</b>	<b>193,303</b>	<b>3,986</b>	<b>2.06%</b>
<b>Net Interest Income<sup>(4)</sup> .....</b>		<b>5,200</b>	<b>2.45%</b>		<b>5,088</b>	<b>2.63%</b>
Loan-deposit (customers and securities) rate spread.....			3.34%			3.69%
Spread of average interest-earning assets on average interest-bearing liabilities.....			2.46%			2.60%

(1) Average balances have been determined based on daily figures for UniCredit Banca, UniCredit Banca d'Impresa, Banca per la Casa, UBM, TradingLab, Bulbank, Banca dell'Umbria and CR Carpi, based on monthly figures for the Bank, UniCredit Banca Mediocredito, Locat, UniCredit Factoring, Živnostenská, UniBanka, UniCredit Private Banking and Clarima and based on quarterly figures for Bank Pekao, Zagrebačka Banka d.d., KFS, UniCredit Ireland Financial Services plc and other minor companies not listed. TradingLab was merged into UBM effective July 1, 2004.

(2) For the purpose of computing average balances, the interest income and expense amounts deriving from hedging transactions are allocated to the same line items as the transactions they are designed to hedge.

(3) Interest generated by stock and fixed assets refers to dividend and other non-interest income.

(4) Includes dividends and other income from equity investments.

### Changes in Net Interest Income – Volume and Rate Analysis

The following table shows the allocation, by category of interest-earning assets and interest-bearing liabilities, of changes in the UniCredit Group's net interest income among changes in average volume, changes in average rate and changes in volume/rate for 2004 and 2003.

	2004 Compared to 2003			Total Net Change <sup>(4)</sup>
	Volume <sup>(1)</sup>	Yield/Rate <sup>(2)</sup>	Volume and Yield/Rate <sup>(3)</sup>	
			(unaudited) (€ millions)	
<i>Increase (decrease) due to changes in:</i>				
Loans to customers.....	940	(589)	(82)	269
Fixed-income securities.....	(70)	(41)	2	(108)
Interbank asset position.....	73	(121)	(11)	(59)
Stock and fixed assets.....	16	(83)	(7)	(73)
<b>Total interest income .....</b>	<b>960</b>	<b>(834)</b>	<b>(97)</b>	<b>29</b>
Deposits (customers and securities) .....	248	(164)	(18)	67
Interbank liability position.....	156	(231)	(25)	(100)
Subordinated debt.....	(22)	(31)	3	(50)
Shareholder's equity: capital .....	—	—	—	—
Special purpose reserves, Write-downs and balance of other items.....	—	—	—	—
<b>Total interest expense.....</b>	<b>383</b>	<b>(426)</b>	<b>(40)</b>	<b>(83)</b>
<b>Net Interest Income<sup>(5)</sup>.....</b>	<b>577</b>	<b>(408)</b>	<b>(57)</b>	<b>112</b>

- (1) "Volume" corresponds to the average balance for the year minus the average balance for the previous year, multiplied by the average yield for such year.
- (2) "Yield/Rate" corresponds to the average yield/rate for the year minus the average yield/rate for the previous year, multiplied by the average balance for such year.
- (3) "Volume and Yield/Rate" corresponds to "Total Net Change" minus "Volume" minus "Yield/Rate".
- (4) "Total Net Change" corresponds to net interest income for the year minus net interest income for the previous year.
- (5) Includes dividends and other income from equity investments.

### Net Non-Interest Income

The following table sets forth the components of the UniCredit Group's net non-interest income for the years ended December 31, 2004 and 2003.

	Year Ended December 31,	
	2004	2003
	(audited) (€ millions)	
Commission income .....	3,854	3,878
Commission expense.....	(565)	(562)
<b>Net commissions .....</b>	<b>3,289</b>	<b>3,316</b>
<b>Trading profit.....</b>	<b>993</b>	<b>1,288</b>
Other operating income .....	1,114	986
Other operating expense.....	(221)	(213)
<b>Net other operating income .....</b>	<b>893</b>	<b>773</b>
<b>Net non-interest income .....</b>	<b>5,175</b>	<b>5,377</b>

The €202 million, or 3.8%, decline in net non-interest income during the year was principally due to the €295 million (22.9%) decline in trading profits and a minor decrease in net commissions of €27 million (0.8%), the effects of which were offset in part by an increase of €128 million (13.0%) in other operating income. Each of these components of net non-interest income is discussed in turn below.

Net commissions decreased by €27 million in the year ended December 31, 2004. The following table provides a breakdown of the components of net commissions for the years ended December 31, 2004 and 2003.

	Year Ended December 31,	
	2004	2003
	(audited) (€ millions)	
Net commissions for securities trading and placement.....	175	300
Net commissions on segregated account products .....	128	123
Net commissions on mutual fund products.....	1,241	1,064
Net commissions on distribution of insurance products .....	294	403
Net commissions on other securities activities.....	112	150
Net asset management and administrative services commissions .....	1,950	2,040
Net commissions for guarantees given and loans .....	624	570
Net collection and payment services commissions .....	458	450
Net currency dealing commissions.....	90	85
Net tax collection services commissions.....	129	133
Net other commissions .....	38	38
<b>Net commissions</b> .....	<b>3,289</b>	<b>3,316</b>

The negative trend in net commissions reflected the UniCredit Group's strategy of focusing on generating recurring fees instead of up-front revenues in order to link the customer in a long term relationship. Net commissions on insurance products and securities trading decreased by €109 million or 27.0% and €125 million or 41.7%, respectively; while net commissions on mutual funds and on segregated accounts (personalized wealth management products for private clients) increased by €177 million or 16.6% and €5 million or 4.1%, respectively, reflecting both an increase in assets under management and a shift towards equity investments (which generate higher average commissions). Net commissions for collection and payment services, currency dealing services and tax collection services were essentially unchanged in the period under review.

The €295 million, or 22.9%, decline in the UniCredit Group's trading profit was mainly driven by lower activity levels in its corporate risk management businesses following three years of rapid growth. During 2004, lower interest rates and prevailing euro/U.S. dollar exchange rates resulted in reduced demand for these products from the UniCredit Group's corporate customers. In addition, the trading profits recorded during 2003 had reflected the impact of the integration for the first time, as a consequence of the UniCredit Group's "Project S3" internal reorganization, of UniCredit Banca d'Impresa's broad customer base and of UBM's range of corporate derivative products, which led to exceptionally high activity levels. See "Business of the UniCredit Group—Project S3."

The €120 million, or 15.5%, increase in net other operating income was due to the combined impact of increases of €128 million, or 13.0%, in other operating income and €8 million, or 3.8%, in other operating expense. The rise in other operating income was primarily due to certain non-recurring items in the New Europe Division.

The following table provides a breakdown of the net non-interest income earned by each UniCredit Group division during the years ended December 31, 2004 and 2003.

	Year Ended December 31,	
	2004	2003
	(unaudited) (€ millions)	
Retail.....	1,963	2,225
Corporate and Investment Banking.....	1,531	1,541
Private Banking and Asset Management .....	1,066	957
New Europe .....	681	577
Parent company and other companies <sup>(1)</sup> .....	108	126
Consolidation adjustments .....	(174)	(49)
<b>Net non-interest income</b> .....	<b>5,175</b>	<b>5,377</b>

(1) Includes the Bank and other consolidated UniCredit Group entities in which it directly owns shares (including international representative offices) that are not allocated to the divisions.

The reduction in consolidated net non-interest income by €202 million, or 3.8%, was primarily attributable to the €262 million, or 11.8%, decline in net non-interest income earned by the Retail Banking Division, the effect of which was partially offset by the increases in net non-interest income earned by the Private Banking and Asset Management Division and New Europe Division.

The significant decline in net non-interest income earned by the Retail Banking Division reflected sharp declines in net commissions for securities trading and placement and net commissions on insurance products that reflected the division's strategic decision to limit the sale of non-rated securities or those with a rating lower than A – by Standard & Poor's – following recent scandals in the Italian investment industry. In addition, the division's strategy to reorient the composition of its non-interest income away from non-recurring up-front commissions toward recurring asset management-type commissions also had an impact, as the fall in up-front commissions outweighed the increase in recurring commissions during the period.

The slight decline of €10 million, or 0.6%, in net non-interest income earned by the Corporate and Investment Banking Division was principally attributable to significantly lower activity levels in the UniCredit Group's corporate derivatives business, which led to the decline in trading profit discussed above. This factor was offset in part by higher fees earned on loan arrangement activities for corporate borrowers.

The Private Banking and Asset Management Division recorded an increase in net non-interest income of €109 million, or 11.4%, which reflected the combined impact of the acquisition of the asset management activities of ING Bank N.V.'s Italian branch, a significant increase in Pioneer's average assets under management, and the ongoing implementation of best practices with respect to commission policy throughout all of the division's businesses.

The New Europe Division reported a €104 million, or 18.0%, increase in net non-interest income, reflecting the greater focus placed on generating commission income by each of the UniCredit Group's New Europe banks during the period.

#### **Operating Expenses**

The following table sets forth the components of the UniCredit Group's operating expenses for the years ended December 31, 2004 and 2003.

	<b>Year Ended December 31,</b>	
	<b>2004</b>	<b>2003</b>
	<b>(unaudited)</b>	
	<b>(€ millions)</b>	
Payroll costs .....	(3,388)	(3,281)
Administrative expenses .....	(2,081)	(1,936)
Write-downs of tangible and intangible fixed assets .....	(472)	(486)
<b>Operating expenses .....</b>	<b>(5,941)</b>	<b>(5,703)</b>

The €238 million, or 4.2%, increase in operating expenses during the period under review was due to the combined effect of a €107 million, or 3.3%, increase in payroll costs and a €145 million, or 7.5%, increase in other administrative expenses, offset slightly by a €14 million, or 2.9%, decline in write-downs of intangible and tangible fixed assets net of goodwill amortization. Each of these factors is discussed in turn below.

The increase in payroll costs, notwithstanding an overall reduction of 491 employees during 2004, was attributable to pay increases provided for in the Italian national collective bargaining agreement for salaried bank employees, offset in part by lower performance-related compensation paid to employees of UBM and TradingLab (which was merged into UBM effective July 1, 2004) compared to the year 2003 and lower contributions to pension funds.



The following table provides a breakdown of the UniCredit Group's administrative expenses for the years ended December 31, 2004 and 2003.

	Year Ended December 31,	
	2004	2003
	(audited) (€ millions)	
Expenses relating to external consultants .....	(156)	(145)
Advertising expenses .....	(118)	(138)
Insurance expenses .....	(45)	(45)
Security expenses .....	(67)	(68)
Expenses relating to other services rendered by third parties .....	(265)	(255)
Rental expenses .....	(232)	(211)
Maintenance and cleaning expenses .....	(70)	(62)
Utilities .....	(68)	(65)
Total expenses relating to premises .....	(370)	(338)
Expenses relating to furniture, machinery and equipment .....	(225)	(200)
Postal, telecom and office supply expenses .....	(279)	(259)
Travel expenses .....	(78)	(69)
Expenses relating to credit information and enquiries .....	(23)	(16)
Other expenses .....	(191)	(135)
Indirect duties and taxes .....	(264)	(268)
<b>Administrative expenses .....</b>	<b>(2,081)</b>	<b>(1,936)</b>

Administrative expenses increased by an aggregate €145 million (or 7.5%), largely due to an increase in rent for properties, fees to external consultants and other third party service providers, maintenance costs for furniture, machinery and equipment and postal and telecommunication expenses.

The following table provides a breakdown of the operating expenses recorded by each UniCredit Group division during the years ended December 31, 2004 and 2003.

	Year Ended December 31,	
	2004	2003
	(unaudited) (€ millions)	
Retail .....	(2,958)	(2,966)
Corporate and Investment Banking .....	(1,013)	(941)
Private Banking and Asset Management .....	(738)	(651)
New Europe .....	(1,013)	(904)
Parent company and other companies <sup>(1)</sup> .....	(273)	(315)
Consolidation adjustments .....	54	74
<b>Operating expenses .....</b>	<b>(5,941)</b>	<b>(5,703)</b>

(1) Includes the Bank and other consolidated UniCredit Group entities in which it directly owns shares (including the UniCredit Group's international representative offices) that are not allocated to the divisions.

Both the Retail Banking Division and the UniCredit Group's parent company were able to reduce operating expenses in absolute terms during 2004, partly because of downsizing, while the operating expenses of the Corporate and Investment Banking and New Europe Divisions increased by 7.7%, and 12.1%, respectively. The €87 million, or 13.4%, increase in operating expenses recorded by the Private Banking and Asset Management Division was attributable to the expansion of its business during the period under review, primarily reflected in an increase in sales personnel and recruiting costs for personal financial consultants for Xelion.

**Net Operating Income**

As a result of the factors set forth above, the UniCredit Group earned net operating income of €4,434 million in 2004, which represented a decline of 6.8% compared to the €4,762 million in net operating income recorded in the year ended December 31, 2003. Notwithstanding such decline, the UniCredit Group managed to limit the increase in its cost/income ratio, which grew from 54.5% in 2003 to 57.3% in 2004. The following table shows the contribution of each division to the UniCredit Group's net operating income during the years ended December 31, 2004 and 2003.

	Year Ended December 31,	
	2004	2003
	(unaudited) (€ millions)	
Retail.....	1,365	1,640
Corporate and Investment Banking.....	2,022	2,112
Private Banking and Asset Management.....	429	389
New Europe.....	822	715
Parent company and other companies <sup>(1)</sup> .....	(69)	(108)
Consolidation adjustments.....	(135)	14
<b>Net operating income.....</b>	<b>4,434</b>	<b>4,762</b>

(1) Includes the Bank and other consolidated UniCredit Group entities in which it directly owns shares (including the UniCredit Group's international representative offices) that are not allocated to the divisions.

**Write-Downs and Provisions**

The following table sets forth the components of the UniCredit Group's write-downs and provisions for the years ended December 31, 2004 and 2003.

	Year Ended December 31,	
	2004	2003
	(unaudited) (€ millions)	
Goodwill amortization.....	(276)	(264)
Provisions for risks and charges.....	(273)	(230)
Net write-downs of loans & provisions for guarantees and commitments.....	(891)	(957)
Provisions for possible loan losses.....	—	(44)
Net write-downs of financial investments.....	(6)	(10)
<b>Total amortization, write-downs and provisions.....</b>	<b>(1,446)</b>	<b>(1,505)</b>

During the period under review, goodwill amortization totaled €276 million. The amount was related principally to the Pioneer Group (€91 million) and Bank Pekao (€69 million). The €12 million or 4.5% increase in this item compared to the prior year was mainly attributable to the UniCredit Group's acquisitions of ANBI and ING Sviluppo and its purchases of additional stakes in CR Carpi and Locat, offset in part by the impact of the appreciation of the euro against the U.S. dollar, which reduced the amount of amortization on the goodwill attributable to Pioneer.

Provisions for risks and charges amounted to €273 million during 2004, compared to €230 million in 2003, an increase of 18.7%. Of the 2004 amount, €107 million related to voidable preference proceedings in progress, other pending legal actions and other risks, as compared to €96 million in 2003, representing an 11.5% increase.

The €891 million in net write-downs of loans and provisions for guarantees and commitments recorded in 2004 reflected the combined impact of €1,432 million in write-downs and €541 million in write-backs (including €290 million in write-backs resulting from collections made during the year). The €66 million, or 6.9%, decrease in this item during the period under review was largely concentrated in the Corporate and Investment Banking Division, where net write-downs decreased by €104 million, reflecting write-downs related to Parmalat loans taken in 2003, and a decrease at the New Europe Division (€14 million). The positive impact of these factors on the overall figure was partially offset by an increase of €37 million at the Retail Banking Division, in line with the increase in non-performing loans during the period.

In addition, the level of write-downs for credit risk associated with performing loans increased by €116 million over 2003 as a result of the higher provisions made by the UniCredit Group to cover its

exposure to industrial sectors experiencing the impact of weak economic conditions, including the automotive industry.

The following table provides a breakdown of net write-downs of loans and provisions for guarantees and commitments for the years ended December 31, 2004 and 2003.

	Year Ended December 31,	
	2004	2003
	(audited) (€ millions)	
Write-downs of loans <sup>(1)</sup> .....	(1,417)	(1,464)
Write-backs of loans .....	511	495
Total net write-downs of loans .....	(906)	(969)
Provisions for guarantees and commitments .....	(15)	(25)
Write-backs of provisions for guarantees and commitments .....	30	37
Total net provisions for guarantees and commitments .....	15	12
Net write-downs of loans and provisions for guarantees and commitments .....	(891)	(957)

(1) Net of write-downs for overdue interest.

### Net Extraordinary Income

The UniCredit Group earned €218 million in net extraordinary income in 2004, in line with €215 million of net extraordinary income recorded in the prior year.

In 2004, extraordinary income was €647 million and extraordinary expenses were €429 million. The most important components of the UniCredit Group's net extraordinary income during the year were:

- €171 million in releases of provisions taken in prior periods, of which €67 million related to provisions for tax charges abolished by subsequent changes in Italian tax law;
- net capital gains on disposals of €180 million, comprising €132 million on the sale of real estate assets, €39 million on the sale of equity investments and €7 million on the sale of investment securities. Capital gains on the sale of real estate includes €107 million from the contribution of non-strategic properties of Cordusio Immobiliare S.p.A. to Modus s.r.l., a joint venture company in which the UniCredit Group's partners are Pirelli & C. Real Estate S.p.A. and Morgan Stanley Real Estate Funds;
- a €155 million positive adjustment on deferred tax related to past years; and
- €246 million in expenses related to headcount reduction initiatives as in accordance with the UniCredit Group's strategy.

### Change in fund for general banking risks

The fund for general banking risks, a shareholders equity item accrued in past years using revenues net of taxes in order to cover implicit banking risks, was reported to the Income Statement for the first time in 2004 in connection with the anticipated first time adoption of IFRS as of January 1, 2005, resulting in an increase in net income of €130 million.

### Income Taxes

Income taxes were €1,036 million in 2004, compared to income taxes of €1,386 million in 2003. This €350 million, or 25.3%, reduction in income taxes reflected a decline in the UniCredit Group's effective tax rate from 40% in 2003 to 31% in 2004. This reduction was primarily attributable to:

- the introduction in Italy of the "consolidato fiscale", which provides an exemption from income tax for certain intra-group transactions, including payment of intra-group dividends and internal reorganizations, as well as for the set-off of intra-group profits and losses for tax purposes;
- the reduction of the headline corporate tax rate in Italy from 34% to 33%;
- a notable decrease in the corporate tax rate in Poland (from 28% to 19%) and the growing weight of foreign revenues, which are generally taxed at lower rates, within the UniCredit Group; and

- the presence of considerable revenues that are either tax exempt or on which taxes had already been paid.

### Minority Interest

Minority interest was €169 million in 2004, compared to minority interest of €129 million in 2003. This increase was primarily attributable to higher net income earned by Bank Pekao, in which the UniCredit Group has an equity interest of 52.93% during the period under review.

### Net Income

As a result of the foregoing factors, the UniCredit Group earned net income, including minority interests, of €2,300 million in 2004, an increase of 10.0% from net income of €2,090 million in 2003.

The following table provides a breakdown of the net income, including minority interests, earned by each UniCredit Group division during the years ended December 31, 2004 and 2003.

	Year Ended December 31,	
	2004	2003
	(unaudited)	
	(€ millions)	
Retail.....	546	699
Corporate and Investment Banking.....	950	872
Private Banking and Asset Management.....	401	251
New Europe.....	585	427
Parent company and other companies <sup>(1)</sup> .....	254	109
Consolidation adjustments.....	(436)	(268)
<b>Net income</b> .....	<b>2,300</b>	<b>2,090</b>

(1) Includes the Bank and other consolidated UniCredit Group entities in which it directly owns shares (including the UniCredit Group's international representative offices) that are not allocated to the divisions.

The UniCredit Group's portion of net income (i.e. excluding minority interests) for the period was equal to €2,131 million in 2004, compared to €1,961 million in 2003, an increase of 8.7%.

### Off Balance Sheet Arrangements

In the ordinary course of business and primarily to facilitate client transactions, the UniCredit Group enters into off balance sheet arrangements with non-consolidated entities. These arrangements include the provision of guarantees on behalf of the UniCredit Group's customers, retained interest in assets that have been transferred to a non-consolidated entity and obligations arising out of variable interests in a non-consolidated entity.

### Guarantees

In the normal course of business, the UniCredit Group issues guarantees on behalf of its customers. In the majority of cases, the UniCredit Group will hold collateral against the exposure, have a right of recourse to the customer or both. In addition, the UniCredit Group issues guarantees on its own behalf. The main types of guarantees provided are commercial and financial guarantees given to other banks and financial institutions on behalf of customers to secure loans, overdraft and other facilities. Further details on these guarantees are provided in Note 10 to the Consolidated Financial Statements.

The following table provides an analysis of guarantees issued by the UniCredit Group as of June 30, 2005 and December 31, 2004. The amounts disclosed represent the maximum (undiscounted) potential amount of future payments the UniCredit Group could be required to make under the guarantee, before any recovery through recourse or collateralization provisions.

	As of June 30, 2005	As of December 31, 2004
	(unaudited)	(audited)
	(€ millions)	
Commercial guarantees.....	9,243	8,379
Financial guarantees.....	5,146	5,254
Assets lodged in guarantee.....	108	54
<b>Total</b> .....	<b>14,497</b>	<b>13,687</b>

## Securitizations

In an asset securitization, the UniCredit Group sells financial assets to a securitization vehicle that funds its purchase by issuing debt (asset-backed securities) to investors. The UniCredit Group may provide financial support in connection with its asset securitizations by retaining a subordinated interest in the assets being securitized. The following table summarizes the book value of assets involved in the UniCredit Group's asset-backed securitization transactions as of the date of sale.

	Assets Securitized as of Date of Initial Sale <sup>(1)</sup> (unaudited) (€ millions)
Cordusio Synthetic Securitization <sup>(2)</sup> .....	—
Quercia Funding <sup>(3)</sup> .....	254.8
Absolute Funding .....	549.0
Locat Securitization Vehicle .....	1,707.1
Locat Securitization Vehicle 2 .....	2,525.2
PMI – Uno Finance .....	231.8
PMI – 2 Finance .....	307.3
Cordusio RMBS <sup>(4)</sup> .....	2,990.7
<b>Total Assets Securitized as of date of sale.....</b>	<b>8,565.9</b>

(1) Amount of securitized assets comprises principal portion and interest accrued at the sale date as included in price.

(2) No portfolios are “sold” in a synthetic securitization.

(3) Non-performing loans: gross book value €658 million; book value net of write-downs €254.8 million, sale price €211.4.

(4) Includes interest accrued at the sale date for €0.6 million.

*Cordusio Synthetic Securitization* is a transaction carried out in 2001 using performing loans to mid-large corporates by the Bank and the former federated banks Credito Italiano and Cariverona, as well as UniCredit Banca Mediocredito totaling €2,075 million. This synthetic securitization (meaning that no loans are sold and that all related assets therefore remain on the books of the banks) was carried out by means of two credit default swap contracts. As of April 1, 2005, the securitization was called and is therefore no longer active.

*The Quercia Funding Securitization* transaction was carried out in 2001 by Cariverona and Mediovenezie Banca S.p.A. (currently UniCredit Gestione Crediti) using mortgage loans and unsecured loans which were classified as non-performing loans, and which were separately held by the above two banks.

*Locat* initiated a substantial securitization program pursuant to Law 130/99 for performing loans arising under leases. The goal is to achieve greater matching between funding and loan maturities, diversify funding sources, and improve regulatory capital ratios for the Group. In this context in 2001, two separate transactions were entered into for €549 million and €1,707 million, in both of which cases Locat acted as a servicer of the portfolios sold pursuant to Law 130/99. Accordingly, Locat continues to collect payments and administer the leasing contracts, and receives compensation based on the amounts collected during the reference period. In 2004, Locat completed a new securitization transaction pursuant to Law 130/99, involving €2.52 billion in performing lease contracts, mainly aimed at diversifying Locat's sources of funding.

*UniCredit Banca d'Impresa* securitized approximately €542 million in assets in the course of 2004 comprising small- and medium-enterprise performing loans in the context of two securitization programs pursuant to Law 130/99. The transactions are aimed at achieving greater matching between deposit and loan maturities, diversifying UniCredit Banca d'Impresa's sources of funding and improving regulatory capital ratios for the Group. The portfolios of small- and medium-enterprise performing loans were sold to two special purpose vehicles, PMI UNO Finance S.r.l. and PMI 2 Finance S.r.l., respectively, incorporated pursuant to Law 130/99.

In 2005 UniCredit Banca securitized claims arising from a portfolio of performing residential mortgage loans qualifying as “*mutui fondiari*” for a total amount of approximately €3 billion. The portfolio was sold to a special vehicle, Cordusio RMBS. The goal is to achieve greater matching between funding and loan maturities, diversify funding sources and improve regulatory capital ratios.

### Special Purpose Entities

The funded securitization transactions entered into by the UniCredit Group typically involve the use of special purpose entities ("SPEs") incorporated pursuant to law 130/99. These are entities set up for a specific purpose and which would generally not enter into an operating activity or have any employees. The most common form of SPE involves the acquisition of financial assets that are funded by the issuance of rated notes to external investors, which have cash flows different from those of the underlying instruments. The repayment of these notes is determined by the performance of the assets acquired by the SPE. The consolidation approach to SPEs is different under IFRS and U.S. GAAP.

### Material Commitments

The UniCredit Group participated in the refinancing of Fiat S.p.A., pursuant to which the UniCredit Group loaned Fiat €625 million in bank debt convertible into ordinary shares of Fiat. The conversion price was set at €10.28 (as determined based on the average of the maximum price of €14.441 and the last six months' average market price) on September 13, 2005, and the date of conversion was set to September 20, 2005. Pursuant to the conversion, effective September 20, 2005, 60,797,649 shares were subscribed by the UniCredit Group, and will be offered to existing Fiat shareholders in an offer expected to be launched around October 10, 2005. For more information, see "Business of the UniCredit Group—Material Contracts—Loan Agreements."

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

The UniCredit Group's executive committee has approved a liquidity policy that ensures that it will be able to meet its obligations (for the Bank and the foreign branches and including retail deposit withdrawals, repayment of wholesale borrowing and current lending requirements) as such obligations become due. For a description of the UniCredit Group's liquidity policy and how the UniCredit Group manages liquidity risk, see "UniCredit Capital Allocation and Risk Management of the UniCredit Group—Liquidity Risk."

Because the UniCredit Group is a financial institution, its principal obligations and future commitments to make payments under contracts derive from its sources of funding and certain off-balance sheet transactions. The UniCredit Group's funding derives from demand deposits for approximately 35.5%. For additional information concerning the principal categories of the UniCredit Group's funding sources, see "—Selected Statistical Information of the UniCredit Group—Deposits by Contractual Maturity".

In addition to its retail and commercial funding base, the UniCredit Group has the following sources of liquidity:

- In November 2000, the UniCredit Group established a euro medium-term note program under which, following the latest renewal in December 2004, it can issue at any time up to an aggregate of €50 billion in medium term notes. As of June 30, 2005, the UniCredit Group had approximately €30.5 billion in medium-term notes issued and outstanding under this program, of which €19.6 billion were issued by the Bank and €10.9 billion were issued by UniCredit Ireland Financial Services plc ("UCI Ireland") and €82 million were issued by UCI Luxembourg. The UniCredit Group typically issues euro medium-term notes with maturities ranging from 18 months to 15 years. The majority of the UniCredit Group's medium- and long-term funding requirements are met by issuing euro medium-term notes.
- In December 1987, the UniCredit Group established its U.S. dollar commercial paper program, under which UniCredit Delaware Inc. can issue at any time up to an aggregate of \$1 billion in commercial paper. As of June 30, 2005, the UniCredit Group had approximately €600 million outstanding under this program, although this amount fluctuates more frequently than the outstanding amount of medium-term notes due to the short-term nature of the instruments issued under the program.
- In September 2003, UCI Ireland established its unlimited euro certificate of deposit programs, guaranteed by the Bank. As of June 30, 2005, UCI Ireland had approximately €1.4 billion issued and outstanding under these programs, although this amount fluctuates more frequently than the outstanding amount of medium-term notes due to the short-term nature of the instruments issued under the program. The UniCredit Group's foreign branches also issue certificates of deposit from time to time. As of June 30, 2005, the UniCredit Group's London and New York branches had approximately €11.9 billion and €11.8 billion, respectively, in outstanding certificates of deposit.
- In April 2005, the UniCredit Group established a U.S. medium-term note program, under which UniCredit Luxembourg Finance S.A. and Unicredito Italiano Bank (Ireland) plc can issue up to an aggregate of \$10 billion in medium term notes to qualified institutional buyers in the United States.



**Capital Adequacy**

The Bank of Italy has adopted risk-based capital ratios pursuant to the European Union capital adequacy directives. Italy's current capital adequacy requirements are in many respects similar to the requirements imposed by the international framework for capital measurement and capital standards of banking institutions of the Basel Committee on Banking Supervision (the "Basel Committee"). The capital ratios set for core (Tier I) and supplemental (Tier II and Tier III) capital requirements are relative to a bank's assets and certain off-balance sheet items weighted according to risks ("risk-weighted assets").

The implementation of the Basel Committee's risk-based capital guidelines is based on the European Union's "Own Funds Directive" and the "Solvency Ratio Directive". Under these risk-based capital guidelines, implemented since 1992 by the Bank of Italy, a bank's capital adequacy assessment is based on the ratio of its total capital to the risk-adjusted value of its assets and off-balance sheet exposures. It should be noted that the Basel Committee is currently reviewing certain of its guidelines. See "Capital Allocation and Risk Management of the UniCredit Group—Project Basel II".

In accordance with the Bank of Italy regulations, the Bank and the Group, respectively, are required to maintain primary (Tier I) capital and supplementary (Tier II) capital. The consolidated total of primary and supplementary capital for the UniCredit Group, less any applicable deductions, must be no less than 8.0% of the UniCredit Group's risk-weighted assets and, on a non-consolidated basis for each Italian bank within the UniCredit Group, no less than 7.0% of each bank's risk-weighted assets. For a discussion of the composition of regulatory capital, see "Regulation and Supervision".

For capital allocation process within the UniCredit Group and Regulatory Capital levels (Tier I, Tier II and Total Capital) and related ratios for the UniCredit Group on a consolidated basis see "Capital Allocation and Risk Management of the UniCredit Group—Capital Management".

**WORKING CAPITAL STATEMENT**

The Bank believes that its liquidity is sufficient for its present requirements.

In addition, it should be noted that Italian banks are subject to maturity gap rules promulgated by the Bank of Italy with a view to ensuring that banking groups maintain a certain structural equilibrium in their consolidated balance sheets (the "structural liquidity approach"). These rules limit the extent to which long-term assets can be financed with medium-term or short-term (including on demand) liabilities, and to which medium-term assets can be financed with short-term (including on demand) liabilities.

The Bank believes that the UniCredit Group's liquidity structure as of June 30, 2005 was well-balanced and in compliance with these regulatory requirements. The UniCredit Group's Assets and Liabilities Management team coordinates the financial planning processes and controls processes to ensure compliance with the Bank of Italy rules. For further information, see "Capital Allocation and Risk Management of the UniCredit Group—The Market Risks of Banking Book Activities and Asset and Liability Management" and "Capital Allocation and Risk Management of the UniCredit Group—Liquidity Risk".

**SELECTED STATISTICAL INFORMATION OF THE UNICREDIT GROUP**

*This section contains a discussion of certain selected statistical information of the UniCredit Group as of and for the years ended December 31, 2004 and 2003. The Bank expects that following implementation of the proposed Business Combination, its business and financial condition will change materially, and future financial condition and information relating to the Combined Group will not be comparable to the historical information discussed in this section. For more information on the proposed Business Combination and certain expected consequences thereof, see "The Combined Group" (which includes certain pro forma information in relation to the Combined Group). For information regarding the HVB Group, see "Business of the HVB Group."*

*The following tables set forth certain selected statistical and other information for the UniCredit Group. Unless otherwise indicated, this information is unaudited and has been extracted from the UniCredit Group's management information systems. In general, the statistical information is presented on a consolidated basis. Moreover, the information presented below may not be fully comparable from period to period for the reasons indicated in "Management's Discussion and Analysis of Financial Condition and Results of Operations of the UniCredit Group—Changes in the UniCredit Group's Scope of Consolidation".*

**Average Balances and Interest Rates**

The following table sets forth average balances and related amounts of interest income and interest expense for the periods indicated. For the purposes of this table, average balances have been determined based on: (i) daily figures for UniCredit Banca, UniCredit Banca d'Impresa, Banca per la Casa, UBM, TradingLab, UniCredit Factoring, Bulbank, Banca dell'Umbria and CR Carpi (TradingLab was merged into UBM



effective July 1, 2004); (ii) monthly figures for UniCredit, UniCredit Banca Mediocredito, Locat, Živnostenská, UniBanka, UniCredit Private Banking and Clarima; and (iii) quarterly figures for Bank Pekao, Zagrebačka Banka d.d., KFS, UCI Ireland and other minor companies. As of December 31, 2004, average balances calculated with daily figures represented 73.9% of total interest-earning assets at period-end, with average balances calculated with monthly and quarterly figures accounting for 12.0% and 14.1%, respectively, of total interest-earning assets at period end, after intragroup eliminations. Management believes that the average figures set forth below present a substantially similar trend as would be presented if daily figures were used for all average balances. Loan fees have been allocated to net interest income according to the duration of the underlying contract and interest income (expense) from hedging transactions has been allocated to the same line items as the positions hedged. Tax-exempt income has not been calculated on a tax-equivalent basis because the effect of such calculations would not be significant.

	As of December 31,					
	2004			2003		
	Average Balance <sup>(1)</sup>	Interest <sup>(2)</sup>	Average Yield/Rate	Average Balance	Interest <sup>(2)</sup>	Average Yield/Rate
	(unaudited)					
	€ millions, except percentages					
<b>Assets</b>						
Interest-earning assets:						
Loans to customers (nominal value) .	139,473	7,025	5.04%	122,435	6,756	5.52%
Fixed income securities .....	27,653	1,185	4.29%	29,224	1,293	4.42%
Interbank asset position .....	33,310	763	2.29%	30,591	822	2.69%
<b>Total average interest-earning assets .....</b>	<b>200,436</b>	<b>8,973</b>	<b>4.48%</b>	<b>182,250</b>	<b>8,871</b>	<b>4.87%</b>
Non interest-earning assets:						
Stock and fixed assets <sup>(3)</sup> .....	11,941	130	1.09%	11,053	203	1.84%
<b>Total average assets .....</b>	<b>212,377</b>	<b>9,103</b>	<b>4.29%</b>	<b>193,303</b>	<b>9,074</b>	<b>4.69%</b>
<b>Liabilities and shareholders' equity</b>						
Interest-bearing liabilities:						
Deposits (customers and securities)...	139,518	2,365	1.70%	125,909	2,298	1.83%
Interbank liability position .....	47,005	1,351	2.87%	42,434	1,451	3.42%
Subordinated debt .....	6,276	187	2.98%	6,919	237	3.43%
<b>Total average interest-bearing liabilities .....</b>	<b>192,799</b>	<b>3,903</b>	<b>2.02%</b>	<b>175,262</b>	<b>3,986</b>	<b>2.27%</b>
Non interest-bearing liabilities:						
Shareholder's equity:						
Capital .....	14,639	—	—	13,930	—	—
Special purpose reserves, write-downs and balance of other items .....	4,939	—	—	4,111	—	—
<b>Total average liabilities and shareholders' equity .....</b>	<b>212,377</b>	<b>3,903</b>	<b>1.84%</b>	<b>193,303</b>	<b>3,986</b>	<b>2.06%</b>
<b>Net interest income<sup>(4)</sup> .....</b>		<b>5,200</b>	<b>2.45%</b>		<b>5,088</b>	<b>2.63%</b>
Loan-deposit rate spread (customers and securities) .....			3.34%			3.69%
Interest-bearing asset and liability spread .....			2.46%			2.60%

(1) Average balances have been determined based on daily figures for UniCredit Banca, Banca d'Impresa, Banca per la Casa, UBM, TradingLab, Bulbank, Banca dell'Umbria and CR Carpi, based on monthly figures for UniCredit, Banca Mediocredito, Locat, UniCredit Factoring, Živnostenská, UniBanka, UniCredit Private Banking and Clarima Banca and based on quarterly figures for Bank Pekao, Zagrebačka, KFH, UCI Ireland and other minor companies not listed. TradingLab was merged into UBM effective from July 1, 2004.

(2) For the purpose of computing average balances, the interest income and expense amounts deriving from hedging transactions are allocated to the same line items as the transactions they are designed to hedge.

(3) Interest generated by stock and fixed assets refers to dividend and other non-interest income.

(4) Includes dividends and other income from equity investments.

**CHANGES IN INTEREST INCOME AND EXPENSES—VOLUME AND RATE ANALYSIS**

The following table allocates, by category of interest-earning assets and interest-bearing liabilities, changes in the UniCredit Group's net interest income among changes in average volume, changes in average rate and changes due to the effects of both rate and volume for the periods indicated.

Loan fees are included in net interest income. Tax-exempt income has not been calculated on a tax-equivalent basis because the effect of such calculations would not be significant.

	2004 Compared to 2003			
	Volume and Increase (Decrease) Due to Changes in:			
	Volume <sup>(1)</sup>	Yield/Rate <sup>(2)</sup>	Volume and Yield/Rate <sup>(3)</sup>	Total Net Change <sup>(4)</sup>
	(unaudited)			
	(€ millions)			
Increase (decrease) due to changes in:				
Loans to customers.....	940	(589)	(82)	269
Fixed-income securities.....	(70)	(41)	2	(108)
Interbank asset position.....	73	(121)	(11)	(59)
Stock and fixed assets.....	16	(83)	(7)	(73)
<b>Total interest and similar income.....</b>	<b>960</b>	<b>(834)</b>	<b>(97)</b>	<b>29</b>
Deposits (customers and securities) .....	248	(164)	(18)	67
Interbank liability position.....	156	(231)	(25)	(100)
Subordinated debt.....	(22)	(31)	3	(50)
Shareholders' equity: capital .....	—	—	—	—
Special purpose reserves, Write-downs and balance of other items.....	—	—	—	—
<b>Total Interest and similar expense .....</b>	<b>383</b>	<b>(426)</b>	<b>(40)</b>	<b>(83)</b>
<b>Net Interest Income<sup>(5)</sup>.....</b>	<b>577</b>	<b>(408)</b>	<b>(57)</b>	<b>112</b>

- (1) "Volume" corresponds to the average balance for the year minus the average balance for the previous year, multiplied by the average yield for such year.
- (2) "Yield/Rate" corresponds to the average yield/rate for the year minus the average yield/rate for the previous year, multiplied by the average balance for such year.
- (3) "Volume and Yield/Rate" corresponds to "Total Net Change" minus "Volume" minus "Yield/Rate".
- (4) "Total Net Change" corresponds to net interest income for the year minus net interest income for the previous year.
- (5) Including dividends and other income from equity investments.

**Average Net Interest Spread and Margin**

The following table shows the UniCredit Group's average interest-earning assets, average interest-bearing liabilities and net interest income and illustrates the comparative net interest margin and net interest spread for the periods indicated.

	As of and for Year Ended December 31,	
	2004	2003
	(unaudited) € millions, except percentages)	
Total average interest-earning assets .....	200,436	182,250
Total average interest-bearing liabilities.....	192,799	175,262
Net interest income <sup>(1)</sup> .....	5,200	5,088
Average yield on average interest-earning assets .....	4.48%	4.87%
Average rate on average interest-bearing liabilities.....	2.02%	2.27%
Net interest spread <sup>(2)</sup> .....	2.45%	2.59%
Net interest margin <sup>(3)</sup> .....	2.59%	2.79%

- (1) Net interest income corresponds to interest and similar income less interest and similar expense including dividends and other revenues from equity investments for the financial year.
- (2) Net interest spread corresponds to the difference between the average yield of interest-earning assets and average rate on interest-bearing liabilities.
- (3) Net interest margin corresponds to the ratio between net interest income and total average interest-earning assets.

**Securities Portfolio**
**Investment Securities**

As of December 31, 2004, the UniCredit Group's investment securities portfolio had a book value of €9,999 million, representing approximately 3.8% of the UniCredit Group's total assets. At that same date, the market value of the UniCredit Group's investment securities portfolio was €10,921 million.

The following table provides a breakdown of the book value and market value of the UniCredit Group's investment securities portfolio by category of security at the dates indicated.

	As of December 31,			
	2004		2003	
	Book Value	Market Value	Book Value	Market Value
	(audited) (€ millions)			
<b>Debt securities:</b>				
Government securities				
Listed .....	3,141	3,794	3,688	4,206
Unlisted .....	—	—	90	125
<b>Total government securities .....</b>	<b>3,141</b>	<b>3,794</b>	<b>3,778</b>	<b>4,331</b>
Other securities				
Listed .....	3,698	3,841	3,775	3,859
Unlisted .....	2,981	3,106	3,558	3,632
<b>Total other securities .....</b>	<b>6,679</b>	<b>6,947</b>	<b>7,333</b>	<b>7,491</b>
<b>Total debt securities .....</b>	<b>9,819</b>	<b>10,741</b>	<b>11,111</b>	<b>11,822</b>
Variable yield securities:				
Listed .....	16	16	10	10
Unlisted .....	164	164	150	150
<b>Total variable yield securities .....</b>	<b>180</b>	<b>180</b>	<b>160</b>	<b>160</b>
<b>Total investment securities .....</b>	<b>9,999</b>	<b>10,921</b>	<b>11,271</b>	<b>11,982</b>

The UniCredit Group values the securities held in its investment portfolio at their purchase cost adjusted for any write-downs necessary to account for the permanent deterioration of the solvency of the issuer and of the debt repayment capacity of the issuer's country of residence, unless there are appropriate guarantees. The write-downs carried out are cancelled in whole or in part when the reasons that gave rise to them no longer apply. Cost is determined using the principle of "weighted-average rolling cost" on a daily basis. This is adjusted using the "trading spread", the applicable portion of the difference between the acquisition cost and the higher or lower repayment value at maturity (including the issuance spread), which is increased or decreased by the interest generated by the securities.

**Trading Securities**

As of December 31, 2004, the UniCredit Group's trading securities portfolio had a book value of €19,917 million, representing approximately 7.5% of the UniCredit Group's total assets. At that same date, the market value of the UniCredit Group's trading securities portfolio was €19,957 million.

The UniCredit Group values the securities held in its trading portfolio at their market value, if listed on regulated markets, or at the lower of cost or market value, if not listed on regulated markets. The following table provides a breakdown by category of security of the book value and market value of the UniCredit Group's trading securities portfolio at the dates indicated.

	As of December 31,			
	2004		2003	
	Book Value	Market Value	Book Value	Market Value
	(audited) (€ millions)			
<b>Debt securities:</b>				
Government securities				
Listed .....	4,494	4,494	6,170	6,170
Unlisted.....	70	70	—	—
<b>Total government securities .....</b>	<b>4,564</b>	<b>4,564</b>	<b>6,170</b>	<b>6,170</b>
Other Securities				
Listed .....	8,244	8,244	6,966	6,968
Unlisted.....	5,397	5,438	3,155	3,168
<b>Total other securities.....</b>	<b>13,641</b>	<b>13,682</b>	<b>10,121</b>	<b>10,136</b>
<b>Total debt securities .....</b>	<b>18,205</b>	<b>18,245</b>	<b>16,291</b>	<b>16,306</b>
Variable yield securities:				
Listed .....	1,092	1,092	1,163	1,163
Unlisted.....	619	619	801	801
<b>Total variable yield securities.....</b>	<b>1,712</b>	<b>1,712</b>	<b>1,964</b>	<b>1,964</b>
<b>Total trading securities .....</b>	<b>19,917</b>	<b>19,957</b>	<b>18,255</b>	<b>18,270</b>

### Loan Portfolio

As of December 31, 2004, total loans were €179,043 million, representing 67.3% of the UniCredit Group's total assets; the UniCredit Group's loan portfolio has grown by 10.9% compared to the €161,444 million recorded as of December 31, 2003.

The following table summarizes the UniCredit Group's consolidated loan portfolio, net of write-downs.

	At December 31,				
	2004	2003	2002	2001	2000
	(audited, unless specified otherwise) (€ millions)				
Cash and deposits with central banks and post office .....	2,083	1,953	1,610	1,826	1,215
Loans to banks .....	36,521	32,783	28,099	24,981	24,904
Loans to customers <sup>(*)</sup> .....					
Domestic Business <sup>(1)</sup> .....	125,869	113,300	91,683	103,555	98,934
New Europe division <sup>(2)</sup> .....	14,051	11,848	10,947	10,349	8,888
Parent company and other companies <sup>(3)</sup> ..	12,068	13,447	21,972	11,644	16,062
Eliminations and adjustments .....	(11,550)	(11,886)	(10,778)	(7,926)	(8,727)
<b>Total loans to customers .....</b>	<b>140,438</b>	<b>126,709</b>	<b>113,824</b>	<b>117,622</b>	<b>115,157</b>
<b>Total net loans.....</b>	<b>179,043</b>	<b>161,445</b>	<b>143,533</b>	<b>144,429</b>	<b>141,276</b>

(\*) Unaudited

(1) Domestic Business as of December 31, 2004 is defined as the sum of the loans allocated to Retail Banking Division for €56,683 million; Corporate and Investment Banking Division for €67,686 million and Private Banking and Asset Management Division for €1,500 million.

Domestic Business as of December 31, 2003 is defined as the sum of the loans allocated to Retail Banking Division for €48,816 million, of which €4,512 million derive from the UniCredit Group's acquisition of ANBI, which was fully consolidated effective December 31, 2003; Corporate and Investment Banking Division for €63,436 million and Private Banking and Asset Management Division for €1,048 million.

Domestic Business as of December 31, 2002 is defined as the total customer loans of Credito Italiano, Banca CRT, Caritro, Cariverona, Cassamarca, Rolo Banca, CR Trieste, CR Carpi, Banca dell'Umbria and other domestic banks (the "Italian Banking Division") for a total of €88,656 million and UBM, TradingLab, PGAM and other minor banks (the "Wholesale Banking Division") for €3,027 million.

Domestic Business at December 31, 2001 is defined as the sum of Italian Banking Division for €100,843 million and of Wholesale Banking Division for €2,712 million.

Domestic Business at December 31, 2000 is defined as the sum of Italian Banking Division for €96,058 million and UBM and TradingLab for €2,876 million.

- (2) *New Europe Division as of December 31, 2004 is defined as Bank Pekao, Zagrebačka Banka d.d., Koç Bank, UniBanka, Bulbank, Živnostenská and UniCredit Romania S.A.*
- New Europe Division as of December 31, 2003 is defined as Bank Pekao, Zagrebačka Banka d.d., Koç Bank, UniBanka, Bulbank, Živnostenská and UniCredit Romania S.A.*
- New Europe Division as of December 31, 2002 is defined as Bank Pekao, Zagrebačka Banka d.d., UniBanka, Bulbank and UniCredit Romania S.A.*
- New Europe Division at December 31, 2001 is defined as Bank Pekao, UniBanka and Bulbank.*
- New Europe Division at December 31, 2000 is defined as Bank Pekao and Bulbank.*
- (3) *Includes the Bank and other consolidated UniCredit Group entities in which it directly owns shares (including the UniCredit Group's international representative offices) that are not allocated to the divisions.*

### Loan Portfolio by Type of Facility

The UniCredit Group's principal lending instruments are medium-term loans and mortgages, other non-overdraft lending and current account overdraft facilities. The following table presents the UniCredit Group's portfolio of loans to customers by type of facility, net of write-downs, for the periods indicated.

	At December 31,				
	2004	2003	2002 (audited) (€ millions)	2001	2000 <sup>(1)</sup>
Bills and Notes Discounted .....	973	1,124	1,470	1,978	1,928
Loans under financial leases .....	7,080	7,495	6,471	4,920	6,226
Current Accounts .....	22,292	21,143	21,472	24,697	22,744
Medium Term Loans and Mortgage loans ..	58,904	49,539	40,635	35,819	31,723
Loans .....	18,403	16,698	16,233	15,436	17,883
Other non overdraft lending .....	20,858	23,760	19,331	25,139	24,687
Other Types of Loans <sup>(2)</sup> .....	4,472	3,837	3,508	2,960	2,207
<b>Total Loans (net of repos) .....</b>	<b>132,982</b>	<b>123,596</b>	<b>109,120</b>	<b>110,949</b>	<b>107,398</b>
Non-performing Loans .....	2,621	2,373	2,104	1,822	2,005
Repurchase Agreements .....	4,835	740	2,600	4,851	5,754
<b>Total Loans to Customers .....</b>	<b>140,438</b>	<b>126,709</b>	<b>113,824</b>	<b>117,622</b>	<b>115,157</b>

- (1) *Amounts at December 31, 2000 were originally recorded in Italian Lire and subsequently translated into euro using the fixed exchange rate of Italian Lire 1,936.27 per euro, established as of January 1, 1999.*
- (2) *Other types of loans are defined as factoring transactions and other types of loans.*

As of December 31, 2004, only one group of related borrowers, the Pirelli Telecom group, accounted for more than 10% of the UniCredit Group's total capital for regulatory purposes, with a risk-weighted aggregate position of €3.1 billion, representing 2.21% of the UniCredit Group's total loans to customers.

### Loan Portfolio by Location of Customer in Countries at Risk

The following table sets forth the UniCredit Group's unsecured loan exposure towards countries that are at risk as of December 31, 2004, 2003, 2002, 2001 and 2000 respectively.

	At December 31,				
	2004	2003	2002	2001	2000 <sup>(1)</sup>
			(unaudited)		
			(Book value <sup>(2)</sup> )		
			(€ millions)		
<b>Eastern Europe:</b>					
Russian Federation.....	—	10	18	31	28
Bosnia-Herzegovina <sup>(3)</sup> .....	—	—	5	—	—
Croatia.....	—	—	—	—	—
Ex-Yugoslavia .....	—	—	—	1	1
<b>Total Eastern Europe.....</b>	<b>—</b>	<b>10</b>	<b>23</b>	<b>32</b>	<b>29</b>
<b>South America and Caribbean:</b>					
Brazil.....	15	25	16	14	5
Panama .....	—	8	—	—	—
Venezuela .....	2	2	4	6	2
Cayman Islands .....	—	4	—	—	—
Cuba .....	—	—	—	4	1
Argentina .....	1	1	2	3	8
<b>Total South America and Caribbean .....</b>	<b>18</b>	<b>40</b>	<b>22</b>	<b>27</b>	<b>16</b>
<b>Africa:</b>					
Egypt <sup>(4)</sup> .....	—	—	7	10	11
Tunisia <sup>(4)</sup> .....	—	—	3	—	—
Algeria .....	—	4	6	5	5
Morocco .....	—	—	—	—	—
Liberia .....	—	—	—	1	1
Republic of South Africa .....	—	—	—	3	6
<b>Total Africa .....</b>	<b>—</b>	<b>4</b>	<b>16</b>	<b>19</b>	<b>23</b>
<b>Far East:</b>					
Indonesia.....	0.3	—	2	3	4
North Korea.....	—	—	—	2	1
<b>Total Far East.....</b>	<b>0.3</b>	<b>—</b>	<b>2</b>	<b>5</b>	<b>5</b>
<b>Other .....</b>	<b>51</b>	<b>16</b>	<b>20</b>	<b>8</b>	<b>38</b>
<b>Total Country at Risk .....</b>	<b>70</b>	<b>70</b>	<b>83</b>	<b>91</b>	<b>111</b>
<i>of which:</i>					
Loans to Customers .....	52	34	49	54	62
Loans to Banks .....	18	36	34	37	49

(1) Amounts at December 31, 2000 were originally recorded in Italian Lire and subsequently translated into euro using the fixed exchange rate of Italian Lire 1,936.27 per euro, established as of January 1, 1999.

(2) The book value of loans and advances (net of guarantees) to customers and banks in countries at risk is defined as the face value less adjustments less guarantees.

(3) As in 2003, exposure towards Bosnia and Herzegovina is included in "Other" and for 2004 represents €46.62 million.

(4) Egypt and Tunisia have been removed from the list of countries at risk during the year 2003.



**Loan Portfolio by Contractual Maturity**

The following table presents the contractual maturity distribution for the loans to banks and to customers held by the UniCredit Group as of December 31, 2004.

As of December 31, 2004						
Total Net Loans						
	On Demand	Due Within 3 Months	Due in 3 Months to 1 Year	Due in 1 Year to 5 Years	Due Over 5 Years	Unspecified Term
	(audited) (€ millions)					
						Total
Loans to Banks <sup>(1)</sup> .....	3,482	23,189	3,883	122	9	36,521
Loans to Customers <sup>(1)</sup> .....	26,967	23,851	13,259	33,840	38,708	140,438
<b>Total</b> .....	<b>30,449</b>	<b>47,040</b>	<b>17,142</b>	<b>33,962</b>	<b>38,717</b>	<b>176,959</b>

(1) Loans to banks are net of write-downs. The total write-downs on loans to banks are €82.35 million out of €36,603.37 million of Total Gross Banks loans (i.e. write-downs weight on overall gross exposure is 0.22%). Loans to customers are net of write-downs. The total write-downs on customer loans are €5,875.69 million out of €146,314.136 million of Total Gross Customer loans (i.e. write-downs weight on total gross customer loans is 4.02%). Total weight of write-downs on total gross exposure is 3.26%.

The following table shows the composition, fixed or variable, of the UniCredit Group's total net loans portfolio to banks and to customers, according to the specified contractual maturity, as of December 31, 2004.

As of December 31, 2004						
	Between One to Five Years		Over Five Years		Total <sup>(1)</sup>	
	Fixed Rate	Floating Rate	Fixed Rate	Floating Rate	Fixed Rate	Floating Rate
	(audited) (€ millions)					
Loans to Banks.....	43	79	4	5	47	84
Loans to Customers.....	6,475	27,365	4,484	34,224	10,959	61,589
<b>Total</b> <sup>(2)</sup> .....	<b>6,518</b>	<b>27,444</b>	<b>4,488</b>	<b>34,229</b>	<b>11,006</b>	<b>61,673</b>

(1) Total net loans having a maturity of one year or more, excluding loans with an unspecified maturity.

(2) Loans to banks and to customers are net of write-downs.

**Risk Elements in the Loan Portfolio**

The UniCredit Group analyzes the risk elements in its loan portfolio based on Italian regulations and industry practice and on applicable local regulations and industry practices in the other countries in which the UniCredit Group conducts business. Investors should be aware that the UniCredit Group's loan classification policies differ significantly from those followed by banks in other European Union countries and in the United States.

In particular, the UniCredit Group classifies its loan portfolio into five broad categories (performing loans, doubtful loans, non-performing loans, loans to borrowers located in countries "at risk" and consolidated or restructured exposure, or subject to consolidation or restructuring) based on the loan classification system established by the Bank of Italy, as more fully set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations of the UniCredit Group—Critical Accounting Policies—Allowance for Loans, Guarantees and Commitments". The UniCredit Group implements its provisioning policy on both a case-by-case basis and a general basis. For a discussion of the UniCredit Group's credit risk assessment and monitoring policies and procedures, see "Capital Allocation and Risk Management of the UniCredit Group—Credit Risk".

The following table sets forth information about the quality of the UniCredit Group's loan portfolio for the periods indicated. The "totals" presented are net of write-downs, which are analyzed under "– Movement in Allowances for Loan Losses".

	At December 31,				
	2004	2003	2002 (unaudited) (€ millions)	2001	2000 <sup>(1)</sup>
<b>Bad and Doubtful Loans</b>					
Non-performing Loans <sup>(2)</sup> .....	2,622	2,378	2,112	1,836	2,018
Doubtful Loans <sup>(3)</sup> .....	1,991	2,158	1,852	1,709	1,530
Loans subject to restructuring or consolidation <sup>(4)</sup> .....	59	13	7	1	3
Restructured or consolidated Loans <sup>(5)</sup> .....	178	136	158	220	252
Loans to borrowers in countries "at risk" <sup>(6)</sup> .....	70	70	83	91	111
<i>Total bad and doubtful loans</i> .....	<u>4,920</u>	<u>4,755</u>	<u>4,212</u>	<u>3,857</u>	<u>3,914</u>
<b>Performing loans</b> .....	<u>172,039</u>	<u>154,738</u>	<u>137,710</u>	<u>138,745</u>	<u>136,147</u>
<b>Total</b> .....	<u><u>176,959</u></u>	<u><u>159,493</u></u>	<u><u>141,922</u></u>	<u><u>142,602</u></u>	<u><u>140,061</u></u>

- (1) Amounts for 2000 were originally recorded in Italian Lire and subsequently translated into euro using the fixed exchange rate of Italian Lire 1,936.27 per euro.
- (2) Non-performing loans are defined as those loans that have formally deteriorated, and consist of exposure to customers that find themselves in a state of insolvency.
- (3) Doubtful loans are defined as those loans to borrowers that find themselves in temporary difficulties, which are expected to be resolved within a reasonable period of time.
- (4) Loans subject to restructuring or consolidation are defined as those loans that are valued on a general basis using the percentages calculated by the industry, and loans that are subject to periodic review with regard to the countries to be included in this area.
- (5) Restructured loans are defined as the exposure to counterparties with which agreements have been or are being concluded, which call for the granting of a moratorium on debt repayment and the renegotiation of terms and conditions at below-market terms and interest rates.
- (6) Loans to borrowers in countries "at risk" are defined as loans to borrowers located in countries that have difficulties servicing their sovereign debt. They are valued using the percentages adopted by the Italian banking industry.

#### Movement in Allowances for Loan Losses

The following table sets forth the movement in write-downs for the Financial Years ended December 31, 2004, 2003, 2002, 2001 and 2000, respectively.

	Year Ended December 31,				
	2004	2003	2002 (unaudited) (€ millions)	2001	2000 <sup>(1)</sup>
<b>Initial total write-downs</b> .....	5,491	4,955	4,006	4,177	3,835
<i>of which: for overdue interest</i> .....	1,473	1,349	1,149	1,313	1,298
<b>Increases</b> .....	2,261	2,266	2,548	2,013	1,989
Write-downs .....	1,700	1,763	1,776	1,556	1,560
<i>of which: for overdue interest</i> .....	283	299	341	321	184
Use of loan loss reserves .....	1	—	—	39	35
Transfers from other categories of loans .....	254	190	222	257	179
Other increases .....	306	312	550	161	215
<b>Decreases</b> .....	1,794	1,729	1,599	2,184	1,647
Write-backs from assessments .....	122	167	179	183	128
<i>of which: for overdue interest</i> .....	—	2	—	3	1
Write-backs from recoveries and collections .....	331	265	220	202	354
<i>of which: for overdue interest</i> .....	51	39	22	23	32
Write-offs .....	933	792	742	1,252	849
Transfers to other categories of loans .....	254	190	222	257	179
Other decreases .....	154	315	237	290	136
<b>Final total write-downs</b> .....	<u>5,958</u>	<u>5,491</u>	<u>4,955</u>	<u>4,006</u>	<u>4,177</u>
<i>Of which: for overdue interest</i> .....	<u>1,614</u>	<u>1,473</u>	<u>1,349</u>	<u>1,149</u>	<u>1,313</u>

- (1) Amounts for the year 2000 were originally recorded in Italian Lire and subsequently translated into euro using the fixed exchange rate of Italian Lire 1,936.27 per euro, established as of January 1, 1999.

The following table sets forth information on the UniCredit Group's loans to customers and banks by performing and non-performing loans, gross and after write-downs, as of December 31, 2004 and 2003 respectively.

	As of December 31,					
	2004			2003		
	Gross Exposure	Write Downs	Net Exposure	Gross Exposure	Write Downs	Net Exposure
			(unaudited) (€ millions)			
Performing loans .....	173,347	1,308	172,039	155,929	1,191	154,738
<b>Bad and doubtful loans:</b>						
Non-performing loans .....	6,667	4,045	2,622	5,989	3,611	2,378
Doubtful loans .....	2,484	493	1,991	2,738	580	2,158
Loans subject to restructuring or consolidation .....	68	9	59	19	6	13
Restructured or consolidated loans.....	267	89	178	226	90	136
Loans to borrowers in countries "at risk" .....	85	15	70	83	13	70
<i>Total bad and doubtful loans.....</i>	<u>9,571</u>	<u>4,650</u>	<u>4,920</u>	<u>9,055</u>	<u>4,300</u>	<u>4,755</u>
<b>Total loans .....</b>	<u>182,918</u>	<u>5,958</u>	<u>176,959</u>	<u>164,984</u>	<u>5,491</u>	<u>159,493</u>

The following table sets forth information on the UniCredit Group's loans to banks by performing and non-performing loans, gross and after write-downs, as of December 31, 2004 and 2003 respectively.

	As of December 31,					
	2004			2003		
	Gross Exposure	Write Downs	Net Exposure	Gross Exposure	Write Downs	Net Exposure
			(audited) (€ millions)			
Performing loans .....	36,502	—	36,502	32,742	—	32,742
<b>Bad and doubtful loans:</b>						
Non-performing loans .....	81	80	1	107	102	5
Doubtful loans .....	—	—	—	1	—	—
Loans subject to restructuring or consolidation .....	—	—	—	—	—	—
Restructured or consolidated loans.....	—	—	—	—	—	—
Loans to borrowers in countries "at risk" .....	20	2	18	39	3	36
<i>Total bad and doubtful loans.....</i>	<u>101</u>	<u>82</u>	<u>19</u>	<u>147</u>	<u>105</u>	<u>41</u>
<b>Total loans .....</b>	<u>36,603</u>	<u>82</u>	<u>36,521</u>	<u>32,889</u>	<u>105</u>	<u>32,783</u>

The following table sets forth information on the UniCredit Group's loans to customers by performing and non-performing loans, gross and after write-downs, as of December 31, 2004 and 2003 respectively.

	As of December 31,					
	2004			2003		
	Gross Exposure	Write Downs	Net Exposure	Gross Exposure	Write Downs	Net Exposure
			(audited) € millions)			
Performing loans .....	136,844	1,307	135,537	123,187	1,191	121,996
Bad and doubtful loans:						
Non-performing loans .....	6,586	3,965	2,621	5,882	3,509	2,373
Doubtful loans .....	2,484	493	1,991	2,737	580	2,158
Loans subject to restructuring or consolidation .....	68	9	59	19	6	13
Restructured or consolidated loans.....	267	89	178	226	90	136
Loans to borrowers in countries "at risk" .....	65	13	52	44	10	34
Total bad and doubtful loans.....	9,470	4,568	4,901	8,908	4,195	4,713
Total loans .....	146,314	5,876	140,438	132,095	5,386	126,709

The following table provides selected credit quality ratios for the UniCredit Group for the years ended December 31, 2004 and 2003 respectively.

	Financial Year Ended December 31,	
	2004	2003
	(unaudited) (%)	
Credit Quality Ratios		
Net non-performing loans to customers/Net loans to customers.....	1.87	1.87
Net bad and doubtful loans to customers/Net loans to customers.....	3.49	3.72
Write-downs as percentage of gross loans to customers .....	4.02	4.08
Total net bad and doubtful loans/Gross loans to customers .....	3.35	3.57

### Deposits by Contractual Maturity

	Financial Year Ended December 31, 2004								
	On Demand	Up to 3 Months	3 to 12 Months	1 to 5 Years		Over 5 Years		Unspecified Term	Total
				Fixed Rate	Indexed Rate	Fixed Rate	Indexed Rate		
				(audited) (€ millions)					
Due to banks .....	3,568	27,884	4,004	92	1,567	41	530	16	37,702
Due to customers ..	66,710	31,213	3,496	461	776	30	188	790	103,664
Securities in issue ..	1,014	21,057	8,563	4,543	10,253	4,730	2,945	1	53,106
Total customer deposits <sup>(1)</sup> .....	71,292	80,154	16,063	5,096	12,596	4,801	3,663	807	194,472
Subordinated debt .	—	—	24	808	44	2,309	3,356	—	6,541

(1) Excludes €142 million in deposits received in administration.

### Return on Equity and Return on Assets

The following table sets forth certain financial performance ratios for the years ended December 31, 2004 and 2003, respectively.

	Financial Year Ended December 31,	
	2004	2003
	(unaudited) (%)	
ROE <sup>(1)</sup> .....	17.90%	17.70%
ROE (excluding amortization of goodwill) .....	20.20%	20.10%
Operating Profit on Total Assets <sup>(2)</sup> .....	1.67%	2.00%
Dividend pay-out ratio <sup>(3)</sup> .....	60.20%	55.1%

(1) Defined as the UniCredit Group portion of net income for the year (after preferred share dividends but before dividends on ordinary shares) divided by the book value of shareholders' equity (excluding the UniCredit Group portion of net income for the current year) as of the end of the year, expressed as a percentage.

(2) Defined as the net operating profit of the UniCredit Group divided by total assets, expressed as a percentage.

(3) This ratio measures the percentage of net income distributed as dividends.

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# Capital Allocation and Risk Management of the UniCredit Group

## OVERVIEW

The UniCredit Group is exposed to risks inherent to the nature of its business activity. Such risks include credit risk, liquidity risk, country risk, market risk (such as interest rate and currency risks), operational risk and business risk. The purpose of risk management is to measure and control the risks arising from the UniCredit Group's activities. The UniCredit Group has prioritized activities focusing on capital management and allocation (for both regulatory and economic capital) according to the risks assumed for the purposes of expanding its operations. These activities are currently in the various planning and monitoring phases and consist of:

- *Planning and budgeting processes*
  - definition of risk appetite and capitalization objectives;
  - analysis of risks associated with the UniCredit Group's business lines and allocation of capital by division;
  - assignment of risk-adjusted performance objectives;
  - analysis of the impact on the UniCredit Group's value and the creation of value for shareholders; and
  - preparation and proposal of financial plans and dividend policy; and
- *Monitoring processes*
  - analysis of performance achieved at the UniCredit Group and division level and preparation of management data for internal and external use;
  - analysis and monitoring of limits; and
  - analysis and performance monitoring of the capital ratios of the UniCredit Group and individual companies.

In this context, considerable importance is attributed to risk control and management activities performed by the UniCredit Group's risk management function, which is also responsible for developing internal assessment methods benchmarked against best international practices.

These processes are coordinated by the Bank, which supervises all risks assumed by individual UniCredit Group business units and assists them in establishing strategies for monitoring such risks in order to ensure that uniform methods for risk measurement are used. This entails proposing and verifying measurement methods used by UniCredit Group companies and monitoring existing limits at the individual and consolidated level.

Within the Bank, risk management duties are assigned to:

- the Operational Risk Management ("ORM") unit within the Administration department, which monitors operational risks;
- the Strategy and Credit Policy ("SCP") unit within the Credit department, which monitors credit risk;
- the Capital Allocation & Risk Management ("CARM") unit within the Planning and Finance department, which monitors market and liquidity risks and combines all types of risks in order to measure the UniCredit Group's overall exposure for the purposes of managing economic and regulatory capital levels.

## PROJECT BASEL II

In connection with the upcoming enactment of the new set of regulations known as Basel II, at the beginning of 2003 the UniCredit Group launched a project ("Project Basel II") aimed at combining its risk management



activities, business opportunities and the regulatory aspects of Basel II (calculation of capital requirements using the advanced internal ratings-based (“IRB”) approach for credit risk and advanced management approaches (“AMA”) for operational risk). The UniCredit Group views these new regulations as an opportunity to improve its capacity to manage risk for both individual companies and the UniCredit Group as a whole. The Bank expects this will lead to an enhancement of its overall efficiency and an improvement in its resource allocation strategy.

Project Basel II is divided into five modules (credit risk, market risk, risk integration, operational risk and commercial policies and strategies) coordinated by the UniCredit Group’s Planning and Finance department. The Credit department is responsible for development and implementation of the credit risk module of Project Basel II, which is coordinated by its SCP unit. The Planning and Finance department is responsible for the development and implementation of market risk and risk integration modules, which are coordinated by its CARM unit.

The objective of the operational risk module, which is pursued by the UniCredit Group’s ORM unit within the Administration department, is to develop a model for managing and measuring this risk, compliant with the requirements set for AMA models of Basel II.

The Bank believes that the risk measurement methods used by the UniCredit Group and described below are substantially in line with the framework contemplated by Basel II.

### **CREDIT RISK**

Credit risk is the risk that a counterparty will not be able to meet its obligations as they become due. The UniCredit Group’s Credit department is responsible for managing credit risk by ensuring that the methods developed are kept updated and are properly implemented throughout the UniCredit Group. This task has been facilitated by the UniCredit Group’s establishment of three divisions focused on client segments (corporate, private and retail) pursuant to Project S3.

Credit quality is monitored by managing the specific risk of each counterparty, as well as the overall risk of the loan portfolio.

With regard to the specific risk component (i.e., that associated with individual borrowers), the focus of the methods and tools used in the process of credit analysis and on-going loan management is to assign to each customer a succinct, standardized assessment in the form of a rating. To this end, given the internal segment a customer has been assigned to, the credit process requires high added-value and client-differentiated assessment of a borrower’s creditworthiness.

#### **Corporate Clients**

Loans to corporate customers are approved following an analysis of relevant operating, balance sheet and projected cash flow data, together with a review of qualitative information about the prospective borrower and the market in which it operates (including an assessment of management, competitive position, sector performance and environmental factors). This information is accessible in electronic format by the UniCredit Group’s relationship managers, which streamlines the credit assessment process. All this information is statistically summarized in an internal rating, which takes into account quantitative and qualitative assessment elements as well as performance information taken from the management “scoring” procedures described below. Since July 2004, a new and improved version of the internal rating system has been implemented and used by UniCredit Banca d’Impresa to assess Corporate customers and to calculate lending limits.

The UniCredit Group has also developed models reflecting the specific characteristics of the countries in which its international branches are situated in order to permit an appropriate credit assessment of their corporate customers. In addition to the quantitative and qualitative elements mentioned above, these models take into account the risk of a country not allowing payments in foreign currency (transfer risk) and the support of the controlling group.

#### **Small Business Clients**

For companies classified as small businesses, the UniCredit Group has established an automatic assessment process that uses a special algorithm, structured as a scoring grid broken down by type of legal entity and accounting regime, that assigns a rating for the approval of credit facilities. In the second half of 2004 the

statistical scoring was combined with the performance scoring (described below), into a new tool. This has become a regular part of the credit process linking lending limits to rating categories.

The UniCredit Group has introduced, for Corporate and Small Business customers, a monitoring process called “performance monitoring process” which monitors on a monthly basis all of its relationships with corporate and small business customers. Performance management scoring algorithms, which are differentiated by customer segment, predict and analyze selected performance and financial data in order to identify, with sufficient lead-time, customers that demonstrate symptoms of risk deterioration. Each risk profile is associated with precise rules and operating performance standards, which Group banks must adhere to, and which are monitored centrally using a dedicated software application.

### **Individual Clients**

For individual customers, the UniCredit Group uses a loan scoring system differentiated by type of loan (overdrafts, medium term loans, mortgages, personal loans and revolving credit cards), which is developed through statistical analysis of demographic data obtained from public and private credit bureaus and performance information. Moreover a risk monitoring score by product has been implemented. In addition, as in Corporate and Small Business, the credit assessment and performance monitoring system have been combined into a new rating tool called RIP (integrated private individual rating).

### **Financial Institution Clients**

With regard to its financial institution customers, the UniCredit Group has implemented, consistent with all other loan portfolio segments, a credit rating model that allows it to estimate the credit risk and improve its current internal rating system in order to determine a theoretical reliability ceiling for these customers, based on the actual risk measured in terms of expected loss and operating capital. During the loan approval process, this rating is further reviewed using an “environmental module” that assesses the degree to which the UniCredit Group’s prospective counterparty takes environmental factors into account in its lending policies.

### **Foreign Bank Subsidiaries’ Clients**

Regarding its bank subsidiaries outside Italy, the UniCredit Group has established special task forces combining resources from the Bank and from foreign branches in order to harmonize the organizational structures, processes and credit instruments of these subsidiaries with the Italian subsidiaries. To this end, Bank personnel have been assigned to key positions in the credit organization of certain of the UniCredit Group’s foreign banks. The UniCredit Group has also approved and implemented new processes for credit policies, bank and country risk, reporting instruments and the large exposures management for which credit underwriting department of the Bank is requested to express an opinion or an approval on such exposures.

The process of reviewing the credit risk management of the New Europe banks was launched in 2002 and is nearing completion. Within the credit department, this project is being managed by the foreign banks credit risks unit whose objective is to transfer to those banks the best practices developed by the Bank in terms of methods, credit instruments and processes. The human resources department has launched an intensive training program to support this initiative.

The corporate internal rating system was implemented by the UniCredit Group in Bank Pekao, Koc, Bank, Zagrebačka Banka d.d., Bulbank, Unibanka and Živnostenská. Also, the UniCredit Group is in the process of implementing this system in UniCredit Romania S.A..

The UniCredit Group has implemented a loan approval procedure for mass-market customers in Bank Pekao, Bulbank, Zagrebačka Banka d.d., Unibanka and Živnostenská and the UniCredit Group intends gradually to extend it to its other foreign banks. This loan approval system, which was developed using the same approach adopted in Italy, is based on socio-demographic information and, where available, on data from external sources (e.g., credit bureaus). A customized scoring system has been developed for Bulbank, while for Pekao and Zivno the model will be completed by the end of 2005. Where adequate historical database were not available, the UniCredit Group implemented in the beginning scorecards acquired from third party vendors operating in these countries. A similar procedure was also used for small business customers in Bank Pekao, Bulbank, Unibanka, Živnostenská and will be extended in Koc, Bank and Zagrebačka Banka d.d. during 2005.

An automated performance monitoring process for corporate customers and small businesses has been completed in Zagrebačka Banka d.d. and Koc, Bank, and will be extended to all other foreign banks during 2005.

### Portfolio Model

Finally, portfolio risk is monitored using a credit risk management model developed internally and implemented to take into account portfolio focus and sector correlations, transfer risk, remaining loan maturities and counterparty risk for over-the-counter derivatives.

At present, about 90% of the UniCredit Group's credit exposure is assessed using the portfolio model, which measures the absorption of operational capital that are substantially lower than the minimum required for regulatory purposes.

### Country Risk

The UniCredit Group manages country risk by determining the maximum operational levels of risk that can be assumed by companies belonging to the UniCredit Group with respect to banks, government entities, financial institutions and companies residing in or related to certain specific countries.

The method for analyzing the risk profile of a specific country is now based on quantitative criteria. This has taken the form of a country credit scoring model (the "CCS Model") based on standard criteria applicable to all countries considered to be at risk. The CCS Model summarizes and analyzes the primary macroeconomic indicators for the country under consideration, its political and economic situation.

In view of the requirements of Basel II, the CCS Model has been updated through the new country rating model of the Bank which calculates the sovereign probability of default within 12 months based on the same criteria that have been adopted for all other sectors of the credit portfolio of the Bank. The new model is being included into the current credit procedures and will enable the Bank to identify the risk that the UniCredit Group may assume with respect to any such individual country, within which the maximum operational risk levels noted above are subsequently approved.

All elements that contribute to the development of the country rating model are updated automatically using databases supplied by leading specialized companies.

### Market Risks

Market risk is defined as the potential loss arising from an adverse change in the financial market prices of our positions in the trading or banking book. For the UniCredit Group, market risk is associated with its positions resulting from trading operations (the UniCredit Group's "trading book"), as well as commercial operations and strategic investment decisions (the UniCredit Group's "banking book"). Market risk comprises the risk categories interest rates, exchange rates, commodities, equity and credit spread risks.

### Organizational Structure

The Board establishes strategic guidelines for the assumption of market risk by defining capital allocation parameters for the Bank and its subsidiaries, according to the relevant risk propensity and profitability objectives of each business unit.

The Board has established a "Risk Committee" composed of the managing director/CEO, the division heads, and the heads of the Planning and Finance, Administration and Credit departments and chaired by the managing director/CEO or, in his or her absence, the head of the Planning and Finance department. The Risk Committee has a consulting and advisory role in respect of decisions made by the Managing Director/CEO or the definition of proposals by the managing director/CEO to the executive committee or Board for:

- the determination of UniCredit Group risk policies (identification and management of risks, propensity for risk, capital allocation targets and limits by type of risk, allocation of related functional responsibilities to appropriate departments and divisions); and
- the determination of corrective action to stabilize the UniCredit Group's risk positions.

The Bank's CARM unit ensures that the methodologies for measuring UniCredit Group risks are standardized, and that the processes for market risk monitoring and management applied by subsidiaries are consistent and uniform. The CARM unit is also responsible for measuring and controlling risks for individual UniCredit Group companies and at the consolidated level, in order to monitor overall exposure. Each individual business unit, through its specific risk control areas, is directly responsible for controlling risks assumed pursuant to guidelines set by the Bank. In addition, the CARM unit proposes limits and investment

policies for the UniCredit Group and its individual legal entities in accordance with the capital allocation process and annual budget.

**Methods**

The Bank measures market risk with respect to the UniCredit Group's trading positions through Value at Risk ("VaR"), which is calculated using the historical simulation approach. This model provides for the daily revaluation of positions on the basis of historical market price performance over the preceding twelve months. The resulting distribution of profits and losses is analyzed to determine the impact of extreme market movements on portfolio values. The parameters used to calculate VaR are as follows: observation period of one year; confidence interval of 99%; time horizon of one day; daily updating of time series. The consideration of a one-day time horizon allows for an immediate comparison with profits/losses generated. The method used makes it possible to use a flexible approach to monitor a broad group of risks ( $\delta$ ;  $\gamma$ : for products with a non-linear profile; vega: over the entire volatility curve;  $\beta$ : due to the discount rate) and provides accurate calculations of volatility and correlations.

The VaR internal model, developed by UBM and approved by the regulatory authorities, is currently applied to the positions of the Bank, UBM, UCI Ireland, and the securities portfolios managed by the treasury departments of Bulbank and Unibanka. The VaR internal model will be implemented by the other subsidiaries of the UniCredit Group as part of the implementation of the Basel II rules. See also "—Project Basel II."

For banking book positions, the Bank currently uses the sensitivity analysis and the gap liquidity analysis methods. Sensitivity analysis measures the variation in the value of positions on the basis of pre-established shocks to the interest rate curve (through parallel and non-parallel shifts). In general, a parallel shift of 100 basis points for all time buckets of the curve is considered. The purpose of the analysis is to assess the impact of rate shock on net interest income for the current period by taking into consideration different assumptions on the stickiness elasticity of sight deposits. Gap liquidity analysis provides the liquidity position for each time bucket on a precise, cumulative basis. The analyses described are differentiated by currency.

**The Market Risks of Trading Book Activities**

The market risks of the UniCredit Group's trading book activities are the risks resulting from positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book. Accordingly, these risks are associated with positions generated by transactions involving fixed-rate securities and stocks, exchange rates, derivatives and money market instruments.

As set forth in the table below, the average daily combined VaR of the UniCredit Group's total trading activities in the six months ended June 30, 2005 was €8.46 million, with a maximum VaR of €12.54 million and a minimum VaR of €5.62 million. Compared to 2004, the average VaR for the UniCredit Group increased due primarily to a reduction of the diversification benefit between the trading positions held by the Legal Entities.

In 2004, the average daily combined VaR of the UniCredit Group's total trading activities was €8.36 million, with a maximum VaR of €14.00 million and a minimum VaR of €4.53 million. This represented an overall increase in average, maximum and minimum VaR for the UniCredit Group as compared to 2003 that was largely due to changes in the VaR calculation methodology to adapt to UBM's model. The average daily VaR for the UniCredit Group for 2004 was €6.11 million, with a maximum VaR of €10.19 million and a minimum VaR of €2.55 million. The average daily VaR for UBM's and TradingLab's trading and market-making activities for 2004 was €3.81 million, with a maximum VaR of €6.46 million and a minimum VaR of €2.28 million.

During 2003, the UniCredit Group's New Europe banks also adopted VaR calculation methodology based on historical simulation in keeping with the market risk monitoring procedures defined by the UniCredit Group and in accordance with regulations of the respective central banks and investment policies approved for each bank. With the daily co-operation of the local risk management units of the New Europe banks, the UniCredit Group's risk management unit combines VaR for market risk considering the positive effect of diversification over the simple aggregate of the various risk components.

The following table summarizes daily VaR for total trading activities for the six months ended June 30, 2005 and the year ended December 31, 2004, broken down by division.

Daily VaR for Total Trading Activities	Half Year 2005 VaR <sup>(1)</sup>			2004 Average VaR
	Average	Maximum	Minimum	
	(unaudited)			
	€ thousands, except percentages)			
UniCredit .....	6,205	7,595	4,039	6,117
UCI Ireland .....	471	638	364	723
UBM .....	3,505	4,781	2,501	3,812
New Europe .....	896	1,424	537	994
Risk Diversification Factor 25% .....	(2,606)	n/a	n/a	(3,771)
Total for Trading Activities .....	8,460	12,537	5,621	8,361

(1) Amounts gross of minority interests.

Daily VaR for Total Trading Activities	2004 VaR <sup>(1)</sup>			2003 Average VaR
	Average	Maximum	Minimum	
	(unaudited)			
	€ thousands, except percentages)			
UniCredit .....	6,117	10,192	2,550	3,975
UCI Ireland .....	723	1,136	513	429
UBM – TradingLab .....	3,812	6,460	2,277	4,428
New Europe .....	994	2,240	456	1,855
Risk Diversification Factor <sup>(2)</sup> 31 % .....	(3,771)	n/a	n/a	n/a
Total for Trading Activities .....	8,361	14,001	4,527	7,979

(1) Amounts gross of minority interests.

(2) The diversification factor represents the effect of the benefit deriving from the low correlation between different investments or portfolios instead of considering the simple sum of the single components. A positive diversification implies that the risk of a portfolio is less than the sum of the risks of its individual components.

The following table summarizes daily VaR for total trading activities in the New Europe Division for the six months ended June 30, 2005 and the year ended December 31, 2004.

Daily VaR for Total Trading Activities in New Europe	Half Year 2005 VaR <sup>(1)</sup>			2004 Average VaR
	Average	Maximum	Minimum	
	(unaudited)			
	€ thousands, except percentages)			
Pekao Bank .....	508	1,208	215	402
Koç .....	460	1,240	147	702
Zagreba ka Banka .....	518	692	416	259
Živnostenska Banká .....	93	136	44	68
UniBanka .....	132	343	55	142
Bulbank .....	358	405	281	325
Risk Diversification Factor 56%.....	(1,111)	n/a	n/a	(905)
Total for New Europe.....	896	1,424	537	994

(1) Amounts gross of minority interests.

	2004 VaR <sup>(1)</sup>			2003 Average VaR
Daily VaR for Total Trading Activities in New Europe	Average	Maximum	Minimum	
	(unaudited)			
	€ thousands, except percentages)			
Pekao Bank .....	402	993	152	859
Koç .....	702	2,860	186	643
Zagrebačka Banka .....	259	472	124	275
Živnostenska Banka .....	68	260	28	328
UniBanka .....	142	317	78	415
Bulbank .....	325	579	226	334
Risk Diversification Factor 46% .....	(905)	n/a	n/a	798
Total for New Europe .....	994	2,240	456	1,855

(1) Amounts gross of minority interests.

### The Market Risks of Banking Book Activities and Asset and Liability Management

The UniCredit Group's asset and liability management ("ALM") team within the Planning and Finance department supervises the utilization of the operative asset and liability management system ("ALMO") for managing, on a daily basis, interest and currency exchange rate risks and liquidity risk at UniCredit Banca, UniCredit Banca d'Impresa, Private Banking, Clarima and UniCredit Banca per la Casa. It also actively manages on a quarterly basis the UniCredit Group's structural liquidity risk over the medium and long term with the goal of maintaining a positive balance between structural deposits and loans, collected by the Bank on behalf of the whole UniCredit Group.

In addition, the ALM team monitors interest rate and liquidity risk by using liquidity analysis and gap analysis models, respectively, on a monthly basis for Italian companies and quarterly for foreign banks. The main methodology used evaluates the impact of changes in market interest rates on the UniCredit Group's net interest income: through a static gap analysis the UniCredit Group measures the impact due to an increase (or decrease) of market interest rates on its net interest income over a period of twelve months.

As of June 30, 2005, the UniCredit Group's analysis of the impact on net interest income over the next twelve months of an increase/decrease of 50 basis points resulted in a decrease of €141 million of the UniCredit Group's net interest income if interest rates decrease, and recorded an increase of €89 million of the UniCredit Group's net interest income if interest rates increase. As of December 31, 2004, the UniCredit Group's analysis of the impact on net interest income over the next twelve months of an increase/decrease of 100 basis points resulted in a decrease of €284 million of the UniCredit Group's net interest income if interest rates decrease by 100 basis points, and recorded an increase of €288 million of the UniCredit Group's net interest income if interest rates increase by 100 basis points.

The following tables set forth the sensitivity gap on the UniCredit Group's assets and liabilities as of June 30, 2005 and December 31, 2004, by first repricing date. Information relates to the UniCredit Group's assets and liabilities for the following banks and companies: UniCredito Italiano Holding, UniCredit Banca, UniCredit Banca d'Impresa, Banca per la Casa, UniCredit Private Banking, UniCredit Banca Mediocredito, Locat (including assets securitized and sold to Locat Securitization Vehicle 2 – See "Management's Discussion and Analysis of Financial Condition and Results of Operations of the UniCredit Group – General Factors Affecting the UniCredit Group's Business – Off Balance Sheet Arrangements"), Banca dell'Umbria, Clarima, UCI Ireland, Bank Pekao, UniCredit Romania S.A., Živnostenská, Koç, Zagrebačka Banka d.d., UniBanka and Bulbank. Information reported in this table is before intra group eliminations.



**Capital Allocation and Risk Management of the UniCredit Group**

As of June 30, 2005								
	On demand/ subject to notice	Not More Than Three Months	More Than Three – Months but Not More Than Six Months	More Than Six Months but Not More Than One Year	More Than One Year but Not More Than Five Years	More Than Five Years	Non- interest Bearing <sup>(1)</sup>	Total
	(unaudited) (€ millions)							
Assets .....	28,796	117,640	18,771	3,139	9,460	6,048	179,799	363,653
Asset Derivatives .....	803	25,787	10,586	1,018	4,501	562	—	43,258
Total assets .....	29,599	143,426	29,357	4,157	13,961	6,611	179,799	406,911
Liability .....	62,834	91,384	13,994	2,275	4,535	592	188,039	363,653
Liability Derivatives .....	1,130	19,506	8,318	2,805	6,964	4,837	—	43,560
Total liabilities .....	63,963	110,890	22,312	5,080	11,499	5,429	188,039	407,213
Interest rate sensitivity gap	(34,365)	32,536	7,045	(923)	2,462	1,182	(8,240)	(302)
Cumulative interest rate sensitivity gap .....	(34,365)	(1,829)	5,217	4,294	6,757	7,938	(302)	—

(1) Including asset/liabilities to match the overall figures in balance sheet.

	As of December 31, 2004						
	Not More Than Three Months	More Than Three Months but Not More Than Six – Months	More Than Six Months but Not More Than One Year	More Than One Year but Not More Than Five Years	More Than Five Years	Non-interest Bearing	Total
	(unaudited) (€ millions)						
Assets							
Customers net loans .....	105,859	9,666	2,997	8,440	4,536	3,228	134,726
current account .....	22,549	—	—	—	—	—	22,549
fixed rate .....	7,637	1,810	2,265	6,293	4,212	2,329	24,546
floating rate .....	75,673	7,856	732	2,147	324	899	87,632
Bank net loans .....	27,144	5,253	483	147	—	637	33,664
current account .....	9,367	—	—	—	—	573	9,940
fixed rate .....	16,060	2,256	125	17	—	64	18,521
floating rate .....	1,718	2,998	358	130	—	—	5,203
Banking Book securities .....	5,649	6,440	3,123	1,451	1,872	—	18,535
fixed rate .....	329	562	609	1,380	1,872	—	4,752
floating rate .....	5,320	5,878	2,514	71	—	—	13,783
Trading securities .....	974	931	594	1,554	701	49	4,803
fixed rate .....	114	469	498	1,534	659	37	3,311
floating rate .....	860	463	96	20	42	11	1,492
Other interest earning assets .....	2,232	—	—	—	—	—	2,232
Other non interest earning assets .....	—	—	—	—	—	14,561	14,561
Total on balance sheet							
Assets .....	141,858	22,290	7,198	11,591	7,110	18,475	208,522
Notional .....	105,375	35,609	16,466	35,620	4,261	—	197,331
Hedging .....	97,168	33,748	16,027	34,608	3,982	—	185,533
Trading .....	8,207	1,861	439	1,012	279	—	11,798
Term operations .....	290	—	—	—	—	—	290
Total off balance sheet assets .....	105,665	35,609	16,466	35,620	4,261	—	197,621
Total asset .....	247,523	57,900	23,664	47,212	11,371	18,475	406,144
Liabilities							
Due to Customers .....	79,129	625	619	189	23	246	80,831
current account .....	62,215	—	—	—	—	—	62,215
fixed rate .....	12,088	530	610	175	23	—	13,426
floating rate .....	4,826	95	9	14	—	246	5,190
Securities in issue .....	21,192	9,028	923	4,542	76	—	35,760
fixed rate .....	4,270	536	652	3,866	76	—	9,400
floating rate .....	16,921	8,492	271	675	—	—	26,360
Bank borrowing .....	52,086	4,643	3,277	613	221	159	60,999
current account .....	1,189	—	—	—	—	—	1,189
fixed rate .....	22,275	3,344	3,261	613	221	—	29,714
floating rate .....	28,622	1,299	16	—	—	159	30,095
Subordinated debt .....	2,383	775	—	60	40	—	3,258
fixed rate .....	—	—	—	60	40	—	100
floating rate .....	2,383	775	—	—	—	—	3,158
Other non interest bearing liabilities .....	—	—	—	—	—	27,675	27,675
Total on balance sheet liabilities .....	154,790	15,071	4,818	5,404	360	28,080	208,522
Derivatives .....	97,651	33,174	17,410	38,524	10,513	—	197,271
Hedging .....	90,689	31,882	16,759	36,557	9,380	—	185,268
Trading .....	6,961	1,292	651	1,966	1,132	—	12,003
Term operations .....	768	—	—	—	—	—	768
Total off balance sheet liabilities .....	98,418	33,174	17,410	38,524	10,513	—	198,038
Total liabilities .....	253,208	48,244	22,228	43,927	10,872	28,080	406,561
Interest rate sensitivity gap .....	(5,684)	9,655	1,435	3,284	498	(9,605)	(417)
Cumulative interest rate sensitivity gap .....	(5,684)	3,970	5,405	8,690	9,188	(417)	—

**LIQUIDITY RISK**

Liquidity risk is the risk that the UniCredit Group will be unable to meet financial commitments arising from cash flows generated by its business activities. Liquidity risk can arise from both the unexpected increase in the cost of funding the portfolio of assets at appropriate maturities and rates and the risk of mismatches in the timing of cash flows relating to assets, liabilities and off balance sheet items.

The UniCredit Group's liquidity policy, which has been approved by the Bank's Board of Directors, seeks to ensure that, even under external and internal adverse conditions, during which the UniCredit Group may not access the markets for funding needs, it has the necessary funds to face customer needs and maturing liabilities and to fund new loans, trading activities and investments as opportunities arise. According to its current stress model, the UniCredit Group assumes the impossibility of having access to the markets for two weeks after a hypothetical "negative" event occurs. In the period from two weeks to one month thereafter, the UniCredit Group assumes that it would be able to access the markets, even though with certain limitations. Finally, for the subsequent two months, the UniCredit Group assumes that it is able to recover part of its funding capacity. For each time period, the liquidity must reach certain levels.

The UniCredit Group's liquidity policy is reviewed annually (pursuant to a proposal by the Risk Committee to the Executive Committee) in order to ensure its adequacy to the UniCredit Group's business as it develops and is managed on a UniCredit Group basis (the Bank, the Italian Banks and the foreign branches), excluding New Europe Banks. Italian banking regulations require the UniCredit Group to make certain deposits with the Bank of Italy to comply with reserve requirements.

**OPERATIONAL RISK**

The Bank's operational risk management unit, part of the Administrative Government division, is responsible for measuring and monitoring exposure to operational risk, which is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This activity involves preventing and mitigating operational risk throughout the Bank; developing and implementing models for identifying, measuring and monitoring operational risk exposure and coordinating the collection of information related to these activities. For all business units, the Bank has designated operational risk reference areas that are responsible for monitoring and managing these risks.

In keeping with the provisions of the New Basel Capital Accord, the Bank has developed a model for the calculation of consolidated capital for operational risk and for organizational units based on business areas and loss event type. The model calls for the analysis of risk frequency and severity and the integration of internal information with outside (public and consortium) data. The Bank can now rely on the experience of its subsidiaries that have been active in operational risk management for some time and are engaged in taking measures involving systems, processes, organizational structures and personnel for the purpose of identifying, monitoring and mitigating the most critical and/or least managed risks.

An Advanced Measurement Approach ("AMA") capital at risk model has been developed, combining internal and external loss data, company and process specific risk indicators and operational risk management self-assessment.

A proprietary web-based application database, the Operational Risk Management Application ("Orma"), has been developed to support AMA measurement. All Bank subsidiaries have access to Orma, which allows the operational risk management units to input and download data, perform statistical analysis including benchmarking, and produce risk reporting.

The Bank's Italian subsidiaries are engaged in the regular collection of relevant information for internal purposes and for reporting to the management. Efforts to prevent and manage operational risk and the reporting of significant information have also begun in the Bank's New Europe division. A periodic reporting system has been developed for senior management for the structured collection of loss data at Italian and foreign divisions.

The Bank also participates in an Italian interbank loss data consortium, Dipo, on operational risks, coordinated by ABI, the Italian Banking Association.

### RISK INTEGRATION

Integrating different types of risk allows the UniCredit Group to quantify overall risk exposure of individual business units and the UniCredit Group in the performance of their activities. The measurement of integrated risks takes into consideration all risks assumed, including any benefits derived from the diversification of the various types of risks analyzed. In addition to market, operational and credit risks, the integration process also applies to business risk resulting from the volatility of service income.

The need to obtain an integrated risk measurement is twofold and based on the UniCredit Group's objectives of:

- obtaining a better and more concrete understanding of actual risks incurred for the purposes of active capital management; and
- benefiting from the principles underlying “pillar two” of Basel II, which revised minimum capital requirements to more closely reflect banks' risk management practices, for the purposes of freeing capital resources (see also “Regulation and Supervision”).

The risk integration responsibility of the UniCredit Group's Capital Allocation and Risk Management unit initiated the development of a quantitative model for measuring integrated risk, and, with the support and cooperation of the SCP unit of the Credit department, has produced the first, purely experimental, results. These results indicate that by integrating financial risks with credit risk for 80% of the UniCredit Group's positions, savings could be achieved of between 5% and 6.5% in operating capital over the simple aggregate of other categories of risk.

In order to satisfy risk management, accounting and managerial needs, CARM Unit has implemented the first release of a calculation engine.

This system aims to guarantee the consistency of the valuation and control processes within UniCredit Group by common input (contractual data and risk factors) and common methodologies on financial instruments.

In a more detailed fashion, UCI CARM system produces as output for each financial instrument the following:

- Cash Flow
- Credit Spread (according to credit risk parameters)
- Fair Value (comprehensive of credit spread)
- Partial Fair Value (functional to Hedge Accounting and IAS Impairment)
- Sensitivity to risk factors
- Value at Risk (market risk)

### CAPITAL MANAGEMENT

The capital allocation unit of the UniCredit Group's Capital Allocation and Risk Management (“CARM”) function defines the target level of capitalization for the entire UniCredit Group and for each subsidiary in accordance with regulatory provisions and the UniCredit Group's overall propensity for risk. This area allocates capital to the UniCredit Group's business units by assigning performance goals adjusted for risk for the purposes of creating value for shareholders, and also by defining the return expected by shareholders (expressed as the UniCredit Group's cost of capital).

In the active management of capital, the capital allocation unit monitors capital ratios for regulatory purposes on a monthly basis and implements the appropriate steps required to achieve its goals. For these purposes, and for the new monitoring required by the regulatory authorities, the UniCredit Group attributes great significance to its ratio of core capital to risk weighted assets for credit and market risk and securitization transactions (tranche equity), where core capital refers to the UniCredit Group's Tier I capital less preference shares.

As of June 30, 2005, the UniCredit Group's core capital ratio was 7.46%, which the Bank believes is in line with the Core Tier I ratios of other major international banking groups having equivalent credit ratings (S&P: AA—). Management believes that this level of capitalization is adequate to cover the UniCredit Group's current financial, credit, operating and business risks.

It is expected, however, that following the proposed Business Combination, the Combined Group's core capital ratio will decrease to 5.3% See "Risk Factors—If the Combined Group is not successful in managing the regulatory capital effects of the proposed Business Combination, it could experience a significant decrease in regulatory capital, which, in turn, could have rating consequences, as well as certain regulatory consequences in the countries in which the Combined Group operates, including in the United States."

The following table shows the Tier I, Tier II and total capital levels and the related ratios for the UniCredit Group on a consolidated basis as of the dates indicated:

	As of June 30, 2005 (unaudited)	As of December 31, 2004 (audited, unless otherwise specified)	2003
	€ millions, except percentages		
<b>Capital for regulatory purposes:</b>			
Tier I capital .....	12,861	11,876	11,081
of which: Preferred shares.....	912	870	896
Tier II capital .....	5,276	5,933	4,979
Items to be deducted .....	(423)	(404)	(409)
<b>Total capital for regulatory purposes .....</b>	<b>17,714</b>	<b>17,405</b>	<b>15,651</b>
<b>Prudential regulatory requirements:</b>			
Tier III subordinated bonds.....	—	—	600
Risk-weighted assets: <sup>(1)</sup>			
Credit risk <sup>(*)</sup> .....	148,317	137,599	130,000
Market risk <sup>(*)</sup> .....	9,985	9,708	14,426
Other prudential requirements <sup>(*)</sup> .....	1,873	2,191	1,922
<b>Total risk-weighted assets .....</b>	<b>160,175</b>	<b>149,498</b>	<b>146,348</b>
<b>Capital ratios:</b>			
Tier I capital/Credit risk-weighted assets .....	8.67%	8.63%	8.52%
Tier I capital/Total risk-weighted assets .....	8.03%	7.94%	7.57%
Core capital/Total risk-weighted assets .....	7.46%	7.36%	6.96%
Capital for regulatory purposes/Total risk-weighted assets .....	11.06%	11.64%	11.10%
<b>Capital surplus over minimum regulatory capital requirements<sup>(2)</sup> .....</b>	<b>4,900</b>	<b>5,445</b>	<b>4,543</b>

(\*) Unaudited

(1) Total risk-weighted assets are determined by multiplying total prudential requirements by the reciprocal of the minimum mandatory credit risk ratio (8% on a consolidated basis).

(2) Capital surplus over minimum regulatory capital requirements represents the sum of total capital for regulatory purposes (including Tier III) less 8% of total risk weighted assets.

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## Business of the UniCredit Group

*This section contains a description of the business activities of the UniCredit Group as of the date of this Prospectus and, unless otherwise indicated, before effecting the proposed Business Combination of the UniCredit Group and the HVB Group. The Bank expects that following implementation of the proposed Business Combination, its business and financial condition will change materially and future financial condition and results of the strategy of the combined UniCredit Group and HVB Group resulting from the Business Combination (the “Combined Group”) will not be comparable to the historical results discussed in this section. In particular, the scope of the Combined Group’s business will be significantly expanded. For additional information regarding the HVB Group, see “Business of the HVB Group.”*

### OVERVIEW

The UniCredit Group is a full-service financial services group engaged in a wide range of banking, financial and related activities throughout Italy and certain Central and Eastern European countries. The UniCredit Group’s activities include deposit-taking, lending, asset management, securities trading and brokerage, investment banking, international trade finance, corporate finance, leasing, factoring and the distribution of certain life insurance products through bank branches (*bancassurance*). As of June 30, 2005, the UniCredit Group’s multi-channel distribution network comprised 4,415 branches (of which 3,086 were located in Italy), various licensed banks held either directly as subsidiaries or through joint ventures in a number of countries and a network of 2,250 licensed financial consultants (*promotori finanziari*), as well as internet and telephone banking capabilities.

As of June 30, 2005, the UniCredit Group was the largest banking group in Italy in terms of market capitalization (approximately €28 billion) and had 68,247 employees (of which 38,527 were based in Italy). In terms of total assets, as of June 30, 2005, the UniCredit Group was the second largest bank in Italy and controlled the largest commercial banks in Croatia and Bulgaria, the second largest commercial bank in Poland and had significant operations in Slovakia, the Czech Republic, Romania, Bosnia-Herzegovina and Turkey. As of June 30, 2005, the Bank believes that it holds, in Italy, a 10.8% market share for loans and 9.2% for direct deposits (Source: internal estimates based on Bank of Italy data), and a market share of 14.9% for mutual funds (Source: internal estimates based on data of the Italian association of asset managers (*Assogestioni – Associazione del Risparmio Gestito*)).

In recent years, the UniCredit Group has taken aggressive steps to expand and diversify its business and to implement a thorough rationalization and automation of its back-office and administrative functions. At the same time, the UniCredit Group has upgraded its information technology systems and centralized its group treasury and risk management functions. As a result of these efforts, from 1998, the first year for which the UniCredit Group reported consolidated financial information, through the end of 2003, the UniCredit Group recorded consistent increases in total revenues and earnings per share, while maintaining its cost/income ratio at good levels of performance. As of June 30, 2005, the UniCredit Group recorded an increase in revenues of 7.7% over the six months ended June 30, 2004; this increase was primarily due to steady growth in net interest income and net non-interest income. In 2004, the UniCredit Group recorded a decrease in revenues of 0.7% over the year ended December 31, 2003; this decrease was primarily due to a decrease in net non-interest income, which was partly offset by an increase in net interest income. The UniCredit Group’s total revenues increased from €6,299 million in 1998 to €10,375 million in 2004, and its earnings per share increased from €0.19 in 1998 to €0.34 in 2004.

### HISTORY AND FORMATION

The UniCredit Group was established as a result of the October 1998 business combination between Credito Italiano S.p.A., the parent company of a national commercial banking group, and Unicredito S.p.A., the holding company of a group of regional savings banks, which resulted in the creation of UniCredito Italiano Group with UniCredito Italiano S.p.A. (formerly Credito Italiano S.p.A.) as holding company. Through this transaction, these two leading Italian banking groups combined their product strengths and complementary geographic coverage in order to compete more effectively in the Italian and European banking and financial services markets.

Credito Italiano S.p.A., founded in 1870 under the name Banca di Genova, grew to become one of Italy’s largest banking institutions with a strong geographic presence throughout Italy as well as numerous branches abroad. In 1993, the Italian Republic sold its indirect controlling stake in Credito Italiano, making it the first Italian bank to be privatized. Subsequently, in February 1995, Credito Italiano acquired a majority



interest in Credito Romagnolo, a leading commercial bank based in Bologna, Italy, which thereafter merged with Carimonte Banca, a leading savings bank, to form Rolo Banca 1473 S.p.A. (“Rolo Banca”).

The UniCredito group of regional savings banks was formed in 1997 by a three-way merger among Banca Cassa di Risparmio di Torino S.p.A. (“Banca CRT”), Cassa di Risparmio di Verona Vicenza Belluno e Ancona Banca S.p.A. (“Cariverona Banca”), which were at the time the second and third largest Italian savings banks, respectively, and Cassamarca – Cassa di Risparmio della Marca Trivigiana S.p.A. (“Cassamarca”).

### **Expansion of the UniCredit Group**

In the years following its formation (see “–History and Formation”), the UniCredit Group continued to expand in Italy and launched its operations in New Europe through both acquisitions and organic growth. Set forth below is a summary of the principal steps the UniCredit Group has taken in its expansion process.

#### **Italy**

- In November 1999, the UniCredit Group acquired a 96.81% interest in Cassa di Risparmio di Trento e Rovereto S.p.A. (“Caritro”), in order to strengthen the UniCredit Group’s presence in the Italian region of Trentino-Alto Adige.
- In February 2000, the UniCredit Group acquired a further 36.4% interest in Cassa di Risparmio di Trieste S.p.A. (“CR Trieste”), and subsequently increased this stake to 79.55% by year end.
- In June 2000, the UniCredit Group acquired a controlling interest in Banca dell’Umbria 1462 S.p.A. (“Banca dell’Umbria”) and Cassa Risparmio Carpi S.p.A. (“CR Carpi”), regional banks based in central Italy with strong ties to their respective home regions. The UniCredit Group eventually increased its shareholding to 99.7% of Banca dell’Umbria and 99.99% of CR Carpi. CR Carpi and Banca dell’Umbria were merged into the Bank effective July 1, 2005.
- In December 2002, the UniCredit Group acquired, by means of a tender offer, a majority shareholding of ONBanca S.p.A. (“ONBanca”), the multi-channel bank created by Banca Popolare Commercio e Industria in 1998. Subsequently, ONBanca was merged into the Bank effective December 31, 2002 and its network of financial consultants was contributed to the private banking/asset management division of UniCredit Xelion Banca.
- In July 2003 the UniCredit Group signed an agreement to acquire from ING Group N.V. the entire share capital of ING Sviluppo Finanziaria S.p.A. (“ING Sviluppo”), a holding company controlling a group of entities engaged in asset management and distribution of financial and savings products through financial advisers, as well as the retail and private banking assets of ING Bank N.V. (the Italian branch of ING Bank). Following the acquisition, ING Sviluppo was reorganized and its network of financial consultants was transferred to UniCredit Xelion Banca S.p.A. ING Sviluppo was merged into the Bank effective May 1, 2005.
- Effective December 31, 2003 the UniCredit Group acquired, through UniCredit Banca per la Casa S.p.A., the mortgage business of Abbey National Bank Italy (“ANBI”), the Italian branch of Abbey Plc.

#### **Central and Eastern Europe**

- In August 1999, the UniCredit Group acquired a 50.09% stake in Bank Polska Kasa Opieki (“Bank Pekao”), currently the second largest bank in Poland. The UniCredit Group has subsequently increased its stake in Bank Pekao to 52.93%.
- In July 2000, the UniCredit Group acquired a 62.59% interest in Splitska Banka, Croatia’s third largest bank in terms of assets. However, in April 2002, the UniCredit Group sold its stake in Splitska Banka to Bank Austria Aktiengesellschaft. The Croatian antitrust authorities required this divestiture as a condition to the authorization of the UniCredit Group’s subsequent acquisition of a controlling interest in Zagrebačka Banka (“Zagrebačka”), as more fully described below.
- In October 2000, the UniCredit Group acquired 51.23% of the share capital of Pol’nobanka, the sixth largest Slovak bank in terms of total assets. The UniCredit Group has subsequently increased its stake in Pol’nobanka to 77.21%. On April 1, 2002, Pol’nobanka changed its name to UniBanka.
- In October 2000, the UniCredit Group acquired a 93% interest in Bulbank, the largest Bulgarian bank in terms of total assets. The UniCredit Group has subsequently reduced its ownership in Bulbank to 85.2% through the sale of stakes to the International Finance Corporation and to Simest. Following further acquisitions from a minority shareholder, the UniCredit Group currently owns 86.13% of Bulbank.



- In November 2000, the UniCredit Group acquired a 9.96% stake in Zagrebacka, the largest bank in Croatia and one of the leading banks in Central Europe. In January 2002, the UniCredit Group and its consortium partner Allianz launched a public tender offer to acquire control of Zagrebacka. Approximately 60.06% of the shares of Zagrebacka were tendered pursuant to this tender offer, which increased the consortium's aggregate stake in Zagrebacka to 80.02%. Following a mandatory residual offer that was launched in March 2002 and completed in May 2002, the UniCredit Group increased its ownership of Zagrebacka's voting share capital to 82.47%. The UniCredit Group has subsequently reduced its holding to 81.9%.
- In June 2002, the UniCredit Group acquired 82.5% of the share capital of Demirbank Romania S.A. (subsequently renamed UniCredit Romania S.A.) and 81.88% of the share capital of Demir Romlease S.A., an affiliate of UniCredit Romania, from DemirBank. In December 2002, the UniCredit Group acquired an additional 17.34% equity interest in UniCredit Romania from three investment funds.
- In October 2002, the UniCredit Group entered into a 50/50 joint venture with the Koç Group in KFS, a leading financial services institution in Turkey providing banking, brokerage, asset management, leasing, factoring and international banking services. Since the UniCredit Group does not have exclusive control of this entity, KFS does not form part of the UniCredit Group for Italian bank regulatory purposes.
- In February 2003, the UniCredit Group acquired 85.16% of the share capital of Zivnostenska Banka a.s., one of the largest commercial banks in the Czech Republic in terms of total assets, from Bankgesellschaft Berlin AG. The UniCredit Group has subsequently increased its stake in Zivnostenska Banka a.s. to 96.63%.
- In August 2003, UniCredit Banca Mobiliare S.p.A. ("UBM"), the UniCredit Group's investment banking arm, and IKB International S.A. ("IKB Int."), a 100% owned subsidiary of IKB Deutsche Industriebank AG ("IKB"), formed IKB CorporateLab S.A., a 50/50 joint venture company organized under the laws of Luxembourg to provide financial risk management solutions to mid-sized and large corporate clients in Germany. In addition, UBM and IKB entered into a strategic alliance contemplating, among other things, the acquisition by the UniCredit Group of a 2% stake in IKB. In May 2005, UniCredit and IKB decided to split up their partnership through the sale of UniCredit's 50% of IKB CorporateLab S.A. to IKB Int. On 31 May 2005 UBM and IKB Int. signed an agreement to split up their joint venture to the sale of UBM's 50% shareholder in IKB Corporate Lab S.A. to IKB Int. which was executed on the same date. Subsequently, in July 2005, the UniCredit Group reduced its shareholding in IKB to 1%.
- On September 29, 2005, KFS acquired 57.4% of the share capital of Yapi Kredi, the sixth largest Turkish bank in terms of book assets (approximately €14 billion on a consolidated basis), which it operates through a network of over 400 branches with 11,000 employees. Its operations include all areas of banking and financial services. The purchase price paid by KFS for the above-mentioned stake was €1,182 million. Once the transaction is finalized and approval has been obtained from the Turkish Capital Markets Board, KFS will launch a public offer benefiting the minority shareholders of Yapi Kredi.

#### United States

- In October 2000, the UniCredit Group acquired the Global Investment Management division of the U.S.-based Pioneer Group ("Pioneer"), which was subsequently transferred to Pioneer Global Asset Management S.p.A. ("PGAM").
- In November 2002, through PGAM, the UniCredit Group acquired 100% of Momentum Asset Management and its worldwide subsidiaries.
- On August 4, 2004, Pioneer Investment Management Inc. (a subsidiary of Pioneer Investment Management USA Inc.) entered into an agreement with Safeco Asset Management, an affiliate of Safeco Life Insurance Bank, for the acquisition of the management of 22 mutual funds comprising total assets of \$3.6 billion. The acquisition has been approved by the fund's stockholders on December 13, 2004.
- In January 2005, Pioneer Investment Management USA Inc. acquired a 49% shareholding in Oak Ridge Investments L.L.C., which is mainly active in the separate managed accounts business.
- In June 2005, Pioneer Investment Management Inc. signed a definitive agreement to purchase AmSouth Bancorporation's mutual fund management business, comprising 23 mutual funds and managed assets of US\$5.9 billion. The completion of the transaction is subject to certain closing conditions.

## **PROJECT S3**

Following the UniCredit Group's formation, its business was organized into three divisions, Italian Banking, Wholesale Banking and New Europe Banking, and two business departments managing ventures related to e-banking for households and private individuals. Within the Italian Banking Division, each of the Italian commercial banks Credito Italiano, Banca CRT, Cariverona Banca, Cassamarca, Caritro, CR Trieste and Rolo Banca (the "Federated Banks") was engaged in one or more of the retail, corporate and private banking/asset management businesses and operated in mostly complementary geographic markets, with the Bank being responsible for co-ordination, planning and control functions.

On January 1, 2003, the UniCredit Group completed a comprehensive internal reorganization, known as Project S3 ("Project S3"), which transformed its Italian organizational structure from a federated banking model based on geographic areas to a divisional model based on client segments. Specifically, the UniCredit Group consolidated and segmented the operations of the Federated Banks into three new divisions (retail, corporate, and private banking/asset management), each division conducting business on a national level, and the UniCredit Group transferred its product and service companies to the appropriate divisions. The role of the Bank includes, among other matters, defining a Group-wide organizational structure, benchmarking and disseminating internal best practices and corporate values throughout the UniCredit Group, managing UniCredit Group resources and optimizing the allocation of capital across all of the UniCredit Group's businesses.

Project S3 was launched in December 2001 and was executed in three phases. In the first phase, which was completed in July 2002, each of the Federated Banks, except Credito Italiano, was merged with and into the Bank. Subsequently, the Bank contributed all of the assets and liabilities formerly owned by such Federated Banks to Credito Italiano, thus consolidating the businesses of each of the seven Federated Banks into one entity. Simultaneously, Credito Italiano changed its name to UniCredit Banca S.p.A. ("UniCredit Banca").

In the second phase, which was completed in the second half of 2002, the activities of the Federated Banks conveyed to UniCredit Banca were reorganized to reflect three separate segment-based national structures. Specifically, this phase featured the following elements:

- identification of all "corporate" customers (medium and large-size government and private industrial and service companies and government agencies headquartered and operating primarily in the domestic market) and "private" customers (high net-worth individuals) to be transferred to the corporate and private banking/asset management divisions, respectively;
- assignment of a relationship manager to each such customer;
- reorganization of all management levels of the corporate and private banking/asset management networks and the related loan and sales administration structures; and
- reorganization of all management levels in the remaining retail locations and branches and the related loan and sales administration structures.

In the third and final phase of Project S3, which was completed on January 1, 2003, UniCredit Banca:

- transferred to UniCredit Banca d'Impresa S.p.A. ("UBI"), a newly formed, wholly owned subsidiary of the Bank, all of the assets and liabilities relating to the corporate banking business formerly owned and operated by the Federated Banks; and
- transferred to UniCredit Private Banking S.p.A. ("UPB"), a newly formed, wholly owned subsidiary of the Bank, all of the assets and liabilities relating to the private banking business formerly owned and operated by the Federated Banks;

As a result, UniCredit Banca retained the assets and liabilities relating to the retail banking business formerly owned and operated by the Federated Banks.

Following the implementation of Project S3, only those subsidiaries performing activities essential to the operation and development of each client segment were transferred to the UniCredit Group companies running the relevant businesses. All other strategic and core equity investments, the UniCredit Group's subsidiaries with operations ancillary to the UniCredit Group's corporate and holding functions, and all equity investments previously held by the Federated Banks, became direct subsidiaries of the Bank.

In March 2003, the Board of Directors of UniCredit resolved to undertake certain additional steps, as set forth below, intended to further rationalize its businesses, eliminate duplications, and achieve synergies and cost reductions.

- In the Private Banking and Asset Management Division, the Bank merged UniCredit Fondi's investment funds sales business into Pioneer Investment Management SGR and caused Pioneer Investment Management SA ("PIM"), a retail asset management company, and UniCredit Capital Italia Advisory Company SA ("UCIAC"), a financial consulting company, to contribute all of their business, assets and liabilities to Pioneer Institutional Investment Management SA, which has been renamed Pioneer Asset Management SA. Following the above transactions, PIA and UCIAC were dissolved.
- In the Retail Banking Division, UniCredit Banca planned to contribute its consumer credit business to Clarima Banca S.p.A. ("Clarima"), one of the UniCredit Group's commercial retail banks wholly-owned by UniCredit Banca. In addition, UniCredit Banca transferred to UniCredit Banca per la Casa, the Bank's subsidiary specialized in mortgage lending, its mortgage portfolio originating from its commercial relationship with Tecnocasa, a third party real estate broker.
- The Bank also rationalized its real estate portfolio formerly owned by UniCredit Banca and the Bank directly. In the first phase of the process, which was completed in March 2003, the Bank's real estate holdings were divided into strategic and non-strategic assets, and contributed to two newly formed wholly-owned subsidiaries of the Bank, UniCredit Real Estate S.p.A. and Cordusio Immobiliare S.p.A., respectively. Subsequently, in July 2003, UniCredit Banca also contributed its strategic and non-strategic real estate holdings to these newly formed subsidiaries.
- In order to increase the independence of the audit activity, to improve its quality and the information flow, the Bank reorganized and consolidated its internal audit function by creating in December 2002 UniCredit Audit S.p.A., a separate legal entity directly owned by the Bank and managerially reporting to the UniCredit Group audit function. Since January 2003, the main subsidiaries of the UniCredit Group have outsourced internal audit activities to UniCredit Audit S.p.A.

Following the corporate transactions that led to the implementation of Project S3, the UniCredit Group allocated the other subsidiaries of the Bank, such as UBM and its product and financial services companies, to the appropriate division and transferred all other strategic and core equity investments previously held by the Federated Banks to the Bank. The three new divisions join the already existing New Europe division created in 2001 to supervise and coordinate the UniCredit Group's business in Central and Eastern Europe.

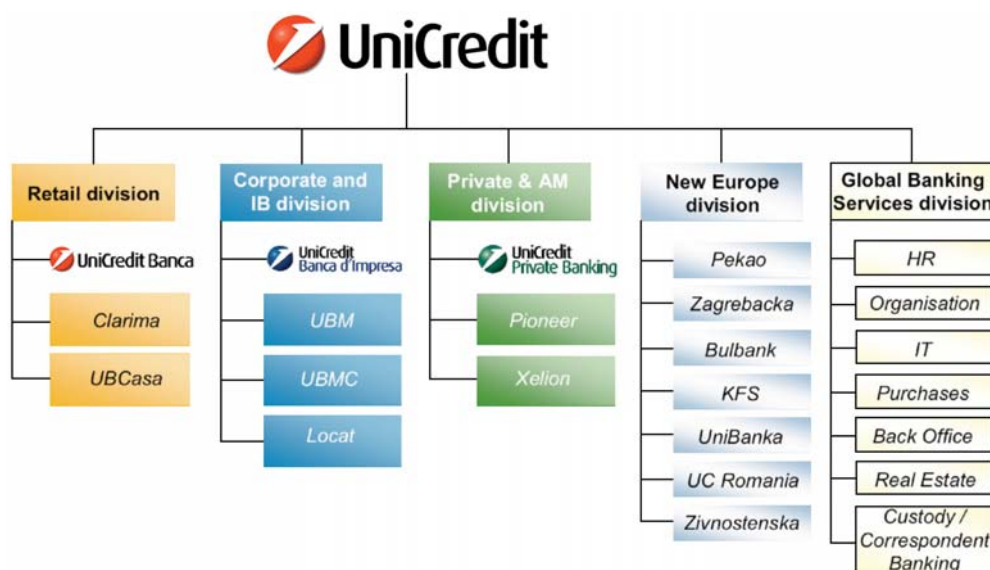
Effective July 22, 2004, the UniCredit Group established a new fifth division, the Global Banking Services division, which is responsible for developing and implementing efficient and effective operating processes across the UniCredit Group, overseeing inter-divisional activity and ensuring cost control. The UniCredit Group's holding company is responsible for centralized policymaking, particularly in the areas of credit management, risk management and asset and liability management, as well as for the UniCredit Group's treasury, strategic planning and control, accounting and internal auditing functions.

Effective July 1, 2005, consistently with the specialization strategy of Project S3, Banca dell'Umbria and CR Carpi were merged into UniCredito and their activities were immediately spun-off to UniCredit Banca, UniCredit Real Estate, UniCredit Banca d'Impresa and UniCredit Private Banking.

## **CURRENT ORGANIZATIONAL STRUCTURE**

As of the date hereof, the organizational structure of the UniCredit Group reflects the strategic approach underlying the Project S3 reorganization. The UniCredit Group conducts its operations through four business divisions: Retail, Corporate and Investment Banking, Private Banking and Asset Management, and New Europe. Each of these divisions is established within the Bank and organized around one or more lead banks that, through its distribution network, channels to its clients products and services engineered and packaged by the other banks and financial services companies comprising the division. In addition, the Bank established the Global Banking Services Division which operates as the UniCredit Group's execution unit and provides Group-wide services to all business lines in the areas of human resources, IT, organization, operations, procurement, security and building/facility management.

The following diagram illustrates the organizational structure of the Bank and the main UniCredit Group companies included in the UniCredit Group's scope of consolidation (each being fully consolidated unless otherwise indicated).



### Business Divisions

The following tables indicate the contribution of the four business divisions of the UniCredit Group with respect to profit and loss, loans, deposits, and number of employees as of and for the six months ended June 30, 2005 (presented in a manner consistent with the historical divisional reporting of the UniCredit Group, which does not report by geographical segments):

Six months ended June 30, 2005

Division	Total Revenues (€ millions)	% of Group Revenues	Operating Expenses (€ millions)	% of Group Operating Expenses	Group Portion of Net Income (€ millions)	% of Group Net Income
(unaudited)						
Retail.....	2,370	42	1,532	50	375	29
Corporate and Investment Banking.....	1,515	27	452	15	501	39
Private Banking and Asset Management .....	642	11	369	12	200	15
New Europe .....	1,048	19	527	17	241	19
Other companies <sup>(1)</sup> .....	173	3	197	7	233	18
Consolidation adjustments .....	(144)	(2)	(29)	(1)	(249)	(20)
<b>Total Consolidated.....</b>	<b>5,604</b>	<b>100</b>	<b>3,048</b>	<b>100</b>	<b>1,301</b>	<b>100</b>

(1) Includes the Bank and other consolidated UniCredit Group entities in which it directly owns shares (including the UniCredit Group's international representative offices) that are not allocated to the divisions.

	Six months ended June 30, 2005					
			Customer Deposits and Securities (€ millions)	% of Group Deposits and Securities	Number of Employees	% of Group Employees
Division	Customer Loans (€ millions)	% of Group Loans				
	(unaudited)					
Retail.....	57,860	39	67,807	42	24,633	36
Corporate and Investment Banking.....	72,505	48	25,564	16	5,192	8
Private Banking and Asset Management .....	1,652	1	7,404	5	3,527	5
New Europe .....	16,238	11	23,936	15	27,854	41
Other companies <sup>(1)</sup> .....	11,980	8	66,332	41	7,041	10
Consolidation adjustments .....	(10,755)	(7)	(28,608)	(19)	—	—
<b>Total Consolidated.....</b>	<b>149,480</b>	<b>100</b>	<b>162,435</b>	<b>100</b>	<b>68,247</b>	<b>100</b>

(1) Includes the Bank and other consolidated UniCredit Group entities in which it directly owns shares (including the UniCredit Group's international representative offices) that are not allocated to the divisions.

The following tables indicate the contribution of the different divisions to the UniCredit Group with respect to profit and loss, loans, deposits, and number of employees as of and for the year ended December 31, 2004:

Year ended December 31, 2004						
Division	Total	% of Group	Operating	% of Group	Group	% of Group
	Revenues		Expenses	Operating	Portion of	
	(€ millions)	Revenues	(€ millions)	Expenses	Net Income	Net Income
					(€ millions)	
(unaudited)						
Retail.....	4,323	42	2,958	50	545	26
Corporate and Investment Banking.....	3,035	29	1,013	17	949	44
Private Banking and Asset Management .....	1,167	11	738	12	390	18
New Europe .....	1,835	18	1,013	17	398	19
Other companies <sup>(1)</sup> .....	204	2	273	5	254	12
Consolidation adjustments .....	(189)	(2)	(54)	(1)	(405)	(19)
<b>Total Consolidated.....</b>	<b>10,375</b>	<b>100</b>	<b>5,941</b>	<b>100</b>	<b>2,131</b>	<b>100</b>

(1) Includes the Bank and other consolidated UniCredit Group entities in which it directly owns shares (including the UniCredit Group's international representative offices) that are not allocated to the divisions.

	Year ended December 31, 2004					
Division	Customer Loans (€ millions)	% of Group Loans	Customer Deposits and Securities (€ millions)	% of Group Deposits and Securities	Number of Employees	% of Group Employees
	(unaudited)					
Retail.....	56,683	40	67,612	43	25,136	37
Corporate and Investment Banking.....	67,686	48	28,278	18	6,334	9
Private Banking and Asset Management .....	1,500	1	6,885	4	3,700	5
New Europe .....	14,051	10	22,974	15	27,568	40
Other companies <sup>(1)</sup> .....	12,068	9	56,569	36	5,833	9
Consolidation adjustments .....	(11,550)	(8)	(24,945)	(16)	—	—
<b>Total Consolidated.....</b>	<b>140,438</b>	<b>100</b>	<b>156,923</b>	<b>100</b>	<b>68,571</b>	<b>100</b>

(1) Includes the Bank and other consolidated UniCredit Group entities in which it directly owns shares (including the UniCredit Group's international representative offices) that are not allocated to the divisions.

As far as the geographical markets are concerned, in the financial year 2004, the Italian market represented approximately 80% of total revenues (€10,372 million). In 2004, total revenues' figures for the "Retail", "Corporate" and "Private Banking and Asset Management" divisions mainly refer to the Italian market except an amount of approximately €160 million related to the U.S. market and an amount approximately



of €110 million related to other minor markets (both included within the asset management business of the “Private Banking and Asset Management” division).

With regard to the “New Europe” division, the split of revenues in the financial year 2004 was as follows:

Country	in € million (unaudited)
Poland .....	1,016
Croatia.....	362
Turkey* .....	240
Bulgaria.....	100
Other.....	117
<b>Total Consolidated .....</b>	<b>1,835</b>

\* Proportional consolidation of 50%.

In the financial year 2003, the Italian market represented approximately 85% of total revenues (€10,465 million not restated). In 2003, total revenues figures for the “Retail”, “Corporate” and “Private Banking and Asset Management” divisions mainly refer to the Italian market except a minor amount related to the U.S. market and other minor markets (both included within the asset management business of the “Private Banking and Asset Management” division)

With regard to the “New Europe” division, the split of revenues in the financial year 2003 was as follows:

Country	in € million (unaudited)
Poland .....	855
Croatia.....	365
Turkey* .....	208
Bulgaria.....	87
Other.....	104
<b>Total Consolidated .....</b>	<b>1,619</b>

\* Proportional consolidation of 50%.

## **STRATEGY**

*The proposed Business Combination, if consummated, will result in a significant change to elements of the UniCredit Group’s strategy. Pending the full implementation of the Business Combination and subject to the terms of the Business Combination Agreement, the UniCredit Group’s strategy will be as set forth in the following section.*

The UniCredit Group’s organizational structure is designed to help it pursue its overarching objective of providing tailored, high quality, innovative services to its clients, while facilitating process redesign projects intended to result in efficiency improvements. Management believes that by creating specialized banks, each dedicated to a different client segment, the UniCredit Group is now able to service better its customers, with the result that customer satisfaction can serve as a driver of increased market shares. This strategy is expected to allow each UniCredit Group business to pursue a wider range of growth opportunities and take advantage of increased operating flexibility to meet market demands as they develop, while containing associated costs and risks.

The UniCredit Group pursues a strategy of preserving its ability to create value according to the following guidelines:

- improvement of capital allocation in order to maximize risk adjusted return on capital and to enhance shareholder value;
- further evolution of the domestic banks’ service and product models through the creation of new and development of existing distribution channels; and
- further product and service innovation, in particular in corporate services and retail products.



The UniCredit Group intends to improve efficiency of its operations through monitoring of its operating costs, improvement of capital allocation and strengthening of internal controls and accountability. The UniCredit Group aims to minimize time-to-market for the introduction of new products and services and seeks to increase brand recognition for its products and services and improve penetration in selected geographic areas. The UniCredit Group intends to increase its focus on the quality of its services generally, seeking to acquire and develop specialized knowledge of the needs of each particular customer segment.

The principal strategic objective of each of the UniCredit Group's current operating divisions is set forth below:

- The Retail Banking Division's objective is to become the main banking partner for customers in the Italian mass market, affluent and small business segments (as hereinafter defined). Leveraging on high-quality services and close, personal relationships with customers, the division aims to increase its revenues and market share over time while ensuring customer satisfaction. Since its inception following implementation of Project S3, the Retail Banking Division has sought to increase its focus on the consumer credit and mortgage lending businesses as well as to pursue greater synergies and cost reductions. Acquisition of new customers in the small business segment is expected to drive volume and market share growth in the target customers' group. Specifically, the division has established specialized banks to develop its credit card and mortgage loan businesses and will seek to expand its use of distribution channels other than the network constituted by the UniCredit Banca branches, as more fully set forth below.
- The Corporate and Investment Banking Division intends to grow its lending volume to Italian corporate enterprises, while maintaining a very careful credit policy, by targeting clients with an appropriate combination of revenue generation potential and low risk profile. The division also intends to increase commission revenue by offering its high value-added corporate finance products and transactional services, originally tailored to large corporate clients, to small and medium enterprises.
- In the Private Banking and Asset Management Division, UniCredit Private Banking and UniCredit Xelion Banca intend to increase their market shares in Italy by achieving a higher "share-of-wallet" of existing customers (the ratio of client assets deposited with the UniCredit Group over the total amount of potential client assets) and acquiring new clients, by developing a tailored product offering for the UniCredit Group's customers and providing independent advice, while Pioneer Investment Management USA Inc. intends to further strengthen its position in the industry by enlarging its product offering also through new partnerships with third parties, introducing hedge fund products, dynamic asset and liability management (either for institutional or retail clients), retirement products and wealth planning.
- The New Europe Division intends to develop into a leading cross-border network of retail banks and the best risk manager in New Europe by creating a structure that is guided by strong central directives while being capable of adapting to local differences. In this context, the more established New Europe banks will focus on continuing to improve their financial results and fulfil their institutional role within local markets; the emerging New Europe banks will focus on growth on selected customer segments and/or products.
- The principal strategic objective of the Global Banking Services division is to maximize cross divisional synergies and UniCredit Group efficiency through redesign of key processes. Its main objectives include: "right sizing" the UniCredit Group's staff; optimizing the UniCredit Group's non core assets and rationalizing the UniCredit Group's real estate portfolio; and further rationalizing the UniCredit Group's corporate structure through the streamlining of its legal entities.

## **PARENT COMPANY**

The Bank is the parent company of the UniCredit Group. Pursuant to the provisions of clause 61 of Legislative Decree no. 385 (September 1, 1993), the Bank issues, in its role as parent company and in undertaking its direction and coordination activities, instructions to other members of the UniCredit Group regarding the fulfillment of requirements set forth by the Bank of Italy in the interest of the UniCredit Group's stability. As such, the Bank engages in the following primary strategic functions:

- managing the UniCredit Group's business expansion by developing appropriate domestic and international business strategies and overseeing acquisitions, divestitures and restructuring initiatives;

- defining objectives and targets for each division and monitoring performance against these benchmarks;
- defining the policies and standards relating to the UniCredit Group's operations, particularly in the areas of credit management, human resource management, risk management, accounting and auditing;
- managing relations with financial intermediaries, the general public and investors; and
- managing selected operating activities directly or through specialized subsidiaries in order to achieve economies of scale. These activities include asset and liability management, funding and treasury activities and the UniCredit Group's foreign branches. The UniCredit Group operates certain centralized functions such as back office administration and information technology through UniCredit Servizi Informativi S.p.A. and UniCredit Produzioni Accentrate S.p.A.

In January 2003, the Italian Government approved a reform of corporate law (the "Reform"), governing limited liability companies, joint-stock companies and co-operatives. According to certain provisions of the Reform, a company which exercises activities of "direction and coordination" of another company be held liable *vis-à-vis* the minority shareholders and/or the creditors of the managed company if such "direction and coordination" is conducted improperly. In particular, according to article 2497-*bis* of the Italian Civil Code, the relevant company must indicate that it is subject to the management and coordination of a third party in its acts/documents and in its correspondence. According to article 2497-*sexies* of the Italian Civil Code it is assumed that, unless contrary evidence is given, "direction and coordination" is exercised by the company or the entity that (i) is required to consolidate the company, or (ii) controls the company pursuant to article 2359 of the Italian Civil Code.

## **RETAIL BANKING DIVISION**

### **Overview**

The Retail Banking Division provides commercial banking services to Italian consumer households and small businesses (defined as businesses with annual revenues of less than €3.5 million), predominantly through UniCredit Banca's network of local branches. This division comprises UniCredit Banca per la Casa, which focuses on mortgage lending, and Clarima, which focuses on consumer credit activities (principally credit cards). Other subsidiaries of UniCredit Banca include UniCredit Assicura s.r.l., CreditRas Vita S.p.A., CreditRas Assicurazioni S.p.A. and Commercial Union Vita S.p.A.

UniCredit Banca per la Casa, a wholly owned subsidiary of UniCredit Banca formerly named Adalya Banca Immobiliare S.p.A., is an Italian real estate mortgage and insurance company created to address the UniCredit Group customers' financial and insurance needs related to acquiring and managing their properties. UniCredit Banca per la Casa combines the UniCredit Group's experience in providing financial services with its understanding of the needs of homebuyers, which derives from UniCredit Banca per la Casa's cooperation with Tecnocasa, one of the leading Italian real estate brokers. UniCredit Banca per la Casa began its operations in March 2002.

Clarima, which obtained its banking license in September 2002, targets the mass-market retail customer segment. Clarima's business model is based on a network of partnerships aimed at launching co-branded credit cards and delivers its services through multi-channel distribution. Clarima uses credit card services as a means of acquiring and retaining customers, while cross selling a range of other products, including personal loans and insurance policies. During the first half of 2003, Clarima began providing consumer credit products and introducing a priority scoring model featuring automated customer behavioral analysis in order to contain credit risks.

The following tables set forth the relative contribution of each of the principal subsidiaries comprising the Retail Banking Division to the overall results of the division as of and for the six months ended June 30, 2005 and the year ended December 31, 2004.

Retail Banking Division – Principal Subsidiaries	Six months ended June 30, 2005						
	Share Ownership %	Total Assets (€ millions)	Total Net Income (€ millions)	Cost/ Income Ratio <sup>(1)</sup> %	ROE <sup>(2)</sup> %	Employees	Branches
				(unaudited)			
UniCredit Banca.....	100.00	66,733	466	66.7	35.4	22,877	2,546
Banca dell'Umbria* .....	99.97	3,910	23	53.8	16.6	762	87
Cassa di Risparmio di Carpi*.....	100.00	1,114	8	61.1	11.2	303	38
UniCredit Banca per la Casa.....	100.00	10,948	18	52.9	6.6	345	15
Clarima Banca.....	100.00	3,286	22	37.6	15.5	346	9

\* Merged into the Bank effective July 1, 2005.

(1) Defined as the ratio between (a) the sum of operating expenses (excluding amortization of goodwill) and (b) total revenues.

(2) Defined as the UniCredit Group portion of net income for the half-year (annualized), divided by the book value of shareholders' equity as of the end of the period (excluding the UniCredit Group portion of net income of the period but including profit from the previous year earmarked for reserves).

Retail Banking Division – Principal Subsidiaries	Year ended December 31, 2004						
	Share Ownership %	Total Assets (€ millions)	Total Net Income (€ millions)	Cost/ Income Ratio <sup>(1)</sup> %	ROE <sup>(2)</sup> %	Employees	Branches
				(unaudited)			
UniCredit Banca.....	100.00	66,595	412	69.7	15.8	23,413	2,591
Banca dell'Umbria* .....	96.47	4,089	62	53.8	23.8	777	89
Cassa di Risparmio di Carpi*.....	99.93	1,241	15	58.8	11.5	311	38
UniCredit Banca per la Casa.....	100.00	10,021	21	57.8	4.4	336	15
Clarima Banca.....	100.00	2,734	47	48.1	19.6	299	9

\* Merged into the Bank effective July 1, 2005.

(1) Defined as the ratio between (a) the sum of operating expenses (excluding amortization of goodwill) and (b) total revenues.

(2) Defined as the UniCredit Group portion of net income for the year (after preferred share dividends but before dividends on ordinary shares), divided by the book value of shareholders' equity as of the end of the year (excluding the UniCredit Group portion of net income of the current year).

## ACTIVITIES

### Loans to Customers

As of June 30, 2005, the Retail Banking Division had approximately €57.9 billion in outstanding loans to customers (compared to €56.7 billion as of December 31, 2004), an increase of 2% on a yearly basis notwithstanding the approximately €3 billion securitization transaction completed by UniCredit Banca in the second quarter of 2005, net of which the increase of volume would be 7.4%. The growth was driven principally by medium-term and mortgage loans, particularly real estate mortgage loans, which exceeded €41 billion as of June 30, 2005 (an increase of 7.7% compared to December 31, 2004). The flow of new mortgage loans extended in the first six months of 2005 totaled €4.5 billion, of which €1.16 billion were extended by UniCredit Banca per la Casa.

In consumer credit business, personal loans showed a positive trend; new loans totalled approximately €900 million in the first six months of 2005, doubling the figure for the first six months of 2004.

As of June 30, 2005, the Retail Banking Division's loans to consumer households and small businesses represented approximately 67% and 30%, respectively, of its total loan portfolio (compared to approximately 66% and 31%, respectively, as of December 31, 2004), with the balance represented by loans to public agencies and other authorities. According to the UniCredit Group's estimates, based on Banca d'Italia data (which are calculated on the basis of the face value of loans, other than non-performing loans, net of repurchase agreements), as of June 30, 2005, the Retail Banking Division accounted for

approximately 4.96% of the overall loans in the Italian banking market (5.1% as of December 31, 2004 and 4.6% as of December 31, 2003) and 6.47% of overall medium-term loans (6.75% as of December 31, 2004 and 6.5% as of December 31, 2003).

The following table sets forth the composition of the Retail Banking Division's loan portfolio as of June 30, 2005 and 2004 and as of December 31, 2004 and 2003.

	As of June 30,		As of December 31,	
Retail Banking Division				
– Loans to Customers by Type	2005	2004	2004	2003
	(unaudited)		(unaudited)	
	(€ millions)			
Bills and notes discounted .....	100	128	113	153
Current accounts .....	9,173	8,467	9,106	8,166
Medium-term loans and mortgages.....	41,049	37,715	40,886	34,540 <sup>(1)</sup>
Other loans .....	5,584	4,428	4,935	4,383
Loans under financial leases.....	—	9	8	9
Other transactions.....	1,954	1,674	1,630	1,525
Total loans (net of repurchase agreements) .....	57,860	52,421	56,678	48,776
Repurchase agreements .....	—	—	5	40
Total loans to customers .....	57,860	52,421	56,683	48,816

(1) Includes €4,512 million resulting from the UniCredit Group's acquisition of ANBI.

As of June 30, 2005, the book value of doubtful loans to customers totaled €2,272 million, corresponding to customer loans having a total face value of €3,708 million and write-downs totaling €1,436 million, for a resulting coverage ratio of 38.7%. As of December 31, 2004, the book value of doubtful loans to customers totaled €2,185 million, corresponding to customer loans having a total face value of €3,536 million and write-downs totaling €1,351 million, for a resulting coverage ratio of 38.2%.

At book value, doubtful loans to customers as of June 30, 2005 represented 3.85% (compared to 3.86% as of December 31, 2004) of the division's total customer loans. In addition, the UniCredit Group discounts performing loans prudentially to reflect the so-called "inherent risk" of such loans. This risk is quantified on the basis of the probability of customer default based on, for example, type of customer, type of loan, sector of economic activity, etc.

In conjunction with Project S3, the UniCredit Group initiated a comprehensive monitoring program for all credit positions in existence as of January 1, 2003, as more fully described in "Capital Allocation and Risk Management of the UniCredit Group—Credit Risk".

### Mortgage Lending

The UniCredit Group conducts its mortgage lending business through UniCredit Banca as well as through UniCredit Banca per la Casa (formerly named Adalya Banca Immobiliare S.p.A.), a wholly owned subsidiary of UniCredit Banca that specializes in medium-term and mortgage loans, life and other insurance policies and various loan products for households (including loans for renovations, home furnishings and relocations). The UniCredit Group established UniCredit Banca per la Casa in March 2002 in connection with the implementation of Project S3 in order to form a dedicated product company to focus on the mortgage business. UniCredit Banca per la Casa's mortgages are sold both through its own and UniCredit Banca's branch networks and through its commercial partnerships.

The UniCredit Group's mortgage lending activities have benefited from the UniCredit Group's alliance with Tecnocasa, the largest Italian real estate brokerage with approximately 2,500 agencies located throughout Italy. Pursuant to this alliance, under which the UniCredit Group is Tecnocasa's preferred partner for mortgage lending, Tecnocasa agents propose UniCredit Group mortgage solutions to prospective homebuyers and, through a dedicated software system that allows for prompt responses, conduct a pre-screening of the applicant, thus facilitating and accelerating the application and approval process. Recently, the UniCredit Group has entered into similar alliances with other real estate agency networks and entered into a new partnership with Pirelli RE to create "Pirelli & C. RE Servizi di Rete", a new entrant in this market. In October 2003, UniCredit Banca transferred its portfolio of approximately 34,000 medium-term

loans and mortgages originating from its agreement with Tecnocasa to UniCredit Banca per la Casa, along with its mortgage lending approval and management functions.

One of the principal objectives of the Retail Banking Division is to increase its share of the Italian market for residential mortgage loans to individuals. To that end, in December 2003 the UniCredit Group, through UniCredit Banca per la Casa, acquired ANBI, the Italian mortgage lending business of the British banking group Abbey Plc. In 2003, ANBI had a network of 15 branches and reported loan disbursement volume of about €1,813 million (comprising about 15,300 mortgages). As of December 31, 2003, ANBI had a portfolio of net loans to customers of €4,512 million.

### **Consumer Credit Activities**

Notwithstanding double-digit growth in each of the three years through 2003, according to data from Assofin, the Italian association for consumer credit, the consumer credit market in Italy still features penetration rates that are lower than those of other European countries. Accordingly, management believes that the consumer credit business continues to offer interesting growth opportunities.

In September 2002, consistent with its customer-based organizational model, the UniCredit Group began concentrating its consumer credit activities in Clarima. This process culminated in October 2003, with the transfer by UniCredit Banca of its consumer credit business to Clarima.

In addition to continuing to build its consumer credit business, which comprises both personal loans and special purpose loans, Clarima has begun to focus intensively on launching and marketing single-branded or co-branded, revolving and balance-due credit cards targeted to the lower end of the market (referred to as the “mass-market” segment). In pursuing this objective, Clarima has adopted a multi-channel distribution strategy that makes use of a dedicated network of nine financial stores opened in the course of 2004, direct mail techniques and credit card co-branding agreements with commercial partners including Kataweb, DeAgostini, UTET and Panorama (media), TIM (mobile telephony), Lufthansa (airlines), Tiscali (internet access), eBay (e-commerce), Allianz-Ras (insurance), Touring Club (tourism), Pirelli RE (real estate) and the Italian Rotary Club. In addition, Clarima seeks to cross-sell its financial products to existing UniCredit Group customers. For example, during 2004, the UniCredit Group launched a new special purpose loan called “Creditexpress”, which contributed €1.2 billion in new loans (reflected in a 65% increase in total loans compared to 2003). The UniCredit Group’s new revolving credit card “UniCredit Plus” experienced similar success, with 240,000 new cards issued in 2004. Clarima also continues to collaborate with the Private Banking and Asset Management Division in connection with the issuance of “high-end” credit cards such as Visa Infinite and Xelion Gold, and is developing an initiative to distribute mass-market credit cards through UniCredit Banca’s branch network in order to significantly increase the penetration of these products among existing customers.

The commercial efforts of Clarima in the six months ended June 30, 2005 led to the acquisition of 317,000 new clients, for a total of 1.1 million total clients (an increase of 30% compared to June 30, 2004). During the same period total loans granted totaled approximately €1.4 billion, of which €472 million were represented by credit card debt.

In the six months ended June 30, 2005 Clarima issued approximately 217,000 new credit cards, of which about 175,000 were revolving cards through captive channels.

As of March 31, 2005, Clarima’s credit card portfolio comprised approximately 600,000 active cards, approximately 70% of which were revolving credit cards, compared to 332,000 active cards (of which 55% were revolving) as of March 31, 2004. During the first three months of 2005, these cards were used for about 2.4 million transactions valued at approximately €217 million (increasing by 123% compared to the three months ended March 31, 2004). The total amount of receivables was approximately €2.9 billion at the end of March 2005, representing an increase of 45% compared to March 31, 2004. During the three months ended March 31, 2005, Clarima issued approximately 91,000 new credit cards.

As of December 31, 2004, Clarima’s credit card portfolio comprised approximately 520,000 cards, approximately 64% of which were revolving credit cards, compared to 210,000 cards (of which 46% were revolving) at the end of 2003. During 2004, these cards were used for about 9 million transactions valued at approximately €848 million (increasing by 146% compared to 2003), and totaled approximately €2.6 billion in customer loans (representing a 39% increase compared to 2003). During 2004, Clarima issued approximately 380,000 new credit cards.



**Funding**

As of June 30, 2005, total direct deposits held by the Retail Banking Division increased by 6.1% to €67,807 million, compared to €63,912 million as of June 30, 2004, as a result of the rise of customer deposits by 4.4% net of repurchase agreements and a steady increase of securities in issue over 10%. As of December 31, 2004, total direct deposits held by the Retail Banking Division increased to €67,162 million, compared to €60,196 million as of December 31, 2003, as a result of the UniCredit Group's strong focus on both expanding its customer base and product range and keeping abreast of changing market conditions.

The following table sets forth the composition of the Retail Banking Division's total direct deposits as of June 30, 2005 and 2004 and as of December 31, 2004 and 2003.

Retail Banking Division – Customer Deposits by Type	As of June 30,		As of December 31,	
	2005	2004	2004	2003
	(unaudited)		(unaudited)	
	(€ millions)			
Total customer deposits (net of repurchase agreements).....	42,858	41,052	42,033	40,458
Repurchase agreements .....	1,890	1,904	2,335	2,021
Securities in issue.....	23,059	20,956	22,794	17,717
<b>Total direct deposits .....</b>	<b>67,807</b>	<b>63,912</b>	<b>67,162</b>	<b>60,196</b>

**Distribution**

As of June 30, 2005, the Retail Banking Division operated a network of 2,695 branches (as of December 31, 2004: 2,742 branches; as of December 31, 2003: 2,898), which comprised the branches of UniCredit Banca, Banca dell'Umbria, CR Carpi, UniCredit Banca per la Casa and Clarima. The reduction of 47 branches compared to year-end 2004 was the result of the on-going rationalization of the UniCredit Group's network aimed at eliminating overlaps derived from Project S3.

Most of these branches are located in northern Italy, while coverage of central and southern Italy is less dense, with Lazio, Puglia, Marche and Campania having a relatively higher number of branches. See "The UniCredit Group's Branch Network". The UniCredit Group has organized UniCredit Banca's branch network into approximately 196 local "micro markets", which report to 11 regional areas. Each "micro market" comprises 10 to 15 branches. Management believes that this structure allows deeper and better knowledge of the local economic environment by the UniCredit Group's local managers.

The Retail Banking Division's internet banking business served approximately 932,750 customers as of June 30, 2005 (compared to 763,450 as of December 31, 2004), consisting of a 20.6% increase in individuals and a 30% increase in small business customers. Telephone banking served approximately 791,660 registered customers as of June 30, 2005 (compared to 545,000 as of December 31, 2004). The UniCredit Group has been successful in its effort to increase the number and volume of transactions effected through its internet banking channel by both business and individual customers by continuing efforts to improve and enhance its functionalities. For example, UniCredit Banca was the first bank in Italy to offer online functionalities tailored to the needs of small businesses, and the UniCredit Group has sought to improve the integration between its internet banking channel and its branch network by including, among other things, the name of the customer's dedicated manager/consultant on his or her home page. UniCredit Banca estimated that its on-line clients carry out approximately twice as many transactions as competitors' clients, on average (Source: Nielsen/Net Ratings — DigitalFinance Q1 2005).

**CORPORATE AND INVESTMENT BANKING DIVISION**
**Overview**

The UniCredit Group's Corporate and Investment Banking Division, acting through UniCredit Banca d'Impresa, UBM and the division's subsidiaries, is responsible for managing the UniCredit Group's relationships with corporate clients. The division, which operates as a network of specialized banks and "product factories", offers a broad variety of financial services, including lending and other traditional commercial banking services, corporate financial risk management and investment banking services (through UBM), structuring securitization transactions (through Euro Capital Structures, a subsidiary of UBM), leasing services (through Locat S.p.A.), project finance, acquisition finance and other medium- and long-term lending services (through UniCredit Banca Mediocredito S.p.A.) and factoring services (through UniCredit Factoring S.p.A.).



UniCredit Banca d'Impresa serves as the main relationship bank for the UniCredit Group's corporate banking customers, while UBM acts as a product innovation and market risk management center and provides consulting support to the UniCredit Group's corporate customers. UBM also serves as the relationship bank for the UniCredit Group's largest Italian corporate customers. As a result, the UniCredit Group's relationship managers have access to a full range of high value-added products and services for all types of corporate customers. The Bank believes this business model has greatly simplified the division's distribution model, expanded cross-selling opportunities and provided other synergies.

The following tables set forth the relative contribution of each of the principal subsidiaries comprising the Corporate and Investment Banking Division to the overall results of the division as of and for the six months ended June 30, 2005 and the year ended December 31, 2004.

Corporate and Investment Banking – Principal Subsidiaries	Six months ended June 30, 2005						
	Share Ownership	Total Assets	Total Net Income	Cost/ Income Ratio <sup>(1)</sup>	ROE <sup>(2)</sup>	Employees	Branches
	%	(€ millions)	(€ millions)	%	%		
	(unaudited)						
UniCredit Banca d'Impresa.....	100.00	58,213	271	29.2	14.1	3,689	241
UniCredit Banca Mobiliare <sup>(3)</sup> .....	100.00	85,246	169	28.7	54.4	678	2
UniCredit Banca Mediocredito.....	96.06	5,126	14	53.6	6.7	227	1
Locat .....	99.83	9,148	43	24.9	20.9	461	—
UniCredit Factoring.....	100.00	2,028	5	41.0	22.6	85	—

(1) Defined as the ratio between the sum of the operating expenses (excluding amortization of goodwill) and the total revenues.

(2) Defined as the UniCredit Group portion of net income for the half-year (annualized), divided by the book value of shareholders' equity as of the end of the period (excluding the UniCredit Group portion of net income of the period but including profit from the previous year earmarked for reserves).

(3) TradingLab Banca was transferred to the Corporate and Investment Banking Division effective December 31, 2003 and was merged into UBM effective from July 1, 2004.

Corporate and Investment Banking – Principal Subsidiaries	Year ended December 31, 2004						
	Share Ownership	Total Assets	Total Net Income	Cost/ Income Ratio <sup>(1)</sup>	ROE <sup>(2)</sup>	Employees	Branches
	%	(€ millions)	(€ millions)	%	%		
	(unaudited)						
UniCredit Banca d'Impresa.....	100.00	55,448	505	28.5	13.5	3,734	240
UniCredit Banca Mobiliare <sup>(3)</sup> .....	100.00	74,509	308	34.7	49.6	703	2
UniCredit Banca Mediocredito.....	95.96	5,132	31	54.4	8.3	239	1
Locat .....	99.83	8,583	93	25.7	27.4	471	—
UniCredit Factoring.....	100.00	2,837	9	39.1	20.8	87	—

(1) Defined as the ratio between the sum of the operating expenses (excluding amortization of goodwill) and the total revenues.

(2) Defined as the UniCredit Group portion of net income for the year (after preferred share dividends but before dividends on ordinary shares), divided by book value of shareholders' equity as of the end of the year (excluding the UniCredit Group portion of net income of the current year).

(3) TradingLab Banca was transferred to the Corporate and Investment Banking Division effective December 31, 2003 and was merged into UBM effective from July 1, 2004.

Formerly part of the Corporate and Investment Banking Division, Uniriscossioni S.p.A. and UniCredit Gestione Crediti S.p.A. were reallocated to the Global Banking Services Division at the end of 2004. The UniCredit Group's foreign branches also report, from an operational point of view, to the Corporate and Investment Banking Division.

## ACTIVITIES

### Corporate Banking

UniCredit Banca d'Impresa is the primary entity within the Corporate and Investment Banking Division responsible for commercial relationships with most of the UniCredit Group's corporate clients, which the UniCredit Group categorizes based on annual revenues into small enterprises (between €1.5 million and €5 million), mid-sized companies (between €5 million and €50 million), large corporate (above €50 million)

and other large corporates (comprised of Italy's largest groups; commercial relationships with these clients are managed directly by UBM). UniCredit Banca d'Impresa's new loan activity in 2004 and in the first six months of 2005 focused on products with medium and long term maturities offered to small and mid-sized companies, in line with the banking industry's "Stability Pact" to support and sustain Italian corporate growth, to which UniCredit Banca d'Impresa adheres.

The following table sets forth the composition of the Corporate and Investment Banking Division's loan portfolio as of June 30, 2005 and 2004 and as of December 31, 2004 and 2003.

Corporate and Investment Banking Division – Loans to Customers by Subsidiary	As of June 30,		As of December 31,	
	2005	2004	2004	2003
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(€ millions)			
UniCredit Banca d'Impresa.....	52,051	47,477	47,922	47,648
UniCredit Banca Mediocredito.....	4,869	4,710	4,849	4,938
Locat.....	7,320	8,581	6,863	7,440
UniCredit Factoring.....	1,975	1,996	2,778	2,356
UniCredit Banca Mobiliare <sup>(1)</sup> .....	6,181	2,124	5,172	1,000
Other companies <sup>(2)</sup> .....	109	57	102	54
<b>Total loans.....</b>	<b>72,505</b>	<b>64,952</b>	<b>67,686</b>	<b>63,436</b>

(1) Amounts for 2003 exclude TradingLab (included since June 2004); TradingLab had €6 million in loans to customers outstanding at year-end 2003.

(2) Amounts for 2004 include Uniriscossioni and Gestione Crediti, but since the first quarter of 2005 these have been included in the Global Banking Services division.

As of June 30, 2005, the book value of doubtful loans to corporate customers totaled €2,009 million, corresponding to corporate customer loans having a total face value of €2,971 million and write-downs totaling €962 million, for a resulting coverage ratio of 32.4%. As of December 31, 2004, the book value of doubtful loans to corporate customers totaled €1,771 million (€1,762 million excluding UniCredit Gestione Crediti), corresponding to corporate customer loans having a total face value of €2,755 million (€2,722 million excluding UniCredit Gestione Crediti) and write-downs totaling €984 million (€960 million excluding UniCredit Gestione Crediti), for a resulting coverage ratio of 35.7% (35.3% excluding UniCredit Gestione Crediti).

As of June 30, 2005, doubtful loans to corporate customers at book value represented 2.77% (compared to 2.62% as of December 31, 2004) of the division's total customer loans. In addition, the UniCredit Group prudentially discounts performing loans to reflect the so-called "inherent risk" of such loans. This risk is quantified on the probability of customer default based on an automated pre-screening process, followed by an in-depth analysis of qualitative and quantitative information on the prospective borrower. In the six months ended June 30, 2005 provisions for risk related to performing loans were in an amount equal to €762 million, compared to €696 million in 2004, due to the weakness of the automotive industry. As of June 30, 2005, total non-performing loans to corporate customers net of write-downs equalled 1.58% of total loans to customers. As of December 31, 2004, total non-performing loans to corporate customers net of write-downs were 1.66% of total loans to customers compared to 1.56% as of December 31, 2003.

The UniCredit Group's corporate banking business model is centered on relationship managers, who have responsibility for being the contact point between the bank and its corporate client. Relationship managers perform initial credit assessments and are supported by a team of specialists from UBM and the UniCredit Group's other product companies who assist in identifying and executing transactions requiring in-depth and up-to-date product and market knowledge. This model is further refined and adapted to the specific needs of each client segment.

Since the start-up of its operations on January 1, 2003, UniCredit Banca d'Impresa has maintained its estimated market share of loans to the Italian corporate banking sector (based on Bank of Italy data), increasing its focus on SME clients, while also maintaining a good credit quality of its loan portfolio (as measured according to the rating categories of the *Centrale dei Rischi* of the Bank of Italy).

As of June 30, 2005, the loan portfolio of UniCredit Banca d'Impresa totaled €52,051 million, representing 72% of the total loan portfolio of the Division, and an increase in volume of 9.6% compared to June 30, 2004.

**Investment Banking**

Through UBM, the UniCredit Group operates in the primary and secondary capital markets and provide wholesale financial services to institutional investors and distribution intermediaries. UBM conducts wholesale operations in financial markets and offers services to other UniCredit Group banks. UBM also manages commercial relationships with the UniCredit Group's 41 largest clients, although lending services are provided by UniCredit Banca d'Impresa. However, UBM's most important business remains sales and trading of fixed income, equity and derivative financial products, with the sale of derivative products to large corporate customers, institutional investors and government agencies and municipalities being the single most important driver of the financial performance of the UniCredit Group's investment bank.

In this regard, in 2003, the UniCredit Group decided to integrate its investment banking operations by merging TradingLab, formerly part of the UniCredit Group's Retail Banking Division, into UBM. The purpose of the transaction, which was completed on July 1, 2004, was to achieve better internal coordination and standardization and improved competitiveness and efficiency at UniCredit Group level of the provision of risk management services to clients and other UniCredit Group entities. The strong increase in UBM's loans to customers during 2004 and the first quarter of 2005 shown in the table above is due substantially to repurchase agreements established to refinance short-term positions and intermediation activities.

TradingLab specializes in the creation and supply to the distribution network of the Group of financial instruments and investment services for personal finance and supplies and is one of the leading players in the European exchange-traded covered warrant market. Starting in 2003, in response to growing demand from distributors and investors, through TradingLab the UniCredit Group increased its focus on low-risk products such as unit-linked and inflation-indexed products assisted by capital protection mechanisms, such as the Constant Proportion Portfolio Insurance product.

CorporateLab, another unit of UBM, focuses on treasury products for customers such as cash management services and derivatives for hedging purposes.

UBM also owns TLX S.p.A., which operates TLX<sup>®</sup>, an electronic global market trading system licensed since 2003 as an Italian regulated market, and EuroTLX, an alternative trading system (*sistema di scambi organizzati*), which commenced operations in 2000. TLX<sup>®</sup> allows trading of a broad range of securities, particularly bonds not otherwise widely traded on regulated markets, and provides transparency on prices and on pre-and post-trading information. Market liquidity is pursued through continuous auction bidding and by the presence of at least one market maker during trading hours.

During 2004 and the first six months of 2005, UBM built upon its role as one of the leaders in the Italian equity capital markets, acting as global coordinator and sponsor or as joint lead manager for high profile initial public offerings and capital increases, as well as coordinating intermediary in public tender offers. In the debt markets, UBM arranges, manages or underwrites bond issues by the important corporations and domestic and international banks and is a recognized leading specialist in the primary market for securities issued by the Italian Treasury. UBM has also been admitted to the group of specialists for the French and Greek Treasuries. UBM also operates in the mergers and acquisitions area, also playing a leading role in arranging leveraged finance and acquisition finance transactions.

UBM is also active in the business of arranging and servicing, securitization transactions for the UniCredit Group and third parties.

As of June 30, 2005, the UBM loan portfolio totaled €6,181 million, representing 9% of the total loan portfolio of the Division, and an increase of about €1 billion compared to December 31, 2004.

**Leasing**

Through Locat, the UniCredit Group is a leader in the Italian financial, real estate, office and industrial equipment leasing businesses. Locat offers its leasing products to all types of customers, public and private, mainly corporate and individual enterprises, engaged in the manufacturing, trading or services businesses. The UniCredit Group recently completed a residual public tender offer for the Locat shares that it did not already

own, and now owns approximately 99.8% of its share capital (with the remainder of the share capital attributable to shares held by management and to be sold to the UniCredit Group upon expiration of a lock-up period).

After six years of uninterrupted growth, the Italian leasing industry registered a 16% decrease in total new lease contracts in 2003 before returning to growth in 2004, when new contracts increased by 18%. In the first quarter of 2005, new contracts increased by about 20% compared with the first quarter 2004. The decline in 2003 was due to expiration of certain tax incentives that benefited leasing activities. In this environment, Locat in 2003 experienced a substantially smaller decline in new leasing contracts than the industry as a whole and improved its market share from 12.9% as of December 31, 2003 to 13.1% as of December 31, 2004 (Source: internal estimate based on data from *Assilea*, the Italian leasing association), maintaining the leadership position with €5 billion in total new lease contracts to customers as of December 31, 2004. As of June, 2005, Locat's leasing portfolio totaled €7,320 million, with an increase in volume of 6.7% compared to December 31, 2005. In term of new contracts, in the six months ended June 30, 2005, the company drew up new lease contracts for €2,285 million, recording an increase of 4.6% compared to the six months ended June 30, 2004.

**UniCredit Banca Mediocredito**

UniCredit Banca Mediocredito, as of June 30, 2005 a 96.06% owned subsidiary of the Bank created in 1995 by the merger of Federbanca and Mediocredito Piemontese, specializes in financial advisory services and has acted as lead arranger in project finance transactions in the energy, environment, oil and gas, manufacturing, telecommunications, transport and logistics, water systems and public utilities and services industries. UniCredit Banca Mediocredito combines corporate lending capability with project and acquisition finance expertise in order to meet its corporate clients' demands. It also manages investment funds and provides advisory services to support companies on both the national and European level.

As of June 30, 2005, UniCredit Banca Mediocredito's loan portfolio totaled €4,869 million, with an increase in volume of 3.4% compared to June 30, 2004.

In July 2005, the Bank's Board approved a reorganization project of UniCredit Banca Mediocredito S.p.A. ("UBMC") pursuant to which the current activities of UBMC will be transferred to various UniCredit Group subsidiaries. Subsequent to these transactions, the Bank will transfer its securities services business to UBMC.

**Factoring**

The UniCredit Group conducts factoring activities through UniCredit Factoring. The UniCredit Group is continuing its efforts to centralize and streamline its factoring business in line with the Project S3 divisional model.

**PRIVATE BANKING AND ASSET MANAGEMENT DIVISION****Overview**

The UniCredit Group's Private Banking and Asset Management Division operates in the wealth management business, with a focus on mid-to-high net worth clients, and acts through three main entities:

- UniCredit Private Banking and its subsidiaries, which offer private banking services to the UniCredit Group's mid- (defined as families or individuals with total financial assets above €500,000) to high- (individuals with total financial assets above €5 million) net worth clients;
- UniCredit Xelion Banca, which engages in the business of raising funds from customers with the purposes of investing in mutual fund, insurance and other asset management products ("asset gathering"), focusing primarily on the affluent client segment (clients with at least €75,000 in total financial assets); and
- PGAM and its subsidiaries, which operate in the asset management business.

The following tables set forth the relative contribution of each of the principal subsidiaries comprising the UniCredit Group's Private Banking and Asset Management Division to the overall results of the division as of and for the six months ended June 30, 2005 and the year ended December 31, 2004.

Private Banking and Asset Management – Principal Subsidiaries	Six months ended June 30, 2005						
	Share Ownership %	Total Assets (€ millions)	Total Net Income (€ millions)	Cost/Income Ratio <sup>(1)</sup> %	ROE <sup>(2)</sup> %	Employees	Branches
				(unaudited)			
UniCredit Private Banking.....	100.0	4,783	44	62.6	36.3%	1,177	149
Pioneer Global Asset Management Group .....	100.0	1,913	117	46.5	22.5%	1,790	—
UniCredit Xelion Banca .....	100.0	1,643	(18)	149.7	n.s.	318	—

(1) Defined as the ratio between the sum of the operating expenses (excluding amortization of goodwill) and the total revenues.

(2) Defined as the UniCredit Group portion of net income for the half year (annualized), divided by the book value of shareholders' equity as of the end of the period (excluding the UniCredit Group portion of net income of the period but including profit from the previous year earmarked for reserves).

Private Banking and Asset Management – Principal Subsidiaries	Year ended December 31, 2004						
	Share Ownership %	Total Assets (€ millions)	Total Net Income (€ millions)	Cost/Income Ratio <sup>(1)</sup> %	ROE <sup>(2)</sup> %	Employees	Branches
				(unaudited)			
UniCredit Private Banking....	100.0	4,510	63	63.1	26.2%	1,175	154
Pioneer Global Asset Management Group .....	100.0	1,841	248	51.5	27.4%	1,854	—
UniCredit Xelion Banca .....	100.0	1,471	(35)	163.3	n.s.	286	118 <sup>(3)</sup>

(1) Defined as the ratio between the sum of the operating expenses (excluding amortization of goodwill) and the total revenues.

(2) Defined as the UniCredit Group portion of net income for the quarter (annualized), divided by the book value of shareholders' equity as of the end of the period (excluding the UniCredit Group portion of net income of the period but including profit from the previous year earmarked for reserves).

(3) UniCredit Xelion Banca's points of sale are called Financial Studios.

The division also includes three non-Italian private banking subsidiaries (Banca Agricola Commerciale S. Marino S.A., Banque Monegasque de Gestion S.A. and UniCredit (Suisse) Bank S.A.), Cordusio Fiduciaria and other subsidiaries that support the business of UniCredit Private Banking. The division covers the entire territory of Italy and maintains a presence in selected international markets (Boston, Dublin, London, Paris, Madrid, Hong Kong, Singapore, Lugano, Monaco and the Republic of San Marino). During 2004, the UniCredit Group transformed its Luxembourg branch into UniCredit International Bank (Luxembourg) S.A., which has been operating since November 2004.

On July 21, 2003, the Bank signed an agreement with ING Groep N.V. to acquire the assets of the retail and private banking business units of ING Bank N.V., representing the Italian retail operations of the Dutch group, and a direct, 100% interest in its affiliate ING Sviluppo Finanziaria, a holding company controlling ING Sviluppo Fiduciaria SIM, ING Employee Benefits, ING Investment Management Italia SGR, ING Agenzia Assicurativa and ING Sviluppo Investimenti SIM. This transaction was completed on December 1, 2003. During 2004 and the first months of 2005, the UniCredit Group has taken the following steps to integrate these assets into the Private Banking and Asset Management Division:

- the private banking business unit of ING Bank N.V.'s Italian branch was transferred to UniCredit Private Banking;
- ING Sviluppo Investimenti SIM's network of financial consultants, the equity investment in XAA Agenzia Assicurativa S.p.A. (formerly ING Agenzia Assicurativa) and the retail business unit of ING Bank N.V.'s Italian branch were transferred to UniCredit Xelion Banca;
- PIXel Investment Management S.G.R.p.A. (formerly ING Investment Management Italia S.G.R.p.A.), which operates in the asset management sector, was transferred to PGAM and subsequently merged into PIM S.G.R.p.A.; and



- Non-strategic entities were eventually rationalized through mergers into the Bank or other UniCredit Group entities.

Following these transactions and the further development and rationalization of its businesses, as of June 30, 2005 the Private Banking and Asset Management Division had over 575 client managers (575 as of December 31, 2004 as well) and 1,967 financial consultants (compared to 2,067 as of December 31, 2004) and almost €189 billion in financial assets of its customers (compared to €172 billion as of December 31, 2004), of which approximately €142 billion were assets under management (compared to €130 billion as of December 31, 2004).

## **ACTIVITIES**

### **Private Banking**

Through UniCredit Private Banking, the UniCredit Group serves wealthy individuals and non-profit entities with significant financial resources and needs similar to those of private individuals. The Bank believes that UniCredit Private Banking is the largest specialized private bank in Italy in terms of clients' financial assets portfolio (which totaled €48.4 billion as of June 30, 2005 and €44.5 billion as of December 31, 2004), with 149 locations and branch offices and about 40,000 customer families assisted by 575 client managers as of June 30, 2005. UniCredit Private Banking maintains a physical presence in substantially all of Italy's large and mid-sized cities, and directly controls other major UniCredit Group subsidiaries concentrating in the private banking and asset management business, including Cordusio Fiduciaria, UniCredit Suisse (Bank), UniCredit (Suisse) Trust S.A., Banque Monegasque de Gestion and Banca Agricola Commerciale S. Marino S.A.

The UniCredit Group's private banking business offers traditional products and services ranging from individual wealth management services to standard investment funds to hedge funds, as well as more sophisticated versions of traditional products such as credit cards and the new advisory services. The commercial strategy of UniCredit Private Banking during 2004 and the first six months of 2005 focused on the sale of funds, discretionary accounts and related advisory services. As of June 30, 2005, the number of discretionary accounts had increased by approximately 5.9% compared to December 31, 2004, while in the same period assets under administration increased by approximately 11.3%. In addition, UniCredit Private Banking offers ancillary consultancy services, such as tax and estate planning and alternative investment advice.

Since its inception at the beginning of 2003, the UniCredit Group's private banking business has devoted substantial attention to training initiatives, various external and internal communication initiatives, fine tuning its product line (with a focus on specific products such as personalized wealth management for the UniCredit Group's private clients, or segregated accounts, and hedge funds), and client-oriented initiatives, including efforts to measure customer satisfaction, identify differentiated customer segments, improve customer reporting services, increase synergies with the Corporate and Investment Banking and New Europe Divisions, optimize internal processes and introduce new sales tools improving customer relationships and the performance of the UniCredit Group's sales structures.

As of June 30, 2005, UniCredit Private Banking and its subsidiaries managed a portfolio of financial assets totaling €57 billion, of which UniCredit Private Banking managed €48.4 billion directly, consisting of approximately €3.4 billion in direct deposits, €830 million in repurchase agreements, €19.3 billion in assets under management and €25 billion in assets under administration (other than repurchase agreements).

As of December 31, 2004, UniCredit Private Banking and its subsidiaries managed a portfolio of financial assets totaling €52.8 billion, of which UniCredit Private Banking managed €44.5 billion directly (an increase of 18.6% over 2003), consisting of approximately €3.1 billion in direct deposits, €800 million in repurchase agreements, €18.2 billion in assets under management and €22.4 billion in assets under administration (other than repurchase agreements).

### **Asset Gathering**

In the context of Project S3 and in order to strengthen and rationalize the UniCredit Group's mobile distribution channel, the UniCredit Group contributed, during 2003, to UniCredit Xelion Banca the financial consultants network of UniCredit Banca as well as the network of financial consultants acquired in connection with the merger of ONBanca into the Bank in 2002 and in 2004 the network of the acquired ING Sviluppo Investimenti SIM. The integration of the UniCredit Banca and ONBanca networks resulted in the



overall addition of 701 consultants and customer relationship managers with aggregate portfolios of €2.3 billion, and the integration of the network of ING Sviluppo Investimenti SIM contributed 599 financial consultants and a client assets portfolio of €3.2 billion. UniCredit Xelion Banca has completed the rationalization and standardization of the operating and back-office structures supporting its financial consultants.

As of June 30, 2005, UniCredit Xelion Banca was one of the five largest operators in the Italian market in terms of asset gathering, targeting the affluent client segment and managing a network of 1,967 financial consultants, and had approximately €13.4 billion in total financial assets (compared to €1.21 billion as of December 31, 2004). As of June 30, 2005, UniCredit Xelion Banca's branch network consisted of 112 points-of-sale (referred to as "financial studios") (compared to 118 as of December 31, 2004) and 255 financial consultant offices (compared to 279 as of December 31, 2004). In addition, during 2004 and the first six months of 2005, UniCredit Xelion Banca was market leader in Italy in terms of net assets generated (Source: *Assoreti*).

The contribution to UniCredit Xelion Banca of the network of financial consultants of ING Sviluppo Investimenti SIM represents a move towards achieving higher critical mass per financial consultant. Average assets per financial consultant increased by 28% in 2004, passing from €4.6 million to €5.9 million as of December 31, 2004; this ratio increased further in the first quarter of 2005, reaching €6.8 million on average, an increase of 31% compared with the first six months of 2004.

### **Asset Management**

In October 2000, the UniCredit Group acquired the Global Investment Management division of the United States based Pioneer Group. Following this acquisition, the UniCredit Group consolidated its asset management businesses under PGAM, which became the holding company for the UniCredit Group's asset management operations.

The current structure of the UniCredit Group's asset management business reflects both the UniCredit Group's growth strategy and its efforts to consolidate and rationalize the UniCredit Group's asset management business units. This concentration process involved several successive steps:

- In 2002, PGAM acquired a 100% interest in Momentum, an international hedge fund management company.
- In 2003, the UniCredit Group's activities relating to the promotion and management of open-ended, Italian law mutual funds, closed-end real estate funds and defined contribution, open-ended pension funds were centralized under Pioneer Investment Management S.G.R.p.A.
- As part of the restructuring of the UniCredit Group's activities in the Czech Republic, PGAM acquired from Zivnostenska Banka all of the shares of ZB Asset Management A.S. (December 2003) and of ZB Trust Investment Bank A.S. (January 2004).
- In January 2004, PGAM acquired from ING Sviluppo Finanziaria S.p.A. all of the shares of ING Investment Management S.G.R.p.A., which was subsequently named PIXEL Investment Management S.G.R.p.A. ("PIXEL").
- Effective April 1, 2004, UniCredit Banca transferred to Pioneer Investment Management its individual asset management portfolios, consisting of over 130,000 discretionary accounts granted by retail customers for total assets under management of about €7 billion. Following this transfer, UniCredit Banca distributes the segregated account services of Pioneer Investment Management on the basis of a specific agreement.
- On August 4, 2004, Pioneer Investment Management Inc. (a subsidiary of Pioneer Investment Management USA Inc.) entered into an agreement with Safeco Asset Management, an affiliate of Safeco Life Insurance Bank, for the acquisition of the management of 22 mutual funds comprising total assets of \$3.6 billion. The acquisition was approved by the fund's stockholders on December 13, 2004.
- In January 2005, UniCredit Private Banking transferred its wholly owned asset manager UniCredit Private Asset Management S.G.R.p.A. ("UPAM") to PGAM. Subsequently, in April 2005, UPAM and

PIXEL were merged into Pioneer Investment Management S.G.R.p.A. As of December 31, 2004, UPAM managed assets of €9.1 billion and PIXEL managed assets of €2 billion.

- Effective April 1, 2005, CR Carpi and Banca dell'Umbria transferred their segregated accounts to Pioneer Investment Management S.G.R.p.A.
- In June 2005, Pioneer Investment Management Inc. signed a definitive agreement to purchase AmSouth Bancorporation's mutual funds management business, comprising 23 mutual funds and managed assets of US\$ 5.9 billion.

PGAM has also recently completed the process of rationalization and consolidation of its operating, back-office and marketing and sales structures and is currently expanding its operations in the United States by means of selective acquisitions of relatively small fund managers, particularly in the segregated accounts sector. For example, on September 23, 2004, Pioneer Investment Management USA Inc. also entered into an agreement for the acquisition, at a purchase price of \$17.2 million, of 49% of the share capital of Oak Ridge Investments LLC, an asset management company specializing in segregated accounts with approximately \$1.4 billion under management. This acquisition was completed in January 2005.

The Pioneer Investment group operates in more than 20 countries (including the United States, Italy, Ireland, Luxembourg, the United Kingdom, Singapore, the Czech Republic and Poland) and, as a result of its investment centers in Milan, Dublin, Boston and Singapore, maintains in-house investment research capabilities in key financial markets helping the UniCredit Group to offer specific answers to the challenges of each of its reference markets. Through PGAM's Italian affiliates, the division offers Italian investors a full array of investment funds, hedge funds, pension funds and asset management services for institutional investors.

Pioneer Investment Management USA Inc.'s products are distributed in Italy primarily through the UniCredit Group's retail and corporate branch networks, while it reaches clients in foreign markets principally through partnerships with local private and commercial banks.

As of June 30, 2005, Pioneer Investment Management USA Inc. had approximately €142.4 billion in assets under management (compared to €129.8 billion as of December 31, 2004), approximately 70.3% of which originated from Italian customers (compared to 71.6% as of December 31, 2004). The total volume of assets under management as of June 30, 2005 represented an increase by 14.2% from €124.7 as of June 30, 2004.

## **NEW EUROPE DIVISION**

### **Overview**

Since 1999, the UniCredit Group has acquired controlling stakes in seven banks and financial institutions operating in Central and Eastern Europe, including Poland, Slovakia, the Czech Republic, Croatia, Bosnia Herzegovina, Bulgaria, Turkey and Romania. The Bank refers to its operations in these countries as its "New Europe Division". As a result of these transactions, the UniCredit Group has become, with approximately 28,000 employees, one of the leading international banking groups operating in New Europe, both in terms of net profits (€241 million for the six months ending June 30, 2005 and €585 million for the year ending December 31, 2004) and presence (1,401 branches as of June 30, 2005 and 1,373 branches as of December 31, 2004, including KFS). The New Europe Division has also increased its contribution to the UniCredit Group's net income, from 9.1% as of December 31, 2000 to 18.4% as of June 30, 2005.

The following tables set forth the relative contribution of each of the principal entities comprising the New Europe Division to the overall results of the division as of and for the six months ending June 30, 2005 and the year ending December 31, 2004.

New Europe – Principal Subsidiaries	Six months ended June 30, 2005						
	Share Ownership %	Total Assets (€ millions)	Total Net Income (€ millions)	Cost/Income Ratio <sup>(2)</sup> %	ROE <sup>(3)</sup> %	Employees	Branches
				(unaudited)			
Pekao Group (Poland) .....	52.93	14,614	180	52.6	20.8	15,951	786
Zagreba ka Banka Group (Croatia & Bosnia Herzegovina) .....	81.91	9,052	46	57.0	12.9	5,140	189
Koç Finansal Hizmetler Group (Turkey) <sup>(1)</sup> .....	50.00	4,267	51	41.9	25.2	1,988	90
Bulbank (Bulgaria) .....	86.13	1,689	27	33.9	21.1	1,890	103
Živnostenská Banka (Czech Republic) .....	96.63	1,642	3	82.4	6.1	883	41
Unibanka (Slovakia) .....	77.21	1,549	7	79.3	17.4	1,072	66
UniCredit Romania (Romania) ....	99.95	426	2	80.0	6.1	767	36

(1) The company is consolidated on a proportional basis. The amounts reported are for contribution to consolidated accounts.

(2) Defined as the ratio between the sum of the operating expenses (excluding amortization of goodwill) and the total revenues.

(3) Defined as the UniCredit Group portion of net income for the half year (annualized), divided by the book value of shareholders' equity as of the end of the period (excluding the UniCredit Group portion of net income of the period but including profit from the previous year earmarked for reserves).

New Europe – Principal Subsidiaries	Year ended December 31, 2004						
	Share Ownership %	Total Assets (€ millions)	Total Net Income (€ millions)	Cost/Income Ratio <sup>(2)</sup> %	ROE(3)%	Employees	Branches
				(unaudited)			
Pekao Group (Poland) .....	52.93	13,896	335.8	55.1%	21.1%	16,193	784
Zagreba ka Banka Group (Croatia & Bosnia Herzegovina) .....	81.91	8,371	125.5	55.1%	22.3%	4,975	187
Koç Finansal Hizmetler Group (Turkey) <sup>(1)</sup> .....	50.00	6,775	146.6	44.4%	25.9%	3,898	172
Bulbank (Bulgaria) .....	85.20	1,840	43.9	42.8%	18.0%	1,747	94
Živnostenská Banka (Czech Republic) .....	96.61	1,527	6.4	88.5%	6.6%	811	36
Unibanka (Slovakia) .....	77.21	1,266	9.7	78.2%	12.4%	1,061	69
UniCredit Romania (Romania) ....	99.95	320	1.8	80.3%	2.9%	679	31

(1) The company is consolidated on a proportional basis. The amounts reported are for 100%.

(2) Defined as the ratio between the sum of the operating expenses (excluding amortization of goodwill) and the total revenues.

(3) Defined as the UniCredit Group portion of net income for the year (after preferred share dividends but before dividends on ordinary shares), divided by book value of shareholders equity as of the end of the year (excluding the UniCredit Group portion of net income of the current year).

In New Europe, the UniCredit Group has adopted a multi-center federal organizational business model, with each bank structured in specialized divisions focusing on specific client segments. This model is based on a matrix structure consisting of:

- local independent brands and management for overseeing operations that provide commercial flexibility, focus on customers and high quality services;
- strong Group-wide governance for controlling and managing risks by implementing best practices and for guiding future expansion and common initiatives among countries;
- centralized parent company functions dedicated to supporting local businesses, monitoring risks and transferring knowledge;

- joint management committees formed by the Bank and the division's banks for strategic or significant projects aimed at fostering the development and integration of these banks; and
- multi-center shared services and excellence centers for achieving economies of scope and scale using parallel business models, while preserving efficient and flexible management of the features that are unique to each country.

### ACTIVITIES

The New Europe Division is responsible for guiding the development and restructuring of the UniCredit Group's New Europe banks and supporting their planning, control and loan processing in order to achieve the objective of becoming the leading banking group in New Europe.

By leveraging its dedicated staff, the division provides continual support for the UniCredit Group's New Europe banks through, for example, the management of task forces focused on large strategic projects (such as redesigning information systems and the loan process, creating product factories, developing multi-channel distribution systems, creating client-focused divisions in newly acquired banks recently added to the division, reassessing internal organization and processes, etc.) or the provision of immediate operational support (development and launch of new products, optimization of production processes, improvement of cost efficiency, implementation of planning systems, internal monitoring, incentive systems, etc.).

The division has also initiated a series of projects aimed at increasing revenue-generating capacity, improving efficiency, and enhancing the image and international visibility for the UniCredit Group's New Europe banks. The main projects recently conducted by the UniCredit Group include:

- upgrading the information systems used by the UniCredit Group's New Europe banks in order to reduce operational risks, reduce costs and begin building a common business platform;
- the redesign of the New Europe banks' loan approval, monitoring and recovery processes in order to reduce related risks and ensure adherence to UniCredit Group best operating practices;
- the dissemination of a "sales performance culture" by making the UniCredit Group's sales support tools and training and planning procedures available throughout the network;
- the development and retention of the customer base;
- restructuring distribution networks to form client-focused divisions in order to tailor the UniCredit Group's product offerings; and
- the creation of a pan-European platform in the credit card sector as a result of a partnership with Servizi Interbancari, which the Bank expects will allow its New Europe banks to benefit from significant economies of scale and competitive advantages.

In addition, the UniCredit Group has further developed its "New Europe desks", which provide integrated services and closer coordination between its Italian operations and its New Europe banks. These desks help the UniCredit Group's Italian corporate banking customers to seek investment opportunities in New Europe and to carry out their foreign transactions and business ventures through specific support in the banking area as well as by providing commercial, legal and tax services.

### The New Europe Banks

#### Bank Pekao

The UniCredit Group acquired its ownership interest in Bank Pekao, currently equal to 52.93% of its share capital, in September 1999. Other significant shareholders of Bank Pekao include the European Bank for Reconstruction and Development, Allianz AG and the Polish Ministry of the Treasury, with approximately 37.5% of its share capital being held by the market. Bank Pekao is a commercial bank operating in each of the retail, corporate and private banking and asset management areas. It also conducts investment banking activities, focusing on the debt securities and money and foreign exchange markets, and brokerage services. As of the end of 2004, Bank Pekao was the second-largest commercial bank in Poland, and its largest privately owned bank (Source: *Bankscope*).

As of June 30, 2005, Bank Pekao had total assets of €14,614 million (compared to €13,896 million as of December 31, 2004), 15,951 employees (compared to 16,193 as of December 31, 2004) and a network of 786 branches and locations (compared to 784 as of December 31, 2004). For the six months ended June 30, 2005, Bank Pekao recorded total revenues of €532 million, compared to €461 million for the six months ended June 30, 2004 (representing a 15% increase at current exchange rate) and net income for the six months ended June 30, 2005 of €180 million, compared to €144 million for the six months ended June 30, 2004 (representing a 25% increase). The increase in net income was due to revaluation of Polish zloty and good asset quality and revenues. In 2004, the bank recorded total revenues of €1,016 million, as compared to €855 million in 2003 (representing an 18.8% increase) and a 71.3% increase in net income over the prior year from €196 million to €335.8 million.

Recently, Bank Pekao has experienced growing demand for medium-term and mortgage loans in local currency, achieving an estimated 30% market share (new volume sold), and has also been increasing its focus on its asset management business, where it occupies a leading position in the mutual funds business with an estimated 36.1% market share, based on national central bank data. The Bank believes that the improved macroeconomic scenario and the improved credit approval process have allowed simultaneous loan growth and improvement in asset quality.

In order to increase the UniCredit Group's overall market share in the affluent client segment in Poland, Bank Pekao is also gradually introducing multi-channel bank services by extending to a growing number of micro and small businesses "Pekao24", an internet banking service that allows customers to obtain information on their bank accounts and other services. Pekao24 is an integral part of the service offered in Bank Pekao account packages for individual customers at branches where the new information system has already been introduced.

Bank Pekao is carrying out various projects designed to reduce its credit risk profile and increase its efficiency and security. These include upgrading asset monitoring procedures, introducing new tools to support sales force operations and implementing a credit risk reduction program aimed at identifying and managing the riskiest loan positions. For example, electronic credit analysis procedures have been introduced to support credit analysis of micro and small businesses and larger companies. Bank Pekao has also centralized several back office functions in an integrated system to achieve a greater level of efficiency and effectiveness through an integrated platform. The implementation of the enterprise wide information system to manage costs across different organizational units will permit closer monitoring of non-payroll costs and capital expenditures and should improve the efficiency of logistical processes.

Bank Pekao has also recently integrated two of its affiliates, Pekao Leasing and Leasing Fabryczny, in the context of its broader objective to build substantial leasing operations throughout New Europe, leveraging on the expertise acquired in Italy by Locat.

#### **Zagrebačka**

The UniCredit Group owns an 81.91% stake in Zagrebačka, which, based on national central bank data, is the leading commercial bank in Croatia and the second bank in Bosnia-Herzegovina in terms of customer deposits. Other significant shareholders of Zagrebačka include Allianz, which holds a 13.7% stake. As of June 30, 2005, Zagrebačka had a market share in Croatia of approximately 29% of retail and customer deposits, based on Croatian central bank data. Zagrebačka is a licensed bank operating in Croatia and the holding company for the Zagrebačka Banka Group, a Croatian based financial services group which provides a full range of corporate and retail banking services for customers in Croatia and neighbouring Bosnia and Herzegovina. This group provides a full range of banking services, comprising corporate and retail banking, international financing, investment banking and corporate finance services.

As of June 30, 2005, Zagrebačka had total assets of €9,052 million (compared to €8,371 million as of December 31, 2004), operated a network of 189 locations and branch offices (compared to 187 as of December 31, 2004) and had 5,140 employees (compared to 4,975 as of December 31, 2004). For the six months ended June 30, 2005, Zagrebačka recorded total revenues of €180 million, compared to €172 million for the six months ended June 30, 2004 (representing a 4.3% increase) and net income for the six months ended June 30, 2005 of €46 million, compared to €50 million for the six months ended March 30, 2004 (representing a 7.6% decrease). The decrease in net income was primarily due to an increase in provisions. Notwithstanding the gradual reduction in loan and deposit income due to the growing level of competition in the banking sector and the strong reduction in market interest rates, in the year 2004 Zagrebačka achieved total revenues of €362 million (substantially in line with 2003 when revenues were



€365 million) and net income of €125.5 million (up by 10.3% over the previous period), due primarily to an approximately 10% increase in operating profit.

As part of its effort to integrate Zagrebačka, the UniCredit Group started a partnership program in 2002 focused on product innovation in both the retail area (the launch of current account packages) and corporate area (cash management and leasing products), with the objective to continuously improve the quality of service and products as well as on restructuring and upgrading Zagrebačka's loan approval processes, credit scoring procedures and other risk management systems. In addition, the UniCredit Group has focused on further streamlining its Croatian and Bosnia and Herzegovina operations by:

- merging the Croatian operations of CR Trieste Banca into Zagrebačka in 2003;
- integrating Varazdinska Banka, a Croatian bank, into Zagrebačka; and
- merging the group's two banks in Bosnia Herzegovina (Zagrebačka Banka BH and Universal Banka Sarajevo) to form a new entity named UniCredit Zagrebačka Banka in 2004.

Zagrebačka continuously seeks to improve its services and products. During 2003, the bank's sales structure was segmented into two separate divisions, one dedicated to retail customers (mass market, affluent individuals, private banking and small businesses) and the other to corporate customers (medium and large-sized companies). The new structure aims at creating a dedicated service model for each segment, benefiting from the bank's widespread distribution system, a broad customer base and an extensive range of sophisticated products. In addition, it provides differentiated growth strategies for each segment by strengthening the sales commitment in the most profitable retail (affluent individuals, small businesses and private banking) and corporate sectors through an increase in volume and expansion of the customer base.

In June 2005, Zagrebačka acquired the Croatia bank Dresdner Bank Croatia d.d., which was wholly-owned by Dresdner Bank AG Frankfurt, at a price of approximately HRK 96 million (approximately €13 million). As at December 31, 2004, Dresdner Bank Croatia d.d. had assets of HRK 117 million (approximately €16 million) and shareholders' equity of HRK 100 million (approximately €14 million). At the end of June, Dresdner Bank Croatia d.d. was merged into Zagrebačka.

#### **Koç Financial Services**

In 2002, the UniCredit Group established a 50/50 joint venture with the Koç Group (a leading Turkish industrial group operating through more than 100 companies in various sectors including consumer goods, financial services, energy, automotive, etc.) to form KFS. KFS is a financial services group operating through specialized subsidiaries in the areas of commercial banking, brokerage, asset management, leasing, factoring and trade finance services. KFS owns Koçbank, the eighth largest bank in Turkey in terms of total assets, which is active in each of the retail, corporate and private banking markets and had a 3.7% market share as of June 30, 2005, based on national central bank data.

The Bank consolidates KFS proportionally in its consolidated financial statements. As of June 30, 2005, KFS had total assets of approximately €8,534 million (compared to €6,775 million as of December 31, 2004), 3,976 employees (compared to 3,898 as of December 31, 2004) and operated a network of 180 locations and points of sale (compared to 172 as of December 31, 2004). For the six months ended June 30, 2005, KFS recorded total revenues of €309 million, compared to €221 million for the six months ended June 30, 2004 (or a 40% increase) and net income for the six months ended June 30, 2005 of €102 million, compared to €65 million for the six months ended June 30, 2004 (or a 58.1% increase). The increase in net income was primarily due to a good performance in interest margin driven by an increase in volumes and an improvement in monetary adjustment. Notwithstanding the gradual reduction in reference interest rates resulting from the inflation stabilization process in the Turkish market, in the year 2004 KFS generated total revenues of €480.7 million (up 15% over 2003), primarily due to a 18.6% growth in net interest income.

KFS's strategy is based on both "organic growth" and "growth through acquisitions". Organic growth is pursued through leveraging on the combination of the Koç Group's financial services operations (including Koç Yatırım, a real estate company, Koç Asset Management, Koçlease and Koç Factoring) with the UniCredit Group's expertise in the banking and financial services businesses, increasing the customer base, focusing on commissions as a revenue source, shifting volume towards products with higher profit margins and improving operating efficiency. In respect of its division's strategy, KFS has been evaluating potential



targets in 2005. For example, KFS has recently completed the acquisition of a control stake in Yapi Kredi, the sixth largest bank in Turkey by total assets.

KFS's most recent business initiatives have focused on the sales area and on improving operating efficiency. In the sales area, several projects were launched with the goal of introducing products that are new to the Turkish market (such as package accounts, savings plans and Pioneer funds), improving the service model (introduction of client managers for the affluent customer segment) and acquiring new customers (in coordination with the Koç Group). Similarly, in the area of operating efficiency, new processes and tools were introduced for credit assessment and monitoring in the credit area, and new training programs were implemented in the human resources area.

#### **Bulbank**

In October 2000 the UniCredit Group acquired an interest in Bulbank and currently owns 86.13% of its share capital. Bulbank was the largest Bulgarian commercial bank by total assets in 2003, operating primarily in the retail and corporate banking sector. Bulbank offers a broad range of products and services and is in the process of further enhancing its product line by increasing synergies with product companies, such as leasing companies.

As of June 30, 2005, Bulbank had total assets of €1,689 million (compared to €1,840 million as of December 31, 2004), 1,890 employees (compared to 94 as of December 31, 2004) and operated a network of 103 locations and points of sale (as of December 31, 2004: 94). For the six months ended June 30, 2005, Bulbank recorded total revenues of €58 million, compared to €49 million for the six months ended June 30, 2004 (or a 18.2% increase) and net income for the six months ended June 30, 2005 of €27 million, compared to €24 million for the six months ended June 30, 2004 (or a 10.7% increase). The increase in revenues was primarily due to increased interest margins driven by strong growth in volumes. Notwithstanding the increased competitiveness in the Bulgarian market, in 2004 Bulbank generated total revenues of €100 million (up by 14.9% over 2003), due primarily to a 28.9% increase in net interest income (driven by growth in loans, in particular mortgages where it reached 10% market share) and the launch and development of deposit products carrying high commissions. In 2004, Bulbank recorded net income of €43.9 million, a 7% decrease on the prior year, primarily due to a 26% rise in operating costs largely relating to increased depreciation on the new management information system described below.

At the end of 2003, Bulbank completed a restructuring of its information technology system, by centralizing the storage and processing of information, this project as expected permitted to plan and launch more effective sales campaigns and greater operating efficiency. Notwithstanding a current campaign to acquire new clients, Bulbank was also able to improve its credit process, with resulting benefits in risk management.

In February 2004, Bulbank acquired 100% of Unileasing OOD, a leasing company (now called UniCredit Leasing Auto Bulgaria EAD) operating in Bulgaria, which in turn has a controlling interest in Unileasing Auto EOOD (now called UniCredit Leasing Auto Bulgaria EOOD). This acquisition, which forms part of the strategy to develop the UniCredit Group's leasing business in New Europe, allowed Bulbank to immediately start to expand its operations in the local leasing market.

#### **Živnostenská Banka**

In 2003, the UniCredit Group further expanded its presence in New Europe by acquiring Živnostenská in the Czech Republic, of which the UniCredit Group currently owns 96.63% of the share capital. Živnostenská is a commercial bank offering its corporate and retail customers (in the medium to high income bracket) a broad range of traditional products and services, including Czech and foreign currency loans and guarantees, deposits in Czech and foreign currency and current and term accounts denominated in Czech and foreign currency. Živnostenská also executes foreign exchange transactions in the inter-bank money market, provides foreign trade finance and related banking services, financial instruments trading and portfolio management services, as well as telephone and Internet banking.

As of June 30, 2005, Živnostenská had total assets of €1,642 million (compared to €1,527 million as of December 31, 2004), a distribution system covering the entire Czech Republic and consisting of 41 branches and agencies (compared to 36 as of December 31, 2004) located in the country's main cities, and 883 employees (compared to 811 as of December 31, 2004). For the six months ended June 30, 2005, Živnostenská recorded total revenues of €25 million, compared to €21 million for the six months ended June 30, 2004 (representing a 16.9% increase) and net income for the six months ended June 30, 2005 of €3 million, compared to €4 million for the six months ended June 30, 2004 (or a 21.8% decrease). The

decrease in net income was primarily due to a one-off extraordinary gain in the first half of 2004 linked to the sale of a subsidiary. In 2004, Živnostenská generated total revenues of €45.5 million (down by 1.3% over 2003) and net income of €6.4 million (from €8 million in 2003), due to a €4.9 million increase in operating expenses only partially offset by lower provisions and net write-downs reflecting a tight credit policy.

In its current medium-term development plan, Živnostenská intends to strengthen its market position in selected segments, particularly in the areas of retail banking designed for individual customers and small entrepreneurs and in private banking, an area in which Živnostenská has a long-standing tradition. In the corporate banking area, Živnostenská recently broadened its offering of services and developed a new customer-centered servicing system.

#### **UniBanka**

The UniCredit Group owns a 77.21% interest in UniBanka, among the largest Slovak banks by total assets. UniBanka is a commercial bank operating in each of the retail, corporate and private banking and asset management sectors. As of June 30, 2005, UniBanka had €1,549 million in assets (compared to €1,266 million as of December 31, 2004), 1,072 employees (compared to 1,061 as of December 31, 2004) and a network of 66 locations and branch offices (compared to 69 as of December 31, 2004). For the six months ended June 30, 2005, UniBanka recorded total revenues of €23.4 million, compared to €22.6 million for the six months ended June 30, 2004 (a 3.3% increase) and net income for the six months ended June 30, 2005 of €7 million, compared to €5 million for the six months ended June 30, 2004 (a 39.6% increase). The slight improvement in its total revenues during 2004 to €43.8 million (up by 9.8%), was a combination of a sharp increase in net commissions (which were up to 137% over the prior year), partially offset by a reduction in net interest income (down by 8.5%) which was negatively affected by average spreads contraction. Net income for 2004 was up by 42.6% as compared to the prior year, to €9.7 million due to fiscal benefits and the improved credit quality. UniBanka is strengthening its position in the Slovak banking market by launching new products and services for both corporate and retail customers, particularly asset management products and mortgage products tailored for private customers, which UniBanka is now targeting. In addition, UniBanka is investing significant resources in the improvement of its information technology systems.

#### **UniCredit Romania**

In the Romanian market, the UniCredit Group owns 99.95% of the share capital of UniCredit Romania, a Romanian commercial bank operating in each of the retail, corporate and private banking sectors. As of June 30, 2005, UniCredit Romania had €426 million in assets (compared to €320 million as of December 31, 2004), 767 employees (compared to 31 as of December 31, 2004) and a network of 36 locations and branch offices (as of December 31, 2004). For the six months ended June 30, 2005, UniCredit Romania recorded total revenues of €16 million, compared to €12 million for the six months ended June 30, 2004 (representing a 35.6% increase) and net income for the six months ended June 30, 2005 of 2 million compared to 0.6 million for the six months ended June 30, 2004 (a 242% increase). As a result of substantial investments to expand its business, UniCredit Romania achieved a 51% increase in total revenues in 2004, from €17.1 million to €26.9 million, while net income decreased from €2.7 million to €1.8 million primarily due to an increase in operating expenses.

Driven in part by close relationships with Italian companies operating in Romania, which represent a significant portion of its business, UniCredit Romania is in the process of significantly expanding its branch network and its product offering targeted to retail customers (with a special focus on the affluent, private and small business segments).

With a view to strengthening its position in the Romanian market, in May 2003 UniCredit Romania acquired a 100% interest in Demir Romlease, a leasing company which subsequently changed its name to UniCredit Leasing Romania S.A., and in October 2003 it acquired an additional 49.5% of the capital stock of the securities trading company Demir Securities Romania, in which it had already held a 49.5% stake, thereby increasing its total interest to 99%.

## BRANCH NETWORK

## Italian Branch and ATM Network



As of June 30, 2005

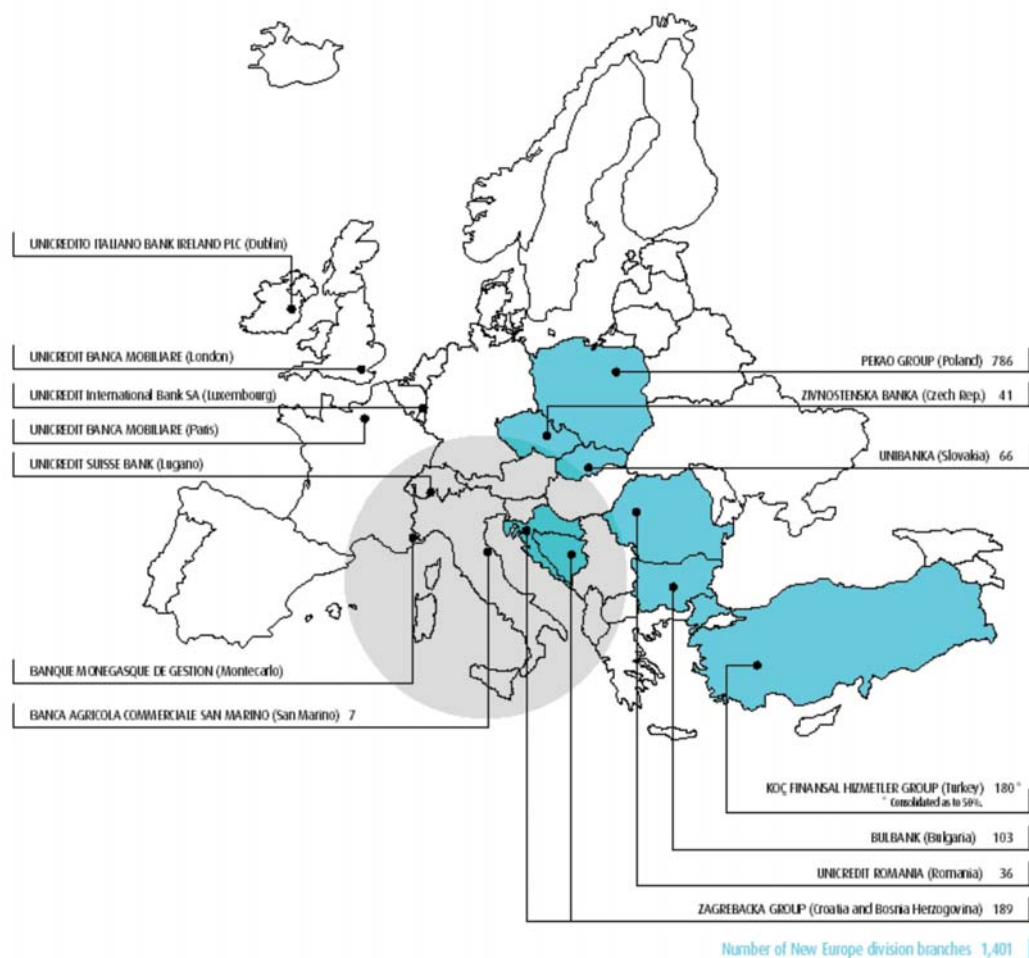
REGION	Bank Branches						Total Italian Branches
	UniCredit Banca	UniCredit Banca per la Casa	UniCredit Banca d'Impresa <sup>(2)</sup>	UniCredi Clarima Banca	UniCredit Private Banking <sup>(3)</sup>	Other <sup>(1)</sup>	
	(unaudited)						
Veneto .....	553	1	47	—	28	—	629
Emilia-Romagna .....	418	1	30	—	26	30	505
Piedmont.....	405	1	32	—	27	—	465
Lombardy.....	246	4	37	1	19	8	315
Lazio .....	169	3	15	1	11	6	205
Friuli-Venezia Giulia .....	140	—	9	—	5	—	154
Puglia .....	94	1	8	1	6	—	110
Tuscany .....	68	1	14	1	6	4	94
Umbria.....	9	—	2	—	—	76	87
Marche.....	76	—	7	—	3	1	87
Trentino-Alto Adige.....	78	—	6	—	3	—	87
Campania.....	69	1	9	1	5	—	85
Liguria .....	53	1	7	—	4	—	65
Sicily .....	49	1	5	2	3	—	60
Sardinia .....	38	—	3	1	1	—	43
Abruzzo.....	20	—	4	—	1	—	25
Molise.....	22	—	1	—	—	—	23
Val d'Aosta.....	19	—	1	—	1	—	21
Calabria.....	16	—	3	1	—	—	20
Basilicata.....	4	—	2	—	—	—	6
<b>Total .....</b>	<b>2,546</b>	<b>15</b>	<b>242</b>	<b>9</b>	<b>149</b>	<b>125</b>	<b>3,086</b>

(1) Banca dell'Umbria and CR Carpi.

(2) Including one branch of UniCredit Banca Mediocredito in Piedmont.

(3) Excluding UniCredit Xelion Banca's financial studios.

## New Europe Banks' Branch Network



Entity	Countries	Branches
Pekao group	Poland	786
Zagrebačka Banka Group	Croatia and Bosnia Herzegovina	189
KFS	Turkey	180 <sup>(1)</sup>
Bulbank	Bulgaria	103
Živnostenská	Czech Republic	41
UniBanka	Slovakia	66
UniCredit Romania	Romania	36
<b>Total</b>		<b>1,401</b>

(1) KFS is consolidated as to 50%; the number reported reflects 100%, i.e., all branches of KFS.

## Foreign Branches

In addition to its New Europe banks, the UniCredit Group operates in the international markets through bank subsidiaries located in Ireland, Switzerland, Luxembourg, Monaco and San Marino and through a network of foreign branches located in New York, London, Paris and Hong Kong. The UniCredit Group also maintains representative offices in Canton, São Paulo, Brussels, Moscow, Mumbai, Beijing and Shanghai.

## CORPORATE FUNCTIONS

## Global Banking Services Division

The Bank's Global Banking Services Division was established in July 2004 as part of the UniCredit Group's ongoing efforts to achieve internal synergies, optimize its business processes and increase the efficiency of its organizational model. This new division is responsible for developing and implementing consistent operating

and management processes across the UniCredit Group, overseeing inter-divisional activity and ensuring cost control in order to free its operating divisions to focus even more on product and customer service innovation. The Global Banking Services Division oversees the UniCredit Group's human resources, information technology and organization and quality functions. Its other responsibilities include managing the UniCredit Group's centralized purchasing processes, providing back office services and providing facility management services for the benefit of the UniCredit Group's companies.

*Human Resources* – The human resources department is responsible for developing and implementing consistent personnel policies and systems across the UniCredit Group, managing recruitment, retention and training programs (including rotation and secondment programs in the UniCredit Group's foreign banks) and payroll management, all with a view to promoting the integrated implementation of the UniCredit Group's operating model at the UniCredit Group's divisional and subsidiary levels. The specific responsibilities of this department also include managing career development programs for key managerial employees and managing the UniCredit Group's relationships with trade unions in Italy.

*Organization and Quality* – The organization and quality department is responsible for devising, implementing and monitoring a consistent organizational structure for the UniCredit Group. This department coordinates reorganization projects of the UniCredit Group and oversees all inter-divisional and inter-business activities, as well as the internal business processes of the UniCredit Group, in order to guide the evolution of the UniCredit Group's operating model towards high quality customer service and security.

*Information Technology* – The IT department is responsible for developing and implementing consistent information technology policies and process across each of the UniCredit Group's business divisions, as well as for defining the UniCredit Group's overall long-term information technology development strategies. Specifically, this department oversees the UniCredit Group information technology budget, pursues efficiencies and cost synergies, establishes and maintains common standards for hardware and software solutions, ensures the quality and level of the IT services delivered to UniCredit Group companies on a daily basis and supports the development of new technological solutions and IT platform integration.

*UniCredit Servizi Informativi S.p.A.* – UniCredit Servizi Informativi S.p.A. ("USI") is a wholly-owned information communication technology ("ICT") company of UniCredit Group. USI designs and supplies the UniCredit Group information system and supports the ICT governance activities of the UniCredit Group. USI was established in March 1997 as "Gruppo Credit Servizi S.C.p.A." and was reorganized in July 2001 as UniCredit Servizi Informativi S.p.A.

The missions of USI are to ensure evolution of the UniCredit Group's information system and to guarantee the execution of operations on behalf of users within the UniCredit Group; to ensure global integrity of procedures and company data for users within the UniCredit Group; to provide necessary contribution to the achievement of systems initiatives across UniCredit Group companies; and to monitor innovations and developments in the ICT markets.

To these ends, USI provides ICT, administrative and operating services; manages electronic data processing ("EDP") and the automation of operating processes; and designs, implements and trades ICT and application services. The scope of USI's activities does not, however, include hardware production. USI manages related and supporting activities that contribute to the achievement of UniCredit S.p.A.'s corporate purpose and provides services primarily to the UniCredit Group as well as to external companies.

USI's data centers are based in Milan and Verona. Each such site has a competence center which specializes in one or more areas of the UniCredit Group's data processing system. USI's most significant customers include: the Bank, UniCredit Banca, UniCredit Banca d'Impresa, UniCredit Xelion Banca, UniCredit Private Banking, UniCredit Banca Mobiliare, Pioneer and UniCredit Produzioni Accentrate. In total, USI manages approximately 3,800 branches, 50,000 points of sale (POS), 3,500 automated teller machines (ATMs), 40,000 workstations, 12.5 million monthly payments and 9.1 million monthly ATM operations.

*UniCredit Produzioni Accentrate* – The mission of UniCredit Produzioni Accentrate ("UPA") is to optimize the efficiency and costs of certain administrative functions of banks and other entities throughout the UniCredit Group and to ensure a service level agreed upon between UPA and the users of such services. In order to create a common base of knowledge throughout the UniCredit Group, UPA also directly provides, or supervises the provision of, technical training.



*Real Estate* – In March 2003, UniCredit S.p.A. categorized its real estate holdings as either strategic or non-strategic and contributed such holdings to UniCredit Real Estate S.p.A. and Cordusio Immobiliare S.p.A., wholly owned real estate companies created to rationalize the UniCredit Group's real estate portfolio. In July 2003, UniCredit Banca also contributed its strategic and non-strategic real estate holdings to UniCredit Real Estate S.p.A. and Cordusio Immobiliare S.p.A. By so doing, the UniCredit Group has ensured that all UniCredit Group companies continue to occupy those facilities that are essential to the UniCredit Group corporate purpose while reducing property management costs with respect to non-strategic assets. UniCredit Real Estate S.p.A. is also responsible for providing facility management services to all UniCredit Group companies. In 2004, the non-strategic properties of Cordusio Immobiliare were contributed to Modus s.r.l., a joint venture real estate management company constituted in partnership with Pirelli & C. and Morgan Stanley Real Estate. On June 23, 2005, UniCredit Real Estate and Cordusio Immobiliare entered into a merger agreement pursuant to which Cordusio Immobiliare was merged into UniCredit Real Estate effective June 30, 2005.

In addition, the Global Banking Services Division services and manages, through UniCredit Gestione Crediti Banca (formerly Mediovenezie Banca S.p.A.), non-performing loans in order to minimize the recovery costs of distressed loans. UniCredit Gestione Crediti Banca, which provides its services primarily to affiliated Group companies, negotiates out-of-court settlements and purchases non-performing loans. In addition, through Uniriscossioni, the Global Banking Services Division offers tax collection services to the Italian tax authorities, particularly in relation to local taxation.

### **Other Corporate Functions and Departments**

The central corporate functions at UniCredit S.p.A. are organized into six departments, each of which has specific responsibility for oversight and coordination of an area or areas having Group-wide relevance:

*Group Audit.* The group audit is an independent department which reports directly to the Board, and is responsible for assessing the effectiveness of the UniCredit Group's internal control systems and the efficiency of its operating processes, as well as for ensuring that its operations are conducted in compliance with applicable laws and regulations and UniCredit Group directives. Pursuant to Project S3, the internal audit function was restructured to increase the independence of individual audit areas and to improve the quality of controls and information flow to top management. The activity is carried out through the relationship with UniCredit Audit S.p.A. and the other internal audit functions (mainly for subsidiaries within the New Europe Division) which entails the use of common audit methodologies, the sharing of the annual audit plans, the periodic examination of the audit reporting and the evaluation of the quality of the activity performed. The audit function also audits the Bank and UniCredit Group subsidiaries, verifying the internal controls system and assessing the related risk coverage.

*Credit.* The credit department is responsible for strategic planning in the area of credit risk management and control, as well as for overseeing the process of assessing the creditworthiness of major corporate clients, the planning and implementation of processes and instruments for the UniCredit Group's loan approval, loan monitoring and loan recovery processes, and management of major loan restructuring initiatives.

*Planning and Finance.* The planning and finance department, which includes UniCredit Group finance, is responsible for overseeing the UniCredit Group's asset and liability management, asset backed securitization, Group treasury and debt capital markets activities, as well as the planning and control activities of the Bank. This department is also responsible for strategic planning at a Group level, investor relations, mergers and acquisitions, managing market risk, and allocating capital to the UniCredit Group's various business areas based upon a consolidated risk assessment. The UniCredit Group treasury function is also responsible for overseeing the operations of UCI Ireland, the UniCredit Group's licensed wholesale bank located in Dublin, Ireland. UCI Ireland, a wholly-owned subsidiary of the Bank, whose principal business areas include credit and structured finance (loans, bonds, securitization and other forms of asset financing), treasury activities (money market, repurchase agreements, EONIA and other interest rate swaps, foreign exchange and futures) and the issue of certificates of deposit and structured notes.

*Legal and Corporate Affairs.* The legal and corporate affairs department is principally responsible for legal and corporate compliance, monitoring legal and regulatory developments and ensuring standard interpretations of law and regulation across the UniCredit Group. This function also supports the UniCredit Group's mergers and acquisitions, capital markets and restructuring activities, oversees intra-group service arrangements and provides general internal legal consulting services.



*Administration.* The administration department is responsible for accounting and tax compliance, for preparation of non-consolidated and consolidated financial reporting, defining the UniCredit Group accounting principles, reporting to regulatory authorities, insuring a reference point for the subsidiaries with respect to regulators' authorizations and monitoring the UniCredit Group's operational risks.

*Corporate Identity.* The corporate identity department is responsible for formulating and disseminating the UniCredit Group's corporate identity through brand coordination, managing its public and institutional relations, managing its internal communications in collaboration with the Human Resources department, developing its environmental policy, preparing its annual Social and Environmental Report, and coordinating the UniCredit Group's relationship with Unidea, its charitable foundation.

## **INVESTMENTS**

### **Historical Investments**

In financial years 2004, 2003 and 2002, investments in tangible assets related to information technology amounted to approximately €23 million, €31 million and €29 million, respectively, and investments in intangible assets related to information technology amounted to approximately €52 million, €57 million and €43 million, respectively.

Acquisitions, including investments in participations and capital contributions, in the financial years 2004, 2003 and 2002 amounted to approximately €120 million, €2,479 million and €965 million, respectively.

### **Recent and Ongoing Investments**

Recent and ongoing investments in 2005 amount to (i) the €1,182 million acquisition of a 57.4% participation in Yapi Kredi by KFS, a 50/50 joint venture between UniCredit S.p.A. and Koc, Group, which was financed through a capital increase of KFS (which was equally subscribed by its shareholders), as well as existing funds and borrowing of KFS, and (ii) €3.6 million for the increase in the UniCredit Group's participation in Bulbank, which the UniCredit Group expects to finance from own funds.

### **Committed Future Investments**

Future investments to which the Board has committed include: (i) the proposed Business Combination with the HVB Group (see "The Combined Group"), which the Bank expects to finance from own funds including a capital increase by up to €2,343,642,931 by means of issuance of 4,687,285,862 New UniCredit Ordinary Shares against contributions in kind in the form of shares of HVB, Bank Austria Creditanstalt and Bank BPH, and (ii) a public takeover offer by KFS to the outside shareholders of Yapi Kredi following the acquisition by KFS of a control stake in Yapi Kredi, as described under "—Recent and Ongoing Investments" above, as well as potential public offers for certain listed subsidiaries of Yapi Kredi (for which exemptions have been requested).

In addition, the Board has approved investments in information technology for 2005, 2006 and 2007 in the amounts of €71.8 million, €68.5 million and €66.1 million, respectively. These investments, as well as certain other information technology projects, have been taken into account for purposes of the business plan for the Combined Group. See "The Combined Group."

## **EMPLOYEES**

### **Headcount**

As of June 30, 2005, the UniCredit Group employed a total of 68,247 individuals. As of December 31, 2004, the UniCredit Group employed a total of 68,571 individuals, representing a decrease of 0.71% compared to December 31, 2003.

The following table provides certain information about the UniCredit Group headcount by division:

	June 30, 2005	December 31, 2004	December 31, 2003	December 31, 2002 <sup>(2)</sup>
	(unaudited)			
Retail.....	24,633	25,136	25,877	26,208
Corporate and Investment Banking.....	5,192	6,334	6,148	5,856
Private Banking and Asset Management .....	3,527	3,700	3,205	2,973
New Europe .....	27,854	27,568	28,080	29,154
Other companies <sup>(1)</sup> .....	7,041	5,833	5,752	4,948
<b>Total Group employees.....</b>	<b>68,247</b>	<b>68,571</b>	<b>69,062</b>	<b>69,139</b>

(1) Includes the Bank and other consolidated UniCredit Group entities in which the UniCredit Group directly owns shares (and including the UniCredit Group's international representative offices) not allocated to the divisions.

(2) Includes employees resulting from the 2003 acquisitions of Zivnostenska Banka (800 employees) and KFS (1,784 employees).

Over the course of 2004, the UniCredit Group reduced the headcount of the New Europe Division, primarily through the implementation of a staff reduction plan at Bank Pekao, and in the Retail Banking operations in Italy, primarily due to the decision to eliminate staff overlapping and duplication following the implementation of Project S3, while increasing the number of sales employees in both UniCredit Banca and Clarima. The increase in the number of employees in the Corporate and Investment Banking Division through December 31, 2004 was also driven by an increase in the number of sales employees. As of June 30, 2005, the number of employees in the Corporate and Investment Banking Division decreased, primarily due to a reallocation of certain subsidiaries to other divisions.

### **Labor Relations**

In Italy, national collective bargaining agreements for the banking sector are generally negotiated between the national association of banks and the national unions. The relations of the individual banks with their employees must be based on and comply with the guidelines set forth by the national collective bargaining agreements.

The latest national collective bargaining agreements for non-management staff (which covers almost all UniCredit Group employees) expired on December 31, 2003. Negotiations for renewal of the binding terms were concluded successfully in early 2005. The new collective bargaining agreement reflects recent amendments to Italian labor laws relating to flexibility, training and adoption of temporary and part-time work schemes. Expected pay rises will be substantially consistent with the 1993 Protocol, a national collective bargaining agreement that provides a mechanism for ensuring that employees of all the economic sectors maintain their purchasing power in times of inflation.

Complementary company agreements exist between certain Group companies. In the banking sector, such complementary company agreements integrate the regulations of the national collective bargaining agreements principally in three fields: company bonuses, safety rules and working conditions.

The UniCredit Group considers its overall relations with employees to be good, and during 2004 the UniCredit Group successfully negotiated several restructurings with the trade unions, such as the transfer of certain "information technology businesses" to UniCredit Servizi Informativi and the transfer of Treasury back-office administration from UniCredit Banca to Produzioni Accentrate. In February 2005, the UniCredit Group successfully negotiated with the trade unions the "UniCredit 2004-2007 Industrial Plan".

Approximately 71% of the UniCredit Group's Italian employees belong to one of the nine national unions, representing both employees and middle management, which the Bank believes to be in line with the average for the Italian banking sector. Although the UniCredit Group has experienced work stoppages during the past three years, they have been almost exclusively of a national nature or involving the entire category of bank employees, rather than limited to Group employees only.

### **COMPETITION**

**Distribution channels.** In recent years, the Italian banking market has been characterized by structural changes that have facilitated the establishment of an efficient and highly competitive market. According to the Banca d'Italia, approximately 80% of the Italian population can, as of year-end 2004, obtain banking services from at least three different banks in close proximity to their residence. At the end of 2004, 31,000

bank branches, representing a modest increase compared to end of 2003, and 33,000 financial promoters, half of which operate through financial shops, were active in Italy. Additionally, 37,000 automated teller machines (ATM) and 840,000 points of sale (POS) exist in Italy. The average number of bank branches per capita in Italy is similar to the average of other Eurozone countries (Source: Bank of Italy).

**Ownership structure.** The Italian banking market presents the same degree of concentration and competition as in most other countries in Europe, and is characterized by a large number of listed companies. As of the end of 2004, 33 Italian banks were listed on the Borsa Italiana.

Since 1992, the share capital in Italian banks held by other public institutions in Italy has progressively reduced from 70% to 9%. On the other hand, foreign financial institutions and companies have progressively increased their shareholdings in Italian banks, and now control 16% of the share capital of the four largest banks in Italy (i.e., the UniCredit Group and the Banca Intesa, Sanpaolo IMI and Capitalia groups). By contrast, foreign institutions and companies own, respectively, 7%, 3% and 2.6% of the aggregate share capital in the four largest banks in each of Germany, France and Spain. Furthermore, insurance companies (both domestic and foreign) control approximately 5% of the four largest banks in Italy.

At the beginning of 2005, foreign investors held participations of more than 5% in 36 Italian banks. Insurance companies (both domestic and foreign) held participations of more than 5% in 23 banks, with, in particular, controlling shareholdings in nine banks.

**Competitive landscape.** Since the mid 1990s, the Italian banking sector has been characterized by a significant turnaround process, resulting in an increase of the product and services range, a reduction in operating costs, an improvement of risk control and an overall improvement in profitability.

The Italian banking market has also been characterized by increase in consolidation and the size of larger banks. Between 1994 and 2004, the average total assets of banking groups and individual banks has increased from €5.4 billion to €13.6 billion. In the same period, the total volume of aggregate banking assets increased by 41.8% and the market share, in terms of total assets, of the six largest Italian banking groups increased from 39.6% to 54.6%, while the number of banks decreased from 944 in 1994 to 778 in 2004. The consolidation trend has resulted in a higher volume of diversified services and new products being offered to customers in various areas of financial intermediation, as banks seek to increase financial revenues while reducing operational costs. The aim of such consolidations has been an increase in financial revenues accompanied by a reduction in operational costs.

Increased competition in the Italian banking market has also brought a higher degree of specialization of banks, which now tend to organize their activities and structure to provide dedicated services to their categories of clients. In this respect, the Bank believes that its Project S3 internal reorganization represents the most advanced and complete example of client-segment focused organization in Italy.

In Italy, the UniCredit Group primarily competes with the largest full service banks having a nation-wide presence, which include the Banca Intesa, Sanpaolo IMI and Capitalia groups and, although smaller, the Banca Monte dei Paschi di Siena, Banca Nazionale del Lavoro and Banca Antonveneta groups. The UniCredit Group competes with these institutions in substantially all of its Italian areas of activity.

**Foreign banks in Italy.** At the beginning of 2005, foreign banks operated 60 branches in Italy, and 15 subsidiaries of foreign banks operated 371 branches in Italy. Such foreign institutions controlled approximately 8% of total bank assets in Italy, a slight increase over 7% in 2003.

In 2005, two foreign banks initiated public offers to acquire controlling stakes in two major Italian banks: Banca Antoniana Popolare Veneta and Banca Nazionale del Lavoro.

In addition, the Italian financial services industry has attracted new entrants in recent years, both domestic and foreign, in progressively larger numbers. Foreign institutions have generally been more successful in accessing the financial services market, rather than the traditional commercial banking market. As a result of increased competition, the amount of fees and commissions paid by customers has dropped significantly.

**Italian banks abroad.** Italian banks are currently increasing their presence abroad, particularly in Central and Eastern Europe. As of the end of 2004, 25 Italian banking groups (23 in 2003) had branches or subsidiaries in foreign countries. In particular, Italian banking groups have developed a relevant presence in Turkey,

Bulgaria, Croatia, Poland and Slovakia. Following a restructuring process focused primarily on credit risk process and IT systems, these foreign subsidiaries have achieved a satisfactory financial performance.

## **INTELLECTUAL PROPERTY**

The Bank believes that the UniCredit Group holds the rights to all intellectual property necessary to conduct its business operations substantially in the manner in which they are currently conducted, notwithstanding the dispute described below.

Beginning in 2002, Union Investment Privatfonds GmbH (“Union Investment”), with its head office in Frankfurt am Main, Germany, alleged various violative acts by the Bank before the Office for Harmonization in the Internal Market (“OHIM”). Union Investment objected to the registration of the trademarks UCI and UCB relating to certain services, maintaining that the similarity between the Bank’s “Uni” prefix and the trademarks previously registered in Germany by Union Investment might confuse consumers as a result of similarities between such trademarks and the services offered by the UniCredit Group and Union Investment.

On December 17, 2004, the OHIM partially allowed the petition submitted by Union Investment against the registration of the Bank’s EU trademark “UniWeb”, which precludes the Bank from registering the trademark “UniWeb” with respect to certain services. Both UniCredit and Union Investment have appealed this ruling to the OHIM Appeals Commission. OHIM has previously issued similar rulings with respect to the registration of two further European Union trademarks of the Bank: “UniCredit Wealth Management” and “UniCredit”. In both rulings (February 28, 2005 and April 28, 2005, respectively) OHIM partially allowed Union Investment’s objections to registration of such trademarks, which precludes the Bank from registering such trademarks with respect to certain services. The Bank has appealed these OHIM rulings.

## **CORPORATE OBJECTS**

The purpose of UniCredito, as set out in Article 4 of the Articles of Association, is to engage in deposit-taking and lending in its various forms, in Italy and abroad, operating wherever in accordance with prevailing norms and practice, and to execute all permitted transactions and services of a banking and financial nature.

## **MAJOR SHAREHOLDERS**

As at June 30, 2005, the Bank’s capital stock totalled €3,169,025,381.50 and was made up of 6,338,050,763 shares of €0.50 each, including 6,316,344,211 common shares and 21,706,552 savings shares.

On July 29, 2005 the shareholders’ meeting of UniCredito authorized an increase of the share capital of UniCredito of up to €2,343,642,931.00 by means of issuance of 4,687,285,862 new UniCredito ordinary shares against contributions in kind in the form of shares of HVB, Bank Austria Creditanstalt and Bank BPH.

As at June 30, 2005, the Shareholders’ Register showed the following:

- There were approximately 220,000 shareholders;
- Resident shareholders held approximately 64% of capital and foreign shareholders the remaining 36%;
- 89% of ordinary capital stock was held by legal entities and the remaining 11% by individuals.

As at the same date, the main shareholders were as follows:

<b>Main Shareholders</b>	<b>Per cent. of ordinary capital held</b>
Fondazione Cassa di Risparmio di Torino .....	8.711%
Fondazione C.R. Verona, Vicenza, Belluno e Ancona.....	7.462%
Carimonte Holding S.p.A. ....	7.053%
Allianz Group.....	4.895%
AVIVA Group .....	2.564%
Fondazione Cassamarca C.R. della Marca Trevigiana .....	2.139%

*Note: UniCredit’s Articles of Association set a limitation on voting rights at 5% of capital.*

## MATERIAL CONTRACTS

### Shareholders' Agreements

*Olimpia S.p.A.*: The Bank holds 4.77% of the share capital of Olimpia S.p.A. ("Olimpia"), a holding company which, as of June 30, 2005, holds 18.01% of the share capital of Telecom Italia S.p.A. (a national and international telecommunication services company), whose shares are listed on the Borsa Italiana. On June 30, 2005, the other shareholders of Olimpia S.p.A. (other than the Bank) and each such shareholder's respective holding, are as follows: Pirelli & C. S.p.A. (57.66%), Edizione Holding S.p.A.-Edizione Finance International SA (16.80%), Hopa S.p.A. (16%), Banca Intesa S.p.A. (4.77%). The shareholders of Olimpia have entered into several agreements which address, among other things, specific corporate governance criteria and the shareholders' relationships generally. Such shareholders' agreements, which expire in 2006, provide for settlement should a deadlock occur during the management of Olimpia, as well as stand still provisions and drag along and tag along provisions. In addition, the shareholders' agreements also address the termination of the relationship among shareholders of Olimpia in the event of a deadlock or non-renewal of such shareholders' agreements at their expiration. In such respect, all financial shareholders such as Banca Intesa S.p.A. and the Bank are entitled to exercise a put option right vis-à-vis the shareholder Pirelli & C. S.p.A.

*Schemaventotto S.p.A.*: The Bank holds a 6.67% interest in Schemaventotto S.p.A. ("Schemaventotto"), a holding company which, as of June 30, 2005, holds a 50.1% interest in Autostrade S.p.A., whose shares are listed on the Borsa Italiana. The principal activities of Autostrade S.p.A. are the construction and operation of toll motorways and tunnels under license within Italy and abroad. The shareholders of Schemaventotto (other than the Bank) and each such shareholder's respective stake are as follows: Edizione Finance International S.A. (60%), Fondazione Cassa di Risparmio di Torino (13.33%), Acesa Italia S.r.l. (13.33%) and Assicurazioni Generali S.p.A. (6.67%). All shareholders of Schemaventotto have entered into a shareholders' agreement in order to assure the stability and uniformity of management decisions in connection with Schemaventotto and in order to guarantee to Autostrade S.p.A. the stability necessary for its development.

This shareholders' agreement, which will expire on December 31, 2007, addresses the corporate governance of Schemaventotto (composition of the corporate bodies and quorum required for shareholders' resolutions and resolutions of the board of directors) and of Autostrade (composition of the corporate bodies). In addition, the shareholders' agreement also requires the shareholders to undertake to avoid behaviour that may risk promotion of a takeover bid of the remaining share capital of Autostrade S.p.A. The shareholders' agreement also governs the shareholders' exit possibilities in the period preceding such agreement's expiration.

### Loan Agreements

*Convertendo FIAT*: In September 2002 the Bank (together with other Italian and non-Italian banks) entered into the "Convertendo FIAT" Loan, in execution of a master agreement with the principal lending banks of the Fiat Group (San Paolo IMI, Capitalia, Banca Intesa and the Bank) dated May 2002. The Bank's stake in the loan quota is equal to €625 million, out of a total principal amount equal to €3 billion.

The "Convertendo FIAT" (which has a duration of three years, maturing on September 20, 2005) requires that the banks undertake to convert a €3 billion loan into short-term risk capital (excluding the possibility that Fiat could be in a financial condition allowing it to secure repayment in cash). This would occur by subscribing to ordinary shares at an issue price equal to the average of €14.441 and the average stock price in the six months prior to the conversion. The conversion price was set at €10.28 on September 13, 2005, and the date of conversion was set to September 20, 2005. Pursuant to the conversion, effective September 20, 2005, 60,797,649 shares were subscribed by the UniCredit Group, and will be offered to existing Fiat shareholders in an offer expected to be launched around October 10, 2005.

## LEGAL PROCEEDINGS

The UniCredit Group is subject to certain claims and is a party to a large number of legal proceedings relating to the normal course of its business. Although it is difficult to determine the outcome of such claims and proceedings with certainty, the Bank believes that liabilities related to such claims and proceedings are unlikely to have, individually or in the aggregate, a material adverse effect on the UniCredit Group's financial condition, results of operations or cash flow.



**Corporate defaults of the Cirio and Parmalat groups; Argentine bonds**

Cirio and Parmalat, two large Italian groups engaged in the food industry, defaulted on their corporate bonds in November 2002 and December 2003, respectively. At the time of their default, these two companies had an aggregate of €1,125 million and €7,200 million in bonds outstanding, respectively. As a result of these defaults, both companies are currently subject to temporary receivership (*amministrazione straordinaria*), a special procedure provided by Italian law applicable to large insolvent corporations.

*Cirio.* The UniCredit Group participated, including through UBM, in the distribution of certain of Cirio's bonds to institutional investors. At the time of these placements, the UniCredit Group had virtually no loans outstanding to Cirio or its affiliates, including members of the Cirio group. Certain UniCredit Group banks sold Cirio bonds to their customers. The Bank believes that such bonds were sold in substantial compliance with applicable laws and regulations and at the express request of its clients. However, in light of the fact that the Cirio bonds did not have any credit rating, it is possible that some UniCredit Group customers were not fully aware of the risky nature of the investment, even in the context of their overall securities portfolio. Accordingly, as widely reported, in December 2003 the UniCredit Group set up an independent commission, formed of professionals not related to the UniCredit Group, to perform a case-by-case review of the positions of non-corporate customers who purchased (and held at each of the date of the Cirio default and at the date the commission was established) Cirio bonds from the UniCredit Group banks and who requested that their investment transactions be reviewed by the commission. All unsophisticated Cirio retail investors who purchased Cirio bonds through UniCredit Group banks received a letter in which they were informed of the possibility of submitting their case to the commission. The commission's job was to assess the degree of awareness of Group customers who purchased Cirio bonds and, if appropriate, to make a proposal for compensation. Customers were free to refuse the proposal (and were free not to participate in the process at all) and seek compensation otherwise. On October 20, 2004, the UniCredit Group announced that the commission had completed its review, which resulted in proposals for compensation to 1,506 Group customers, or approximately 50% of the customers who had applied for review. Of these customers, 40 will receive full compensation of the amount of principal they had originally invested. Approximately 88% of the customers to whom a proposal for compensation was made have accepted the offered indemnity, and the Bank is in the process of signing the relevant agreements with them. All customers will retain ownership of their bonds and therefore be entitled to any distribution that may be made by the receiver in bankruptcy of Cirio. Total proposed compensation amounts to approximately €16.9 million, or 41% of the aggregate principal amount of Cirio bonds owned by Group customers. The Bank believes that its €39 million provision, which was based on an estimate of possible compensation claims by all Group customers, including those who "opted out" of the commission process, is sufficient to cover the proposed compensation and other losses arising from the Cirio default.

Following an investigation by CONSOB, the Ministry of Economy and Finance (*Ministero dell' Economia e delle Finanze*) in February 2005 issued certain fines to the directors, statutory auditors and certain executives and other employees of certain of the UniCredit Group's banks in connection with alleged regulatory violations by such directors and employees with respect to transactions in Cirio bonds. The charges include providing insufficient disclosure to customers and conflicts of interest, as well as non-fully adequate client profiling procedures. The Ministry of Economy and Finance maintained that both the Bank and UniCredit Banca should be jointly liable for the payment of such fines. Management believes that the amount of these fines is not material to the business of the UniCredit Group. The Ministry of Economy and Finance also maintained that the customer profiling procedures the relevant Group banks had in place at the time of the alleged irregularities, which were substantially similar to those of the UniCredit Group's main Italian competitors, were partially deficient and allowed the sale to unsophisticated retail investors of securities with an inappropriate risk profile. The Bank has appealed against these fines in court, responding to all charges underlying the fines. Since the investigation, the UniCredit Group has improved the procedures relating to its investment services activities to reflect CONSOB's observations in its investigation report, and has communicated to CONSOB its new policies.

*Parmalat.* Over time, the UniCredit Group extended lines of credit to Parmalat and, including through UBM, participated in the distribution to institutional investors of certain bonds issued by the Parmalat group's companies. Following the initial sale to institutional investors, these bonds were sold by certain UniCredit Group banks to their customers. Over the course of the past few months, certain holders of Parmalat bonds have made claims for reimbursement of the bonds alleging that they had not been properly informed of the risky nature of their investment. However, also in light of the fact that the Parmalat bonds had received a credit rating and that, in connection with the default, criminal proceedings have been initiated against



former Parmalat executives, the UniCredit Group decided not to review the position of Parmalat bondholders as it did in connection with Cirio. The UniCredit Group has assisted customers holding Parmalat bonds to be included in the resulting court proceedings.

As of the initiation of Parmalat's insolvency proceedings in December 2003, the UniCredit Group's loan exposure to Parmalat amounted to approximately €189 million, of which €159 million was non-performing, written off for €128 million (approximately 85%) and of which €30 million was classified as doubtful loans with a provision for €19 million (approximately 62%). Hence, the average of write-down results amount to approximately 81%. In connection with the insolvency of Parmalat, the UniCredit Group has made claims for payment of credits under its existing facilities. The Bank cannot make any prediction as to the amount that it will be able to recover under these claims, or that no further claims will be brought against the UniCredit Group. In addition, Parmalat's temporary receiver notified the UniCredit Group that he had commenced proceedings against the UniCredit Group, together with over 40 other Italian and foreign banks, in relation to alleged voidable preferences with respect to repayments received by the UniCredit Group from Parmalat prior to its default.

Parmalat is subject to Law No. 39 of February 18, 2004 which provides, among other things, that a company that is subject to extraordinary administration (*amministrazione straordinaria*) may satisfy its creditors through a settlement (*concordato*). Therefore, Parmalat, benefiting under such law, has proposed to its unsecured creditors to convert its credit into Parmalat shares. As a result, on May 27, 2005, Parmalat published an offering circular for common stock and warrants of Parmalat S.p.A. The settlement proposed by Parmalat was approved by the favourable vote of the majority of creditors admitted to vote in a voting procedure that opened on June 28, 2005 and closed on August 26, 2005.

In August 2005, the Bank and certain other companies of the UniCredit Group received a writ from Parmalat and certain of its subsidiaries claiming approximately €4.4 billion in damages from the Bank, the other Group companies and certain other banks, for their participation as co-lead managers together with other banking intermediaries, in the issuance of bonds from 1997 to 2001, and for having maintained numerous banking relationships through current accounts with companies of the insolvent group. The first hearing is expected to be held on May 22, 2006. A second writ, also received in August, demands the payment of damages in the amount of approximately €1.86 billion from UBM and two other banks for their promotion in 2001 and roll-over in 2002 and 2003 of a program for the issuance of medium-term bonds. The first hearing is expected to be held on March 22, 2006. These claims are under examination by the Bank's legal advisers; however, the Bank believes that the claims are unfounded.

*Argentine Bonds.* In August 2004, CONSOB notified the UniCredit Group that the former directors, statutory auditors and certain executives and other employees of Credito Italiano (the predecessor entity of the Bank) had been charged with regulatory violations with respect to transactions in Argentine government and corporate bonds. The alleged violations and possible sanctions are substantially similar to those underlying the sanctions issued in connection with the sale of Cirio bonds. The Bank has knowledge that certain of such directors have been notified of sanctions, for which UniCredit Banca would be jointly liable, and in respect of which the Bank expects to be notified shortly. As of the date hereof, the Bank is unable to quantify the amount of any potential fines; however, management believes that the amount of these fines would not be material to the UniCredit Group's business. As part of its investigation, CONSOB made observations relating to customer profiling procedures that are substantially similar to those raised by the Ministry of Economy and Finance in connection with Cirio. The Bank submitted defense statements and is continuing to improve its procedures relating to its investment services activities.

#### **Incompatibility of the Ciampi Law with the principles of the European Community**

With its Decision 2002/581/CE dated December 11, 2001, the European Commission declared the tax benefit provided by Legislative Decree No. 153 of May 17, 1999 (the "Ciampi Law") in mergers of banks or banking groups to be an illicit state aid and therefore incompatible with European Community law, and ordered the Italian government to suspend the benefit and to recover from all banks that had taken advantage of the tax benefit the full amount of such benefit. In compliance with the decision of the European Commission, the Italian government, with Law Decree No. 282 of December 24, 2002 ("Law Decree No. 282"), ordered the repayment of all such tax benefits before December 31, 2002. In compliance with Law Decree No. 282, the UniCredit Group paid an aggregate of approximately €245 million, representing the total amount of tax benefits realized by it under the Ciampi Law.

On February 4, 2003, the Bank applied to the Ministry of Economy and Finance for reimbursement of the amounts it paid pursuant to Law Decree No. 282. The UniCredit Group subsequently filed suit against the Ministry of Economy and Finance for the same purpose in the competent fiscal tribunal. On February 11, 2004, the fiscal tribunal referred the dispute to the European Court of Justice. On September 8, 2005, the Advocate General at the Court of Justice submitted her conclusions regarding the case. She stated that although the Bank has the right to stay before the Court in a case in which state aids are under discussion, the tax provisions of the Ciampi Law are to be effectively considered as non-legitimate state aids, thus fully supporting the position of the European Commission. The Court of Justice has not yet issued its final ruling.

**Current account overdrafts**

The Italian banking system is characterized by a relatively large proportion of overdraft financing provided through current accounts. A borrowing is made whenever a customer's drawings exceed the credit balance in the account. An overdraft customer is granted a maximum overdraft limit on the basis of the UniCredit Group's lending policy, and the customer can draw on the overdraft facility. Debit interest on overdraft facilities is typically charged quarterly and at a floating rate.

With a series of judgments rendered in 1999, the Supreme Court of Italy (*Corte di Cassazione*) declared invalid the Italian banks' practice of capitalizing interest on overdraft facilities on a quarterly basis (as a result of capitalizing interest, the outstanding interest becomes a part of principal and thereafter interest is charged on the basis of the new principal amount).

After those judgments and the enactment of Legislative Decree No. 342 of 1999, Italian banks adopted a new practice, whereby interest on current account debit balances can be capitalized, either on a quarterly basis or with a different periodicity, provided that interest on current account credit balances is also capitalized on the same basis. Notwithstanding these changes, the legal position with respect to capitalization of interest on current accounts opened prior to April 22, 2000 (the date on which the new practice was first permissible under Legislative Decree 342/1999) remains uncertain (also in light of the fact that many local courts still do not follow the approach of the Supreme Court of Italy on this matter). With respect to proceedings pending on this matter, in which specific quantified claims for damages have been made, the Bank believes that its risks are sufficiently covered by specific provisions made by the UniCredit Group of €10.5 million as of March 31, 2005. With respect to those proceedings in which damages have not been quantified, the UniCredit Group does not make specific provisions.

**MANAGEMENT OF THE BANK****Legal Framework**

As described above, in January 2003 the Italian Government approved a reform of the corporate law (the "Reform"), governing limited liability and joint-stock companies and co-operatives. The Reform, whose provisions became part of the Italian Civil Code, introduced more flexible corporate models and rules.

The Reform became effective on January 1, 2004. Provisional regulations were enacted to allow companies to conform gradually to the changes. Full compliance with the Reform was required by September 30, 2004.

The main innovations introduced by the Reform with regard to companies relate to their corporate governance.

Together with the current organizational structure (the "ordinary system"), consisting of management and monitoring bodies (the board of directors or sole director and the board of statutory auditors), the new rules provide for two other models, the "single system" and the "dual system". Each company will be able to elect which corporate governance system, among those listed below, it wants to implement.

Pursuant to the Reform, companies may adopt one of the following three governance models:

- "Ordinary System": based on the shareholders' meeting, which appoints the administrative body (the board of directors or the sole director) and the monitoring body (the board of statutory auditors);
- "Dual System": involves a management board which administers the company, and a supervisory board, appointed at the shareholders' meeting. The supervisory board must have at least three members, one of whom must be listed on the Italian auditors' register. The supervisory board is responsible for appointing and removing the members of the management board, approving the accounts and bringing any claims against the members of the management board;

- “Single System”: involves a board of directors with administrative tasks, appointed at the shareholders’ meeting, plus a “monitoring board” within the board of directors itself.

The audit of listed companies must be performed by external registered auditing firms subject to supervision by CONSOB. See “–External Auditors”.

The Bank, whose corporate governance framework reflects the mandatory provisions of Italian corporate law and securities laws, has adopted the “ordinary system”.

Legislative Decree No. 37 (February 6, 2004) modified the Consolidated Banking Act and the Consolidated Financial Act to coordinate their provisions on banks and listed companies with the provisions of the Reform. The amendments to the Consolidated Banking Act and the Consolidated Financial Act include, among others, amendments relating to the duties and responsibilities of the administrative and supervisory bodies of the companies that have adopted the new models of governance.

#### **Board of Directors**

The board of directors of the Bank (the “Board”) is responsible for the ordinary and extraordinary management of the Bank and the UniCredit Group. The Board may delegate its powers to one or more managing directors (“Managing Directors”) and appoint and determine the scope and powers of an executive committee (the “Executive Committee”).

The Board is elected by the Bank’s shareholders at an ordinary meeting for a term of three financial years, unless a shorter duration is designated upon appointment, and directors may be re-elected following the expiration of their term. Following the resolution of the extraordinary shareholders’ meeting of July 29, 2005 to amend the Articles of Association and to increase the maximum number of directors from 20 to 24, the Board may consist of no fewer than 9 and no more than 24 directors (each a “Director”). See “The Combined Group–Organizational Structure and Governance of the Combined Group–Holding Company–Board of Directors.”

The current Board is composed of 20 Directors, each of whom will hold office until the ordinary shareholders’ meeting called to approve the Bank’s financial statements for the financial year ending December 31, 2007. The Board may also appoint, in lieu of or in addition to the Managing Directors, one chief general manager (the “Chief General Manager”) and one or more deputy general managers (“Deputy General Managers”), and determines the responsibilities and term of office of such managers. The Board appointed Mr. Alessandro Profumo as Managing Director and Chief General Manager. It also appointed Mr. Paolo Fiorentino, Mr. Dario Frigerio, Mr. Andrea Moneta and Mr. Roberto Nicastro as Deputy General Managers. The following table sets forth the name, date of birth, position and first year of appointment of the current members of the Board:

Name	Date of birth	Position	Year first appointed
Carlo Salvatori	July 7, 1941	Chairman/Member of Executive Committee	2002
Alessandro Profumo	February 17, 1957	Managing Director/Member of Executive Committee/Chief General Manager/Chief Executive Officer	1999
Gianfranco Gutty	October 8, 1938	Deputy Chairman/Member of Executive Committee	2005
Franco Bellei	April 24, 1944	Deputy Chairman/Member of Executive Committee	2002
Fabrizio Palenzona	September 1, 1953	Deputy Chairman/Member of Executive Committee	1999
Roberto Bertazzoni	December 10, 1942	Director/Member of Executive Committee	1994
Vincenzo Calandra	August 21, 1946	Director	2002
Buonaura			
Mario Cattaneo	July 24, 1930	Director	1999
Philippe Citerne	April 14, 1949	Director	1999
Ambrogio Dalla Rovere	January 15, 1940	Director	2002
Giovanni Desiderio	May 4, 1948	Director	2002
Giancarlo Garino	July 31, 1934	Director	2005
Francesco Giacomini	August 2, 1951	Director/Member of Executive Committee	2000
Piero Gnudi	May 17, 1938	Director	2002
Luigi Maramotti	March 12, 1957	Director	2005
Gianfranco Negri-Clementi	June 12, 1931	Director	2002
Carlo Pesenti	March 30, 1963	Director/Member of Executive Committee	2002
Giovanni Vaccarino	April 1, 1941	Director	1999
Paolo Vagnone	December 4, 1963	Director/Member of Executive Committee	2005
Anthony Wyand	November 24, 1943	Director	1999

The business address for each of the foregoing Directors is UniCredito Italiano S.p.A., Piazza Cordusio, 2, 20123 Milan, Italy.

*Carlo Salvatori* was appointed Chairman of the Board in 2002. Previously, Mr. Salvatori worked for various Italian banks, including Banca Nazionale del Lavoro (as Central Manager in charge of the Business Development Sector), Banco Ambrosiano Veneto (as General Manager and Managing Director) and Cariplo, where, in 1996, he was appointed General Manager and member of the board of directors. From 1998 to 2000 he was Chief Executive Officer of Banca Intesa. Mr. Salvatori is also Deputy Chairman and member of the executive committee of Mediobanca – Banca di Credito Finanziario, Deputy Chairman of ISPI and member of the executive committees of RAS S.p.A. and the Italian Banking Association (*Associazione Bancaria Italiana*) (“ABI”). Mr. Salvatori holds a degree in economics from the University of Bologna, a degree in banking science from the University of Siena and received an honorary degree in political science from the University of Macerata.

*Alessandro Profumo* joined Credito Italiano S.p.A. (the name by which the Bank was formerly known) in 1994 as Assistant Executive Manager responsible for Planning and Group Control. In 1995, Mr. Profumo was appointed Executive Manager and in 1997, he was appointed Chief Executive Officer of Credito Italiano S.p.A. Previously, Mr. Profumo worked for McKinsey & Co., and, starting in 1991, joined RAS – Riunione Adriatica di Sicurtà as General Manager with responsibility for the banking and related sectors. Mr. Profumo is a member of the board of directors of Mediobanca S.p.A. – Banca di Credito Finanziario and Koç Holding, Chairman of UniCredit Banca Mobiliare S.p.A., Deputy Chairman of UniCredit Xelion Banca S.p.A., a member of the boards of directors and executive committees of UniCredit Banca S.p.A., UniCredit Banca d’Impresa S.p.A. and UniCredit Private Banking S.p.A. In addition, Mr. Profumo is also a member of the executive board of ABI, the Association for the Development and Study of Banks and the Stock Exchange, the Institute International d’Etudes Bancaires and of the Executive Board of the Italian Association for Cancer Research, a member of the supervisory board of Deutsche Börse and a member of the Investment Advisory Council for Turkey. Mr. Profumo holds a degree in business economics from the Luigi Bocconi University of Milan.

*Gianfranco Gutty* was appointed Member of the Board in 2005. Since 2003, Mr. Gutty is chairman of IRIS (Isontina Reti Integrate e Servizi S.p.A.) and since 2004 of Assindustria (Gorizia). From December 2002 to April 2005, Mr. Gutty was a member of the board of directors of UniCredit Private Banking S.p.A. (Turin). He has also been a member of the directive panel in Assonime (Italian association of joint stock companies) and a member of the directive board and of the executive panel of A.N.I.A. (the national association of insurance companies), and was for several years a representative of the A.N.I.A. at the Comité Européen des Assurances (Paris). Mr. Gutty has been director of several controlled companies of the Generali group and of

credit institutions in Italy and abroad as well as of industrial companies. He was appointed Chief Executive Officer of Generali in 1992, Deputy Chairman in 1995 and Chairman of the board of directors of Generali from 2001 through 2002. Since 1988, Mr. Gutty has been registered as a Chartered Accountant.

*Franco Bellei* was appointed Deputy Chairman of the Board in 2002. Mr. Bellei is a management consultant and a chartered accountant. From 1996 to 2002, Mr. Bellei was Chief Executive Officer of Rolo Banca 1473 S.p.A. Mr. Bellei is Chairman of Privata Leasing, Deputy Chairman and member of the executive committee of UniCredit Banca S.p.A. and a member of the boards of directors of ABI, Carimonte Holding S.p.A., Aereopuerto G. Marconi di Bologna and Nomisma, Mr. Bellei holds a degree in biology from the University of Modena and Reggio Emilia and a degree in sociology from the University of Urbino.

*Fabrizio Palenzona* was appointed Deputy Chairman of the Board in 1999. Mr. Palenzona is Chairman of the board of directors of Commercial Union Italia S.p.A., Chairman of Federazione Autotrasporti Italiana (FAI) and Associazione Italiana Società concessionarie Autostrade e Trafori (AISCAT), a member of the board of directors and executive committee of Mediobanca S.p.A. and member of the boards of directors of Rete Autostrade Mediterranee S.p.A., Azienda Mediterranea Gas e Acqua S.p.A. and ABI. Mr. Palenzona is also Deputy Chairman of Confcommercio. Mr. Palenzona holds a degree in law from the University of Pavia.

*Roberto Bertazzoni* was appointed Member of the Board of Credito Italiano S.p.A. (the name by which the Bank was formerly known) in 1994. Since 1999, Mr. Bertazzoni has been a member of the Executive Committee of the Bank. From 1996 through 2002, Mr. Bertazzoni was a Member of the board of directors of Rolo Banca 1473 S.p.A. Mr. Bertazzoni is Chairman and Chief Executive Officer of SMEG S.p.A. and a member of the boards of directors of RCS Media Group and UniCredit Banca S.p.A. Mr. Bertazzoni is Chairman of ERFIN – Eridano Finanziaria S.p.A. In addition, he is the Chairman of Unidea, the UniCredit Group's charitable foundation. Mr. Bertazzoni holds a degree in economics from the University of Parma and is a chartered accountant.

*Vincenzo Calandra Buonauro* was appointed Member of the Board in 2002. From 1996 through 2002, Mr. Calandra Buonauro was a member of the board of Rolo Banca 1473 S.p.A. He is Professor of Corporate Law at the University of Modena and Reggio Emilia. In addition, Mr. Calandra Buonauro is Chairman of the board of directors of Carimonte Holding S.p.A. and a member of the board of directors of UniCredit Banca S.p.A. Mr. Calandra Buonauro holds a degree in law from the University of Modena and Reggio Emilia and is a licensed practicing attorney.

*Mario Cattaneo* was appointed Member of the Board in 1999. Mr. Cattaneo is a *dottore commercialista* and a chartered accountant, and is Professor of Corporate Finance at the Catholic University of Milan. Mr. Cattaneo is member of the boards of directors of Banca Lombarda S.p.A., ENI S.p.A. and Luxottica Group S.p.A. Mr. Cattaneo holds a degree in economics from the Luigi Bocconi University of Milan.

*Philippe Citerne* was appointed Member of the Board in 1999. Mr. Citerne joined Société Générale in 1979, where he became Chief Executive Officer in 1997. He holds an undergraduate degree in economics and a graduate degree in mathematics from the *Ecole Centrale de Paris*.

*Ambrogio Dalla Rovere* was appointed Member of the Board in 2002. Mr. Dalla Rovere is a member of the boards of directors of UniCredit Banca, Verona Gestioni SGR S.p.A. (Cattolica Assicurazioni) and Infracom S.p.A. Mr. Dalla Rovere is also Chairman of Sinv S.p.A., a holding company in the fashion business.

*Giovanni Desiderio* was appointed Member of the Board in 2002. Mr. Desiderio is Deputy Chairman of UniCredit Banca d'Impresa, Deputy Chairman of Dayco Fuel and Dayco Fluid and a member of the executive committee of the agency organizing the Olympic Games in Turin in 2006. He is also a member of the steering committee of Fondazione Cassa di Risparmio di Torino. Mr. Desiderio is a chartered accountant.

*Giancarlo Garino* was appointed Member of the Board in 2005. He was Deputy General Manager and Chief Executive Officer of Cassa di Risparmio di Verona, Vicenza Belluno e Ancona. He is Chairman of Banca del Monte di Rovigo and is a member of the boards of directors of Clarima and UniCredit Xelion Banca S.p.A.

*Francesco Giacomini* was appointed Member of the Board in 2000. Mr. Giacomini is a member of the Executive Committee of the Bank, Chief Executive Officer of ACEGAS-APS S.p.A. and a member of the board of directors of ABI. Mr. Giacomini holds a degree in law.



*Piero Gnudi* was appointed Member of the Board in 2002. From 1996 through 2002, Mr. Gnudi was Deputy Chairman of the board of directors of Rolo Banca 1473 S.p.A. Mr. Gnudi is Chairman of Enel S.p.A., Enel Cuore Onlus, Wind Telecomunicazioni S.p.A. and Emittenti Titoli S.p.A. He is Deputy Chairman of the board of directors of UniCredit Banca d'Impresa S.p.A., Chief Executive Officer of Carimonte Holding S.p.A., a member of the boards of directors of UniCredit Banca S.p.A. and Fondazione IRI and is liquidation commissioner of Filippo Fochi S.p.A. Mr. Gnudi holds a degree in economics from the University of Bologna and is a *dottore commercialista*.

*Luigi Maramotti* was appointed Member of the Board in 2005. Mr. Maramotti is Chairman of the board of directors of Max Mara S.r.l. and Maxima S.p.A., Deputy Chairman of the boards of directors of Max Mara Fashion Group S.r.l, CredemHolding S.p.A. and Credito Emiliano. Mr. Maramotti also holds posts as director of certain financial and industrial companies, including Credito Emiliano S.p.A., Cofimar s.r.l., Manifatture del Nord s.r.l. and Abaxbank S.p.A. Mr. Maramotti holds a degree in economics from the University of Parma and a masters degree from the University of Rochester, Rochester, NY (USA).

*Gianfranco Negri-Clementi* was appointed Member of the Board in 2002. Mr. Negri-Clementi is the founding partner of the law firm Negri-Clementi, Toffoletto, Montironi Studio Legale Associato, and is a member of the boards of directors of Rasbank S.p.A. UniCredit Audit S.p.A., Perfetti Van Melle S.p.A., Telecom Italia Media S.p.A. and Gum Base S.p.A. Mr. Negri-Clementi holds a degree in law from the University of Milan.

*Carlo Pesenti* was appointed Member of the Board in 2002. Mr. Pesenti is the Chief Executive Officer of Italmobiliare S.p.A. and managing director of Italcementi S.p.A. Mr. Pesenti a member of the boards of directors of Ciments Français S.A., Mediobanca S.p.A., RCS Media Group S.p.A., BPU Banca S.p.A. and BravoSolution Espana S.A. In addition, Mr. Pesenti is Vice President and a member of the board of directors of BravoSolution S.p.A. Mr. Pesenti holds a degree in mechanical engineering from the University of Milan and a masters degree in economics and management from the Luigi Bocconi University of Milan.

*Paolo Vagnone* was appointed Member of the Board in 2005. He is Chairman of the board of directors of Genialloyd and Chief Executive Officer and General Manager of RAS.

*Giovanni Vaccarino* was appointed Member of the Board in 1999. He is also a member of the board of directors of Fondazione Cassa di Risparmio Torino.

*Anthony Wyand* was appointed Member of the Board in 1999. Previously, Mr. Wyand worked for Aviva as an Executive Director. In addition to numerous other posts, Mr. Wyand is Chairman of CGU Participations and a Director of Grosvenor Holdings, Société Générale, Société Foncière Lyonnaise S.A. and Adyal. Mr. Wyand holds a Bachelor of Arts from the Royal Military College of Canada and a Master of Arts from Kings College, University of London (UK).

None of the persons mentioned above has been associated, within the past five years, with any bankruptcies, receiverships or liquidations and/or any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies). Furthermore, none of the persons mentioned above has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or, within the past five years, has been disqualified from acting in the management or conduct of the affairs of any issuer. Each of the persons mentioned above have declared to the Bank upon their appointment and/or most recent re-appointment as Director that he meets the professional and ethical requirements set forth in the Italian Banking Act.

The following table sets forth, for each member of the Board, the names of all companies and partnerships outside the UniCredit Group of which such member has been a member of the administrative, management or supervisory bodies or partner at any time in the previous five years.



Name	Entity	Position	Duration
Carlo Salvatori ✓	Istituto Enciclopedia Banca e Borsa S.p.A.	Director	Before 2000 – 2003
	Banca Intesa S.p.A.	Chief Executive Officer	1998 – 2000
	Banco Comercial Portugues	Director	1998 – 2000
	Banco Ambrosiano Veneto S.p.A.	Deputy Chairman	Before 2000 – 2000
	Cassa di Risparmio di Parma e Piacenza	Deputy Chairman	1999 – 2000
	Bank of Austria AG	Member of supervisory board	1999 – 2000
	Bank Austria Creditanstalt International AG	Member of supervisory board	1999 – 2000
	Credit Lyonnais	Director	1999 – 2000
	Banca Commerciale Italiana S.p.A.	Deputy Chairman	1999 – 2000
	Banca di Roma S.p.A.	Chief Executive Officer	2001 – 2001
	Mediobanca S.p.A.	Director	2001 – 2001
	Ingg. Grossi & Speier S.p.A.	Director	2001 – present
	Bormioli Rocco e Figlio S.p.A.	Director	2002 – 2004
	Mediobanca S.p.A.	Deputy Chairman	2002 – present
	CreditRas Assicurazioni S.p.A.	Director and Chairman	1999 – 2005
	CreditRas Vita S.p.A.	Director and Chairman	2002 – 2005
	SBG Holding S.p.A.	Director	2002 – present
	Centro Cardiologo Monzino S.p.A.	Director	2003 – present
	R.A.S. S.p.A.	Director	2003 – present
	Greci Industria Alimentare S.p.A.	Director	2004 – present
	Enia S.p.A.	Director	2005 – present
	Smarano S.s.	Director	2005 – present
	Sora S.s.	Director	2005 – present
	Antini S.s.	Director	2005 – present
	Chiesi Farmaceutici S.p.A.	Director	2005 – present
Alessandro Profumo ✓	Koc Holding	Director	2003 – 2005
	RCS Editori (divenuta RCS Quotidiani)	Director	2001 – 2004
	Barilla G. E R. F.lli S.p.A.	Director	2004
	Olimpia S.p.A.	Director	2001 – present
	ABI	Member of executive committee	1999 – present
		Director	1995 – present
	Mediobanca S.p.A.	Director	1999 – present
		Member of executive committee	1999 – 2003
	A.I.R.C. (Associazione Italiana per la ricerca sul cancro).	Director	1997 – present
	Fondazione Arnaldo Pomodoro	Director	2002 – present
	Deutsche Börse (Frankfurt am Main)	Member of supervisory board	2004 – present
	Associazione per lo sviluppo e per gli studi di Banca e Borsa	Director	Before 2000 – present
	Fondazione Cerba	Director	2005 – present
	Fondazione Sandretto Re Rebaudengo	Director	2004 – present
	Consiglio per le relazioni tra Italia e Stati Uniti	Member of international board	2004 – present
	Trilateral Commission	Member of Italian board	1999 – present
	C.M.C.G.- Capital Markets Consultative Group – Washington	Director	2002 – present
	European Financial Services Round Table – Brussels	Director	2001 – present
	Group of Thirty – New York	Member of steering committee	2001 – present
	Harvard Business School European Advisory Board – Boston	Director	2003 – present
	I.C.C.A. Institute for Corporate Cultural Affairs – Frankfurt am Main	Director	2003 – present
	I.I.F. International Institute of Finance – Washington	Director	2000 – present
	I.M.C. International Monetary Conference – Washington	Director	2000 – present
	Investment Advisory Council for Turkey – Istanbul	Director	2004 – present
Gianfranco Guty ✓	Assicurazione Generali S.p.A.	Chairman	2001 – 2002
	Assicurazione Generali S.p.A.	Director	2001 – 2004
	Alleanca Assicurazioni S.p.A.	Director	2001 – 2004
	AMB Achener und Münchener Beteiligungs-Aktiengesellschaft, Aachen (Germany)	Director	2001 – 2004

Name	Entity	Position	Duration
	Banco Vitalicio de España, Compania Anonima de Seguros, Barcelona (Spain)	Director	2001 – 2004
	Banco Santander Central Hispano, Santander (Spain)	Director	2001 – 2004
	Banca della Svizzera Italiana, Lugano	Director	2001 – 2004
	Commerzbank AG, Frankfurt am Main (Germany)	Director	2001 – 2004
	Genagricola S.p.A.	Director	2001 – 2004
	Generali Holding Vienna Aktiengesellschaft, Vienna (Austria)	Director	2001 – 2004
	Holding di Partecipazioni Industriali S.p.A.	Director	2001 – 2004
	Banca Intesa S.p.A.	Deputy Chairman	2001 – 2004
	Mediobanca – Banca di Credito Finanziario S.p.A.	Director	2001 – 2004
	Participate Maatschappij Fraafschap Holland N.V.	Director	2001 – 2004
	Transocean Holding Corporation, New York (USA)	Director	2001 – 2004
Franco Bellei ✓	Carimonte Holding	Director	Before 2000 – present
	ABI	Director	2000 – present
	Nomisma	Director	2001 – present
	Privata Leasing	Chairman	2004 – present
	Aeroporto G. Marconi	Director	2004 – present
Fabrizio Palenzona <sup>(1)</sup>	Faiservice S.c.a.r.l.	Chairman	2002 – present
	FAI	Chairman	1999 – present
	Unitra S.r.l.	Director	2001 – present
	Unitra S.c.a.r.l.	Director	1999 – present
	Aiscat	Chairman	2003 – present
	Asecap	Deputy Chairman	2005 – present
	Aiscat Servizi S.r.l.	Chairman	2005 – present
	Slala S.r.l.	Chairman	2005 – present
	Confcommercio	Deputy Chairman	2002 – present
	Rete Autostrade Mediterranee S.p.A.	Director	2004 – present
	Confrtrasporto	Member of the Chairman Committee	2000 – present
	Goth Italia Servizi Logistici S.r.l.	Director	1997 – present
	Cofitral S.p.A.	Chairman	2002 – present
	Schemaventotto S.p.A.	Director	2000 – 2005
	Mediobanca	Director	2005 – present
	ABI	Director	2002 – present
	Commercial Union Italia S.p.A.	Chairman	2003 – present
	Fondazione Cassa di Risparmio di Alessandria	Director	2004 – present
	A.M.G.A.	Director	2004 – present
	Norman 95 S.p.A.	Deputy Chairman	2001 – present
	Carimonte Holding	Director	1999 – present
	ICCRI	Director and Deputy Chairman	1999 – present
Roberto Bertazzoni <sup>(2)</sup>	RCS Mediagroup	Director	2000 – 2005
	Smeg S.p.A.	Director	2000 – 2005
	Erfin S.p.A.	Director	2000 – 2005
Vincenzo Calandra Buonaura*✓	—	—	—
Mario Cattaneo ✓	Banca Lombarda S.p.A.	Director	1999 – present
	Banca Sella S.p.A.	Director	2004 – 2005
	BPU Partecipazioni S.p.A.	Chairman of the board of statutory auditors	1999 – present
	Bracco S.p.A.	Director	2005 – present
	CBA Vita S.p.A.	Chairman of the board of statutory auditors	2003 – 2004
	CBI Factor S.p.A.	Chairman	1992 – present
	Cellografica Gerosa S.p.A.	Chairman of the board of statutory auditors	1970 – present
	Euromobiliare Asset Management SGR S.p.A.	Chairman	1996 – present
	Finanziaria Bansel S.p.A.	Director	2004 – present
	ENI S.p.A.	Director	1998 – 2005
	Humanitas Mirasole S.p.A.	Chairman of the board of statutory auditors	1990 – present
	Italiana Assicurazioni S.p.A.	Chairman of the board of statutory auditors	1995 – present
	Luxottica Group S.p.A.	Director	2003 – present
	Mediofactoring S.p.A.	Chairman of the board of statutory auditors	1982 – present

Name	Entity	Position	Duration
	Michelin Italiana S.p.A.	Member of the board of statutory auditors	1983 – present
	Otis S.p.A.	Director	1995 – present
	San Paolo Leasint S.p.A.	Chairman of the board of statutory auditors	1978 – present
	Sara Assicurazioni S.p.A.	Chairman of the board of statutory auditors	1991 – present
	Sia S.p.A.	Chairman of the board of statutory auditors	1991 – present
Philippe Citerne <sup>✓</sup>	Société Générale	Director, CEO	2000 – 2004
	Systemes Technologiques décharges et de traitement BMS	Chairman	2004 – 2004
	Modeus	Chairman	2000 – 2000
	Crédit du Nord	Chairman	2000 – 2000
	Geneval	Director	2000 – 2004
	Grosvenor Continental Europe	Director	2000 – 2004
	SG Hambros Bank & Trust LTD	Director	2000 – 2004
	Trust Company of the West TCW Group	Director	2000 – 2004
	SG Asset Management	Director	2000 – 2001
	SG Investment UK LTD	Director	2000 – 2001
	Sopra Group	Member of supervisory board	2003 – 2004
Ambrogio Dalla Rovere <sup>(3)</sup>	Athena S.r.l.	Chairman	2000 – present
	Sinv S.p.A.	Chairman	Before 2000 – present
	Marizia S.r.l.	Sole director	2000 – 2003
Giovanni Desiderio <sup>(4)</sup>	Chind S.r.l.	Chairman	2000 – 2004
	Dayco Fuel	Deputy Chairman	2001 – present
	Dayco Fluid	Deputy Chairman	2001 – present
	Fondazione CRT	Director	2000 – present
	Agenzia Torino 2006	Director	2000 – present
	Ciri S.r.l.	Director	2001 – present
Giancarlo Garino <sup>*✓</sup>	—	—	—
Francesco Giacomini <sup>(5)</sup>	Acegas APS S.p.A.	Director and CEO	2004 – present
	APS Holding S.p.A.	Director and Chairman	2003 – 2004
	Acegas APS Holding S.r.l.	Director	2004 – 2005
	IPI SPA	Director	Before 2000 – 2002
	Elettrogas S.p.A.	Director	2003 – 2004
	Estgas S.p.A.	Director	2004 – present
	Ujeuropa S.p.A.	Director and Deputy Chairman	2002 – 2003
	Industrial Park (Sofia, Bulgaria)	Director and Deputy Chairman	2005 – present
	Sviluppo Industrials Parks	Director	2005 – present
	Agort SRL	Director	2000 – 2002
	Interport S.p.A. - Padova	Director and member of executive committee	2003 – 2005
	Fundatia Sistema Italia Romania	Director	2000 – present
Piero Gnudi <sup>(6)</sup>	Enel S.p.A.	Chairman	2002 – present
	Wind Telecomunicazioni	Chairman	2003 – present
	Emittenti Titoli	Chairman	2004 – present
	Maie S.p.A.	Chairman	2004 – present
	IRI S.p.A.	Chairman	1999 – 2002
	ACB	Deputy Chairman	2000 – present
	Fondazione IRI	Director	2000 – present
	Alfa Wasserman	Director	2002 – present
	Marino Golinelli & C S.p.A.	Director	2001 – present
	Il Sole 24 Ore	Director	2000 – 2003
	RAI Holding S.p.A.	Director	2001 – 2004
	Aequafin S.p.A.	Chairman of the board of statutory auditors	2002 – present
Luigi Maramotti <sup>(7)</sup>	Credito Emiliano Holdings S.p.A.	Deputy Chairman	2005 – present
	Max Mara Fashion Group S.r.l.	Deputy Chairman	2005 – present
	Max Mara Finance S.r.l.	Deputy Chairman	2000 – present

Name	Entity	Position	Duration
Gianfranco Negri-Clementi ✓	Cofimar S.r.l.	Director	2000 – present
	Tessitura Varano Borghi S.r.l.	Director	2000 – present
	Unity R.E. S.p.A.	Chairman	2004 – present
	Dartora S.r.l.	Sole director	2000 – present
	Madonna Dell’Uliveto S.c.r.l.	Director	2003 – present
	Max Mara Japan Co. Ltd.	Director	2000 – present
	Investitori SGR S.p.A.	Chairman	2005 – present
	Rasbank S.p.A.	Director	Before 2000 – present
	Rasfin SIM S.p.A.	Director	Before 2000 – 2003
	Telecom Italia Media S.p.A.	Director	2001 – present
Carlo Pesenti ✓	Perfetti Van Melle S.p.A.	Director	Before 2000 – present
	Gum Base S.p.A.	Director	Before 2000 – present
	Banca 24-7 S.p.A.	Director	2001 – 2002
	Banche Popolari Unite	Director	2002 – present
	Bravo Solution S.p.A.	Director and Deputy Chairman	2000 – present
	Bravo Solution España S.A.	Director	2003 – 2005
	Calcestruzzi S.p.A.	Director, Deputy Chairman and member of executive committee	Before 2000 – 2002
	Ciments Calcia S.A.	Director	Before 2000 – 2002
	Ciments Francais S.A.	Director	2000 – present
	Banca Intesa	Director	Before 2000 – 2001
	Essroc	Director	2003 – 2004
	Gazetta del Sud di Calabria S.p.A.	Director and Deputy Chairman	2000 – 2003
	Intertrading S.r.l.	Director and Chairman	Before 2000 – present
	Italcementi S.p.A.	Director and member of executive committee	Before 2000 – present
	Italgen S.p.A.	Director	2001 – 2004
		Deputy Chairman	2001 – 2002
	Italmobiliare S.p.A.	Director, General Manager and member of executive committee	Before 2000 – present
	KM Europa Metal AG	Director	2003 – 2005
	Mediobanca	Director	Before 2000 – 2004
	Poligrafici Editoriale S.p.A.	Director and Deputy Chairman	Before 2000 – 2001
	Punta Ala Promozione e sviluppo immobiliare SRL	Director	Before 2000 – 2001
	RCS Media Group S.r.l.	Director and member of executive committee	2000 – present
	SESAAB S.p.A.	Director	2000 – 2005
	SES – Società Editrice Sicilia S.p.A.	Director and Deputy Chairman	2000 – 2003
	Società del Gres S.p.A.	Director and Deputy Chairman	Before 2000 – 2002
Giovanni Vaccarino*✓	—	—	—
Paolo Vagnone ✓	RAS S.p.A.	Chief Executive Officer	2005 – present
	RAS S.p.A.	Managing director	2001 – present
	Pirelli & C. S.p.A.	Director	2005 – present
	Mutui Online S.p.A.	Director	2004 – present
	Virtus	Director	2002 – 2005
Anthony Wyand <sup>(8)</sup> ✓	Aviva Group	Director	1986 – 2003
	Société Générale	Member of supervisory board	1987 – present
	Grosvenor Group	Member of supervisory board	1998 – present
	Société Foncière Lyonnaise	Member of supervisory board	1994 – present
	Adyal (formerly Atis Réal)	Member of supervisory board	2003 – present

\* Such member of the Board has not been a member of the administrative, management or supervisory body or bodies of any company, or partner in a partnership, outside the UniCredit Group at any time in the previous five years.

✓ Such member of the Board has not, in the previous five years, held an interest of 2% or higher in any company or partnership in Italy or abroad.

(1) As of the date hereof, Mr. Palenzona holds an interest of 2% or higher in Unitra S.r.l. Other than such holding, Mr. Palenzona has not held, within the previous five years, interests of 2% or higher in companies or partnerships in Italy or abroad.

- (2) *As of the date hereof, Mr. Bertazzoni holds an interest of 2% or higher in, respectively, SMEG S.p.A. and Erfin S.p.A. Other than such holding, Mr. Bertazzoni has not held, within the previous five years, interests of 2% or higher in companies or partnerships in Italy or abroad.*
- (3) *As of the date hereof, Mr. Dalla Rovere holds interests of 2% or higher in, respectively, SINV S.p.A., Sportswear International S.p.A., Ventilo S.r.l. and Adel S.r.l. In 2000, Mr. Dalla Rovere held an interest of 2% or higher in Athena S.r.l.; from 2004 to 2005 Mr. Dalla Rovere held an interest of 2% or higher in SINV Kids S.r.l.; and from 1987 to 2003 Mr. Dalla Rovere held an interest of 2% or higher in Daka S.r.l. Other than such holdings, Mr. Dalla Rovere has not held, within the previous five years, interests of 2% or higher in companies or partnerships in Italy or abroad.*
- (4) *As of the date hereof, Mr. Desiderio holds interests of 2% or higher in Gica S.r.l. and Ciri S.r.l. From 1999 to 2004, Mr. Desiderio held an interest of 2% or higher in Made Srl, and from 2003 to 2005 Mr. Desiderio held an interest of 2% or higher in MEC Diesel S.r.l. Other than such holdings, Mr. Desiderio has not held, within the previous five years, interests of 2% or higher in companies or partnerships in Italy or abroad.*
- (5) *As of the date hereof, Mr. Giacomini holds interests of 2% or higher in, respectively, Balcania S.r.l., Partimeset S.r.l., Bulgari Wine and Web Rise. Other than such holdings, Mr. Giacomini has not held, within the previous five years, interests of 2% or higher in companies or partnerships in Italy or abroad.*
- (6) *As of the date hereof, Mr. Gnudi holds interests of 2% or higher in, respectively, Simbuleia S.p.A., Fin.Gi S.r.l. and Antelao. Other than such holdings, Mr. Gnudi has not held, within the previous five years, interests of 2% or higher in companies or partnerships in Italy or abroad.*
- (7) *As of the date hereof, Mr. Maramotti holds interests of 2% or higher in, respectively, Max Mara Fashion Group S.r.l., May Mara Finance S.r.l., Cofimar S.r.l., Manifatture Lurgiane S.r.l. and Unity R.E. S.p.A. Other than such holdings, Mr. Maramotti has not held, within the previous five years, interests of 2% or higher in companies or partnerships in Italy or abroad.*
- (8) *Mr. Wyand is also on the board of various AVIVA Group subsidiaries.*

**Board Practice**

The Instructions Accompanying the Rules for the Markets Organized and Managed by Borsa Italiana (*Istruzioni al Regolamento dei mercati organizzati e gestiti da Borsa Italiana S.p.A.*) (Title IA.2.12) require issuers of listed shares to furnish, once a year, information about their corporate governance system and compliance to the Italian Corporate Governance Code (*Codice di Autodisciplina delle società quotate rivisitato*) (the “Corporate Governance Code”). In this connection, the Bank has prepared each year, from 2001 through the current year, a report in accordance with the Guidelines for the Preparation of the Report on Corporate Governance (*Linee Guida per la redazione della relazione in materia di Corporate Governance*), established by the Borsa Italiana as the model to be used by listed companies in compilation of reports on corporate governance.

The Bank is in compliance with all the provisions of the Corporate Governance Code except for article 7.1. Article 7.1 requires proposals for appointments to the position of director, accompanied by detailed information on the personal traits and professional qualifications of the candidates with an indication where appropriate of their eligibility to qualify as independent directors (as defined in article 3 of the Corporate Governance Code), to be deposited at the relevant company’s registered office at least 10 days before the date set for the shareholders’ meeting or at the time the election lists, if provided for, are deposited. The Board believes it unnecessary to make this procedure compulsory, and instead has opted for maximum flexibility with respect to proposals for appointments. In any case, the Board, in accordance with the spirit of article 7.1, recommends that such procedure be used by any shareholder intending to propose his or her own candidacy and whose ethical and professional qualifications, as judged by the norms of the relevant sector, are subject to verification. The Bank has made no provision for the mechanism of voting by lists for appointment of Directors.

**Remuneration and Appointment Committee**

The remuneration and appointments committee (*Comitato di Remunerazione e Nomine*) (the “Remuneration and Appointments Committee”) consists of seven members, including, ex officio, the Chairman of the Board, the Deputy Chairmen of the Board (each a “Deputy Chairman”) and the Chief Executive Officer. The other members of the Remuneration and Appointments Committee are chosen by the Board among the non-executive Directors. The Remuneration and Appointments Committee is chaired by the Chairman of the Board.

The functions of the Remuneration and Appointments Committee include making inquiries, preparing and examining proposals and performing consulting duties. When required, the Remuneration and Appointments Committee is called upon to give its opinion on the following matters:

- to propose remunerations for Directors with particular responsibilities at UniCredit S.p.A. as holding company of the UniCredit Group;

- to give consensus to the Chairman regarding the remuneration of the Chief Operating Officer, should the latter also be the Chief Executive Officer;
- to provide opinions on proposals for remuneration of Chairmen, Deputy Chairmen and Chief Executive Officers of “relevant companies” (*i.e.*, certain significant subsidiaries identified by the Board) presented by the Chairman at the request of the Chief Executive Officer of the Bank, after consulting Chairmen of the “relevant companies” when the proposal refers to the relevant Chief Executive Officers’ remuneration;
- to make proposals at the request of the Chief Executive Officer of the Bank, after consulting Chairmen of the “relevant companies”, with the objective of linking a percentage of remuneration to the achievement of specific targets set by the Board;
- to provide opinions on proposals for global compensation of the boards of directors and executive committee members of “relevant companies”;
- to make proposals at the request of Chief Executive Officer of the Bank concerning the criteria and details of the remuneration set by the UniCredit Group’s top management and the linking of such remuneration to the achievement of specific targets; and
- analysis of draft documents and review of Group employee stock option and stock granting plans.

The Chairman shall not take part in meetings regarding the determination of any proposal with respect to his own emoluments. Similarly, the Chief Executive Officer shall not take part in meetings whose purpose it is to establish his remuneration or that of the Chairman.

The current members of the Remuneration and Appointment Committee are Mr. Salvatori (Chairman), Mr. Profumo, Mr. Bellei, Mr. Palenzona, Mr. Guty, Mr. Negri-Clementi and Mr. Pesenti.

**Audit Committee**

The audit committee (the “Audit Committee”) is composed of five non-executive Directors, the majority of whom are independent. The Chairman of the Board and one Deputy Chairman are each members by virtue of their positions on the Board. Where the Deputy Chairman has not been appointed, an Audit Committee member is instead selected from among the members of the Chairman’s Committee.

When the Deputy Chairman is subsequently appointed, the relevant Audit Committee member will leave his office and no longer hold the post. The other members must be selected according to the best ability and availability to perform the duties to be assigned. The Audit Committee elects a chairman and a secretary from among members other than those who are part of the Audit Committee by virtue of their positions on the Board.

The Audit Committee’s functions include the undertaking of inquiries, preparation of proposals and consulting. Specifically, the Audit Committee supports the Board in defining operating policies for internal audit systems and verifying periodically that such systems are adequate and operate properly, as well as assisting with the activities undertaken by the Board in order to ensure that the principal business risks are identified and adequately managed. In addition, the Audit Committee performs the following functions:

- carries out an analysis of the periodic reports produced for audit systems;
- evaluates the operating audit plan prepared by those persons in charge of controlling risk management and audit activities, from whom it receives periodic reports;
- evaluates, together with the Bank’s business and administration managers and external auditors, the adequacy of the accounting standards adopted and their consistency for the purposes of preparing consolidated financial statements;
- evaluates the criteria proposed for the selection of an external auditing firm or firms and the evaluation of the work performed by the same firm or firms, as well as the examination of relationships with external auditing firms considering, among other things, the consulting capacity that may be entrusted to them by the Bank and Group companies;



- examines the process used to produce quarterly and semi-annual interim reports as well as the annual financial statements, based on reports provided by those appointed to perform such function;
- examines the processes used to produce all financial statements, including consolidated financial statements, realized by sub-holding companies for the purposes of producing the sole and consolidated financial statements of the Bank, based on reports provided by those appointed to perform said function and possible meetings with representatives of the sub-holding companies concerned; and
- evaluates any significant points emerging from the auditing reports produced by the various internal audit departments of the Bank or the UniCredit Group companies, received from the Bank's audit management team, or from the Board of Statutory Auditors or alternatively from surveys and/or examinations undertaken by third parties;
- evaluates from a quality and quantity standpoint the internal audit structure, and requires the responsible individual to adjust such structure, and request from the Chief Executive Officer a non-binding opinion relating thereto; and
- provides an opinion relating to the proposal presented by the Chairman of the Board concerning the appointment or replacement and the variable remuneration of the individual responsible for the audit function.

The Audit Committee may be consulted, whenever requested by the Board, to assess transactions with related parties, as well as transactions in which there is, directly or indirectly, a conflict of interest. The Audit Committee also reports at least every six months to the Board, during the approval process of the financial statements and period report, on the activities undertaken, the adequacy of internal audit procedures, and relationships with external auditing firms. The Chairman of the Board of Statutory Auditors (or another member of the Board of Statutory Auditors designated by the Chairman of the Board of Statutory Auditors) participates in the activities of the Audit Committee.

The Chief Executive Officer, the Head of Accounting, the Head of Group Audit and other members of the Bank's management team may each be requested to participate in meetings of the Audit Committee regarding specific issues. Such individuals may present to the Audit Committee any matters, which they believe necessitate inquiry, to be reported by the Audit Committee to the Board.

The Audit Committee is responsible for establishing the necessary contact with the Board of Statutory Auditors regarding activities common to both bodies.

The current members of the Audit Committee are Mr. Cattaneo (Chairman), Mr. Salvatori, Mr. Bellei, Mr. Negri-Clementi and Mr. Vagnone.

#### **Executive Committee**

The Board appoints an executive committee (the "Executive Committee") which must comprise such number of members as the Board determines in its discretion, but in any case not less than five members. The Chairman of the Board, the Deputy Chairmen and the Managing Director are "ex-officio" members of the Executive Committee.

The Executive Committee is vested with all the duties, powers and authorities assigned to it by the Board. In this respect, the Executive Committee determines the principles governing the conduct of the UniCredit Group's business and supervises its operations. In case of urgency, the Executive Committee may adopt any resolution necessary to transact the UniCredit Group's businesses and operations, provided that it must subsequently inform the Board of such decision.

The current members of the Executive Committee are Mr. Salvatori, Mr. Bellei, Mr. Guty, Mr. Palenzona, Mr. Profumo, Mr. Bertazzoni, Mr. Giacomini, Mr. Vagnone and Mr. Pesenti.

#### **Code of Conduct for Internal Dealing**

The Code of Conduct for Internal Dealing (*Codice di comportamento in materia d'Internal Dealing*) (the "Internal Dealing Code") governs notification and disclosure obligations and limitations concerning "important" transactions involving certain listed financial instruments issued by the Bank or by UniCredit Group companies.

One of the purposes of the Internal Dealing Code is to implement certain provisions of the Rules for the Markets Organized and Managed by Borsa Italiana (*Regolamento dei mercati organizzati e gestiti da Borsa Italiana S.p.A.*), as amended by CONSOB Resolution 13655 (9 July 2002). Such provisions are intended to improve the transparency and uniformity of companies' disclosure, concerning the transactions mentioned above, by alerting a signal of such "important" transactions and the business prospects of the issuing company and/or of the group to which such company belongs.

The Internal Dealing Code addresses legal requirements regarding the handling of price-sensitive information. The Internal Dealing Code assumes that news of execution of certain "important" financial transactions, as determined by individuals with, by virtue of their position in the Bank, insider knowledge of the Bank's affairs, is price-sensitive. The rules governing notification and disclosure of such transactions and penalizing non-compliance are separate from the confidential nature of the transactions and from the fact that such transactions might imply possible illegal use of non-public information (*i.e.*, the criminal insider trading).

The rules contained in the Internal Dealing Code were approved by the Board at its meeting of December 19, 2002 and apply to individuals who, by virtue of their position in the Bank, have insider knowledge of the Bank's affairs. Any persons breaching these rules are subject to sanctions, including any actions for damages (including damage to the Bank's reputation).

The Bank is in compliance with the Italian Internal Dealing rules, as stated by the Board's yearly reports to the shareholders' meeting.

**Top Management**

The Board appoints the top executives who are responsible for managing the Bank's day-to-day operations, as directed by the Managing Director/Chief General Manager/CEO.

Alessandro Profumo	Chief Executive Officer and General Manager, and <i>ad interim</i> Head of Corporate and Investment Banking
Paolo Fiorentino	Deputy General Manager and Head of Global Banking Services
Dario Frigerio	Deputy General Manager and Head of Private Banking and Asset Management
Andrea Moneta	Deputy General Manager and Head of New Europe
Roberto Nicastro	Deputy General Manager and Head of Retail

*Paolo Fiorentino* was appointed Deputy General Manager and Head of the UniCredit Group's Global Banking Services division in 2004. Previously, since 2003, he was Deputy General Manager and Head of the New Europe Division. Since 1981, Mr. Fiorentino held several posts with Credito Italiano. Mr. Fiorentino is also Chairman of the supervisory board of Zagrebačka and Bulbank, Deputy Chairman of the supervisory board of Bank Pekao, Deputy Chairman of the board of directors of Koç Bank and KFS and member of the board of directors of UniCredit Servizi Informativi S.p.A. Mr. Fiorentino holds a degree in economics.

*Dario Frigerio* was appointed Deputy General Manager and Head of the UniCredit Group's Private Banking and Asset Management Division in 2004. He is also the Chief Executive Officer of Pioneer Global Asset Management. Previously, Mr. Frigerio worked for various divisions of Credito Italiano, CreditRolo Gestioni S.p.A., and EuroPlus Investment Management Ltd. From 2000 to 2001, he was the Chief Executive Officer of Pioneer Investment Management. In addition to holding several posts within the Pioneer group, Mr. Frigerio is a member of the board of directors of Capital Italia Luxembourg SICAV and UniCredit Private Asset Management S.p.A. He is also a member of the *Associazione Italiana Analisti Finanziari* and a member of the executive board of *Assogestioni*. Mr. Frigerio holds a degree in economics from Luigi Bocconi University of Milan.

*Andrea Moneta* was appointed Deputy General Manager and Head of the UniCredit Group's New Europe Division in 2004. Previously, since 2003, he was Deputy General Manager and Head of the Private Banking and Asset Management Division. From 1989 to 1999, Mr. Moneta worked for Andersen Consulting and from 1999 to 2000 for the European Central Bank in Frankfurt am Main, Germany. He joined the

UniCredit Group in 2000 as Chief Financial Officer of the Bank. Mr. Moneta holds a degree in economics and political science and is a chartered accountant and certified auditor.

*Roberto Nicastro* was appointed Deputy General Manager and Head of the UniCredit Group's Retail Banking Division in 2003 and is also the Chief Executive Officer of UniCredit Banca. Mr. Nicastro had joined Credito Italiano in 1997 and, in 2001, became Deputy General Manager in charge of the New Europe Division. Previously, from 1989 to 1991, Mr. Nicastro worked for Salomon Brothers and from 1991 to 1997 for McKinsey & Co. He was also Deputy Chairman of UniCredit Servizi Informativi S.p.A. and Clarima Banca, and currently serves on the board of directors of Banca d'Impresa. Mr. Nicastro holds a degree in economics.

None of the persons mentioned above has been associated, within the past five years, with any bankruptcies, receiverships or liquidations and/or any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies). Furthermore, none of the persons mentioned above has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or, within the past five years, has been disqualified from acting in the management or conduct of the affairs of any issuer.

The following table sets forth, for each Deputy General Manager, the names of all companies and partnerships outside the UniCredit Group of which such Deputy General Manager has been a member of the administrative, management or supervisory bodies or partner at any time in the previous five years.

Name	Entity	Position	Duration
Paolo Fiorentino*✓ .....	—	—	—
Dario Frigerio✓ .....	Capital Italia Luxembourg	Director	2000 – present
Andrea Moneta*✓ .....	—	—	—
Roberto Nicastro*✓ .....	—	—	—

\* Such Deputy General Manager has not been a member of the administrative, management or supervisory body or bodies of any company, or partner in a partnership, outside the UniCredit Group at any time in the previous five years.

✓ Such Deputy General Manager has not, in the previous five years, held an interest of 2% or higher in any company or partnership in Italy or abroad.

### **Board of Statutory Auditors**

The board of statutory auditors (the “Board of Statutory Auditors”) monitors the management of the Bank and its compliance with laws, regulations and Articles of Association, and assesses and monitors the adequacy of the Bank's organization, internal controls, administrative and accounting systems and its disclosure procedures. The Board of Statutory Auditors must report any irregularities to CONSOB, Banca d'Italia and the shareholders' meeting called to approve the Bank's financial statements.

The Board of Statutory Auditors is appointed for a term of three years by the Bank's shareholders at an ordinary meeting, and members of the Board of Statutory Auditors may be re-elected. The Articles of Association provide that the Board of Statutory Auditors must consist of five statutory auditors, including a Chairman of the Board of Auditors, and two alternate statutory auditors.

The current members of the Board of Statutory Auditors of the Bank will hold office until the annual ordinary meeting of shareholders called to approve the Bank's financial statements for the financial year ending December 31, 2006. The following table sets out the name, age, position and year of first appointment of the current members of the Board of Statutory Auditors.

Name	Age	Position	Year First Appointed
Gian Luigi Francardo .....	73	Chairman	1999
Vincenzo Nicastro .....	65	Statutory Auditor	2002
Aldo Milanese .....	60	Statutory Auditor	1999
Giorgio Loli .....	57	Statutory Auditor	1999
Roberto Timo .....	43	Statutory Auditor	1999
Giuseppe Armenise .....	81	Alternate	2002
Marcello Ferrari .....	47	Alternate	2001

None of the persons mentioned above has been associated, within the past five years, with any bankruptcies, receiverships or liquidations and/or any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies). Furthermore, none of the persons mentioned above has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or, within the past five years, has been disqualified from acting in the management or conduct of the affairs of any issuer.

The following table sets forth, for each member of the Board of Statutory Auditors, the names of all companies and partnerships outside the UniCredit Group of which such member has been a member of the administrative, management or supervisory bodies or partner at any time in the previous five years.

Name	Entity	Position	Duration
Gian Luigi Francardo✓	I.A.M. Rinaldo Piaggio S.p.A. (in extraordinary administration)	Receiver ( <i>Commissario Governativo</i> )	1994 – 2003
	Comar Assicurazione S.p.A. in L.C.A.	Liquidation commissioner	1990 – present
	Università di Genova	Chartered accountant	Before 1995 – 2000
	SAIWA S.p.A.	Chairman of the board of statutory auditors	Before 1995 – present
	Newco S.p.A.	Chairman of the board of statutory auditors	Before 1995 – 2002
	RINA S.p.A.	Chairman of the board of statutory auditors	1999 – 2004
	Bagnara Legnami S.p.A.	Member of the board of statutory auditors	1996 – 2004
	Tecnoerg S.p.A. (in liquidation)	Member of the board of statutory auditors	Before 1995 – 2002
	Acquedotto De Ferrari Galliera S.p.A.	Member of the board of statutory auditors	1998 – 2000
	Acquedotto Nicolay S.p.A.	Member of the board of statutory auditors	1998 – 2000
Vincenzo Nicastro✓	Filati Bertrand S.p.A. (in extraordinary administration)	Member of the supervisory committee	1990 – present
	UniCredit Banca d'Impresa S.p.A.	Member of the board of statutory auditors	1990 – present
	Sitech SpA (gruppo Autostrade)	Member of the board of statutory auditors	2003 – present
	Schiapparelli 1824 S.p.A.	Member of the board of statutory auditors	2003 – present
	Schiapparelli Pikenz S.p.A.	Chairman of the board of statutory auditors	2003 – present
	Nutritionals Schiapparelli S.r.l.	Member of the board of statutory auditors	2003 – present
	Reno De'Medici S.p.A.	Director	2004 – present
	STIM S.p.A.	Member of the board of statutory auditors	2005 – present
	Gruppo Mandelli (in extraordinary administration)	Extraordinary Commissioner ( <i>Commissario straordinario</i> )	1994 – 2003
	I.N.M.A. S.p.A.- Industrie Navali Meccaniche e Affini	Chairman of the board of directors and Chairman of the liquidation committee	1997 – 2003
	Serenissima Infracom S.p.A.	Member of the board of statutory auditors	2001 – 2003
	Tecnocasa Franchising S.p.A.	Member of the board of statutory auditors	2001 – 2004
	Centrale del Latte di Milano S.r.l.	Member of the board of statutory auditors	2000 – 2003
	SIOA Società Italiana Organismo di Attestazione S.p.A.	Member of the board of statutory auditors	2000 – 2002
	CARIVERONA Cassa di Risparmio di Verona, Vicenza, Belluno e Ancona Banca S.p.A.	Chairman of the board of directors	1999 – 2002
	GRANAROLO S.p.A.	Member of the board of statutory auditors	2000 – 2001

Name	Entity	Position	Duration
Aldo Milanese <sup>✓</sup>	ITAINVEST S.p.A. (ex GEPI - Società di Gestioni e Partecipazioni Industriali)	Director	1996 – 2000
	TERMOTECNICA ABRUZZESE S.r.l.	Director	1997 – 2000
	A.E.M. Torino S.p.A.	Chairman of the board of statutory auditors	2002 – present
	A.E.M. Torino Distribuzione S.p.A. (AEM Group)	Chairman of the board of statutory auditors	2002 – present
	C.S.P. Scarl	Chairman of the board of statutory auditors	Before 1999 – present
	Federal Mogul Operations Italy S.r.l.	Member of the board of statutory auditors	1999 – present
	FIDIS Retail Italia S.p.A.	Member of the board of statutory auditors	2003 – present
	Finanziaria Città di Torino S.r.l.	Chairman of the board of statutory auditors	2003 – present
	Finanziaria Fondazioni S.p.A. (in liquidation)	Chairman of the board of statutory auditors	1999 – present
	Società Trasporto Telematico STT S.p.A.	Chairman of the board of statutory auditors	2003 – present
	Synesis Finanziaria S.p.A.	Member of the board of statutory auditors	2003 – present
	Azimut Holding S.p.A.	Director	2004 – present
	Banca CRT S.p.A.	Member of the board of statutory auditors	2000 – 2002
	Tecno Holding S.p.A.	Member of the board of statutory auditors	2000 – 2003
	F.R.F. Fabbriche Riunite Fiammiferi S.r.l.	Chairman of the board of statutory auditors	2001 – 2003
	Giulio Einaudi Editore S.p.A.	Member of the board of statutory auditors	Before 1999 – 2002
	ILCAS S.p.A.	Chairman of the board of statutory auditors	Before 1999 – 2001
	IPLAM S.p.A.	Chairman of the board of statutory auditors	Before 1999 – 2002
	ITCA S.p.A.	Chairman of the board of statutory auditors	Before 1999 – 2001
	Barricalla S.p.A.	Member of the board of statutory auditors	Before 1999 – 2001
Giorgio Loli <sup>✓</sup>	Enertad S.p.A.	Director	2004 – present
	Tadfin Participations SA	Director	2005 – present
	Tadfin S.p.A.	Director	2005 – present
	Fintad International SA	Director	2005 – present
	Etad Technologie S.p.A.	Director	2005 – present
	ITS S.p.A.	Director	1998 – present
	Celeste All That Jazz S.r.l.	Director	2001 – present
	Vecchio Convento S.r.l.	Director	1993 – present
	ACMA S.p.A.	Director	1999 – present
	Arcus Immobiliare S.p.A.	Liquidator	1999 – present
	ACER Italy S.p.A.	Member of the board of statutory auditors	1994 – present
	Polaroid Italia S.p.A.	Member of the board of statutory auditors	1991 – present
	Polaroid Eyewear S.p.A.	Member of the board of statutory auditors	1995 – present
	Coop. Verde Moscova S.p.A.	Member of the board of statutory auditors	2003 – present
	Isol Industria S.p.A.	Member of the board of statutory auditors	2000 – present
	Isol Impianti S.p.A.	Member of the board of statutory auditors	2000 – present
	Coesia S.p.A.	Member of the board of statutory auditors	1998 – present
	G.D. S.p.A.	Member of the board of statutory auditors	1998 – present
	G.D. Partecipazioni S.p.A.	Member of the board of statutory auditors	2004 – present
	CSII S.p.A.	Member of the board of statutory auditors	2000 – 2004
	Amcos Investimenti S.p.A.	Member of the board of statutory auditors	2000 – 2004
	Nova ImmobiliRe S.p.A.	Member of the board of statutory auditors	2000 – 2004
Roberto Timo <sup>(1)</sup>	B Direct Marketing S.r.l.	Member of the board of statutory auditors	1999 – 2001

Name	Entity	Position	Duration
	Callan Timo e Associati S.r.l.	Member of the board of directors	1996 – 2001
	Callan Timo e Associati S.r.l.	Liquidator	2001 – 2002
	Casa Editrice Ambrosiana S.p.A.	Member of the board of statutory auditors	1999 – 2001
	Serrature Meroni S.p.A.	Chairman of the board of directors	2004
	Sinterama S.p.A.	Director	1999 – 2005

✓ *Such member of the Board of Statutory Auditors has not, in the previous five years, held an interest of 2% or higher in any company or partnership in Italy or abroad.*

(1) *Mr. Timo held, from 1996 until 2002 an interest greater than 2% in Callan Timo e Associati S.r.l. Other than such holding, Mr. Timo has not held, within the previous five years, interests of 2% or higher in companies or partnerships in Italy or abroad.*

The business address for each member of the Board of Statutory Auditors is UniCredito Italiano S.p.A., Piazza Cordusio, 2, 20123 Milan, Italy.

### Compensation

For the year ended December 31, 2004, the aggregate compensation paid to Directors and members of the Board of Statutory Auditors was approximately €5.49 million.

The following table sets forth the remuneration paid to the members of the Board during the year ended December 31, 2004 and for each member's term beginning January 1, 2004 and ending December 31, 2004 (pursuant to article 78 *et seq.* of CONSOB Resolution No. 11971 (May 14, 1999)).

Name	Position	Expiration of term of office (on approval of accounts for year ended)	Remuneration € thousands)			
			Emoluments for the position in the company preparing the accounts	Non-monetary benefits	Bonuses and other incentives	Other remuneration
Carlo Salvatori .....	Chairman	2007	1,055	1	—	—
Eugenio Caponi .....	Vice President	2007	229	1	—	57
Fabrizio Palenzona .....	Vice President	2007	221	—	—	21
Franco Bellei .....	Vice President	2007	231	1	—	299
Alessandro Profumo .....	Director	2007	319	10	1,800	3,228
Vincenzo Calandra Buonauro .....	Director	2007	54	1	—	207
Roberto Bertazzoni .....	Director	2007	106	—	—	46
Mario Cattaneo .....	Director	2007	56	1	—	6
Philippe Citerne .....	Director	2007	52	—	—	—
Mario Greco .....	Director	2007	104	—	—	—
Ambrogio Dalla Rovere .....	Director	2007	53	—	—	—
Giovanni Desiderio .....	Director	2007	53	—	—	130
Guidalberto di Canossa .....	Director	2007	53	—	—	—
Francesco Giacomini .....	Director	2007	106	—	—	—
Piero Gnudi .....	Director	2007	54	1	—	206
Achille Maramotti .....	Director	2007	54	—	—	85
Gianfranco Negri-Clementi .....	Director	2007	60	1	—	9
Carlo Pesenti .....	Director	2007	103	—	—	—
Giovanni Vaccarino .....	Director	2007	53	—	—	—
Anthony Wyand .....	Director	2007	53	—	—	—

The following table sets out the remuneration paid to the members of the Board of Auditors during the year ended December 31, 2004 and for each member's term beginning January 1, 2004 and ending December 31, 2004 (pursuant to article 78 *et seq.* of CONSOB Resolution No. 11971 (May 14, 1999)).

Name	Position	Expiration of term of office (on approval of accounts for year ended)	Remuneration € thousands)			
			Emoluments for the position in the company preparing the accounts	Non-monetary benefits	Bonuses and other incentives	Other remuneration
Gian Luigi Francardo .....	Chairman	2006	80	2	—	95
Vincenzo Nicastro .....	Auditor	2006	57	2	—	55
Giorgio Loli .....	Auditor	2006	58	2	—	16
Aldo Milanese .....	Auditor	2006	57	2	—	95
Roberto Timo .....	Auditor	2006	58	2	—	12



Mr. Profumo, Mr. Fiorentino, Mr. Frigerio, Mr. Moneta and Mr. Nicastro are employees of the Bank and, therefore, are entitled to receive pension treatment and leaving indemnity as provided for by applicable law. For the year ended December 31, 2004, the amounts allocated by the Bank for pension treatment amounted to €959,772.68 (of which €98,205.25 was paid by the employees mentioned above) and for leaving indemnity to €589,831.23 (of which €142,686.63 was paid to the UniCredit Group pension fund (*Fondo pensione di Gruppo*)). As a result, the total amount allocated was €1,549,603.91.

Among the members of the Board and of the Board of Statutory Auditors, only Mr. Profumo is an employee (qualified as “manager” (*Dirigente*) of the Bank). Therefore, Mr. Profumo is entitled to receive his leaving indemnity as provided for by the applicable law.

There are no contracts between any member of the Board or the Board of Statutory Auditors and the Bank or any of its subsidiaries which provide for benefits upon termination of their employment.

**Loans and Guarantees**

For the year ended December 31, 2004, there were outstanding loans or guarantees issued by UniCredit Group entities to the members of the Board of Directors or of the Board of Statutory Auditors totalling approximately €179 million. This amount includes transactions with companies in which the members of the Board of Directors or of the Board of Statutory Auditors have interests. Such loans and guarantees were made in the ordinary course of business, on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions, and did not involve more than the normal credit risk or present favourable features.

**Conflicts of Interest**

The Bank addresses conflicts of interest in compliance with the provisions set forth in article 2391 of the Italian Civil Code and article 136 of the Consolidated Banking Act. There are no family relationships between any of the members of the Board, the members of the Board of Statutory Auditors and the top managers of the Bank. For the year ended December 31, 2004, there were outstanding loans or guarantees issued by UniCredit Group entities to the members of the Board of Directors or of the Board of Statutory Auditors totalling approximately €179 million. This amount includes transactions with companies in which the members of the Board of Directors or of the Board of Statutory Auditors have interests. Such loans and guarantees were made in the ordinary course of business, on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions, and did not involve more than the normal credit risk or present favourable features. Except as set out above, the Bank has no material conflicts of interest.

**Property, Plants and Equipment**

The following is a list of the 30 most significant real properties owned by the UniCredit Group in Italy in terms of book value as of December 31, 2004:

<b>Municipality</b>	<b>Province</b>	<b>Address</b>	<b>Balance sheet value before taxes (€)</b>	<b>Accumulated depreciation (€)</b>	<b>Net value pursuant to Italian Civil Code (€)</b>
Torino	TO	Via Nizza 148/150	199,553,376	76,773,071	122,780,305
Milano	MI	Via Livio Cambi 1	108,994,826	46,953,114	62,041,712
Bologna	BO	Via Del Lavoro 42	62,709,316	35,782,018	26,927,298
Milano	MI	Via Tommaso Grossi	58,367,196	23,345,343	35,021,853
Verona	VR	Via Monte Blanco 18/20/22/24	52,455,985	26,643,703	25,812,282
Bologna	BO	Via Rizzoli 34	52,076,803	28,674,539	23,402,264
Torino	TO	Via Arsenale 23	48,461,660	18,973,795	29,487,865
Torino	TO	Via XX Settembre 31	44,399,636	14,496,269	29,903,367
Bologna	BO	Via Marsala 47	37,230,806	14,828,258	22,402,548
Verona	VR	Via Garibaldi 1	36,968,564	16,894,421	20,074,143
Trieste	TS	Cassa Di Risparmio 10	30,775,470	18,973,795	11,848,429
Modena	MO	Piazza Grande 40	29,160,802	14,785,948	14,374,854
Milano	MI	Via Cordusio 3	27,752,902	12,981,901	14,771,001
Roma	RM	Via Veneto 74-76	25,616,741	13,799,801	11,816,940
Verona	VR	Via A Forti 10/A	22,093,027	10,987,616	11,105,411
Firenze	FI	Via Campidoglio 2	21,128,009	12,087,419	9,040,590
Bologna	BO	Via Indipendenza 11	15,883,676	5,974,057	9,909,619
Vicenza	VI	Via C Battisti 10	13,257,226	5,598,775	7,658,451
Treviso	TV	P.ta A. Moro 1	13,017,870	4,134,957	8,882,913
		Via G Verdi 18/D Ang S.			
Napoli	NA	Brigida	12,796,528	7,200,082	5,596,446
Milano	MI	Via Manzoni 9	11,279,902	6,682,286	4,597,616
Lavis	TN	Via Degasperri 41	10,711,937	7,607,156	3,104,781
Bari	BA	Via R.Da Bari 85	10,649,540	5,305,399	5,344,141
Udine	UD	Via Vittorio Veneto 20	10,373,766	5,665,724	4,708,042
Milano	MI	P.za Meda 1	10,060,965	3,123,161	6,937,804
Verona	VR	C.la Sgarzerie	9,828,975	3,065,207	6,763,768
Ravenna	RA	P.za Del Popolo 21	8,785,302	4,700,389	4,084,913
Trento	TN	Via Galilei 1 (Palazzo Firmian)	8,249,967	3,744,473	4,505,494
Udine	UD	V.le Tricesimo 95	8,241,169	2,770,454	5,470,715
Belluno	BL	P.za Martiri 39	8,112,060	3,376,457	4,735,603
		<b>TOTAL</b>	<b>1,008,994,002</b>	<b>455,882,834</b>	<b>553,111,168</b>

The following table sets forth the principal real properties owned or leased by the Bank's principal foreign subsidiaries:

	<b>Owned Property</b>				<b>Leased Property</b>				<b>Book Value (€ millions)</b>
	<b>Business Number</b>	<b>Meters<sup>2</sup></b>	<b>Other Number</b>	<b>Meters<sup>2</sup></b>	<b>Business Number</b>	<b>Meters<sup>2</sup></b>	<b>Other Number</b>	<b>Meters<sup>2</sup></b>	
Pekao	281	421,000	32	54,500	523	118,000	22	4,600	239.164
Zagrebačka	99	91,685	47	14,500	45	11,858			80.764
Koçbank	21	21,236	297		171	95,506	0	0	60.930
Bulbank	33	64,707	16	7,677	65	7,602	5	109	46.224
Unibanca	26	27,051	—	—	48	9,548	—	—	18.472
UniCredit Romania	7	4,028	—	—	30	12,730	—	—	13.429
Zivnostenska	6	23,764	1	304	42	9,450	—	—	29.285
<b>Total</b>	<b>473</b>	<b>653,471</b>	<b>393</b>	<b>76,981</b>	<b>924</b>	<b>264,694</b>	<b>27</b>	<b>4,709</b>	<b>488.2</b>

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## Business of the HVB Group

*This section contains a summary of the business activities of the HVB Group, including certain selected financial information and operating data, as of the date of this Prospectus and, unless otherwise indicated, before effecting the Business Combination. The information in this section has been derived from information published and/or reported by the HVB Group, and has not been independently verified by UniCredit S.p.A. UniCredit S.p.A. expects that following implementation of the proposed Business Combination, the business and financial condition of the HVB Group will change materially and future financial condition and results of the Combined Group will not be comparable to the historical results discussed in this section. In particular, the scope of the Combined Group's business will be significantly expanded. For more information on the proposed Business Combination and certain expected consequences thereof, see "The Combined Group" (which includes certain pro forma financial information in relation to the Combined Group).*

### INFORMATION ABOUT HVB

HVB was formed by the merger of Bayerische Vereinsbank AG and Bayerische Hypotheken- und Wechsel-Bank AG in 1998 and is the parent company of the HVB Group. Since December 2000, Bank Austria Aktiengesellschaft ("Bank Austria"), which had acquired Creditanstalt AG in 1997, combining Austria's two largest banks (together, "Bank Austria Creditanstalt"), has been part of the HVB Group. The HVB Group is one of Europe's leading providers of banking and financial services. Based on consolidated assets of €467.4 billion at December 31, 2004, HVB was the second largest publicly traded bank in Germany.

HVB has its registered office at Kardinal-Faulhaber-Strasse 1, 80333 Munich and is registered with the Commercial Register at the Lower Court (*Amtsgericht*) in Munich under number HRB 42148, incorporated as a stock corporation under the laws of the Federal Republic of Germany. It can be reached via telephone at +49-89-378-0 or on the Internet at <http://www.hypovereinsbank.de>.

HVB's ordinary shares are admitted to trading on the official market at every German stock exchange, the stock exchange in Vienna, EURONEXT in Paris and the SWX Swiss Exchange.

HVB prepares its financial statements in accordance with IFRS. The articles of association of HVB as well as the annual and interim reports of the HVB Group referred to in this Prospectus are available from, or may be inspected during customary business hours on any working day at the offices of Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Kardinal-Faulhaber-Strasse 1, 80333 Munich, Germany.

### RECENT DEVELOPMENTS

On June 12, 2005, HVB announced that it had executed a Business Combination Agreement with UniCredit S.p.A., and both its management board (*Vorstand*) and supervisory board (*Aufsichtsrat*) have approved the proposed Business Combination. Following the launch of the HVB Offer, on August 31, 2005, the management board of HVB issued a statement recommending that HVB shareholders accept the HVB Offer; on the same date, the supervisory board of HVB issued a statement expressing that it supports the transaction. For more information on the Business Combination Agreement and the proposed Business Combination of the UniCredit Group and the HVB Group, see "The Combined Group".

As a result of a capital increase consummated at International Moscow Bank (IMB), Moscow, on April 21, 2005 in which HVB participated, HVB's share of the voting rights in IMB has increased from 46% to 53%. IMB has therefore been fully consolidated with effect from May 1, 2005 (prior thereto IMB was valued at equity).

At an extraordinary shareholders' meeting of Vereins- und Westbank AG on June 24, 2004, almost 99% of the shareholders voted in favour of transferring the shares of the minority shareholders in Vereins- und Westbank AG to HVB in exchange for a cash compensation (squeeze-out). Following the registration of the squeeze-out with the commercial register in October 2004, Vereins- und Westbank AG was merged into HVB with retroactive economic effect from July 1, 2004. The merger took effect on January 14, 2005. The technical integration was completed towards the end of the first quarter of 2005.

In January 2005, HVB announced that the workout portfolios of the entire German real estate finance business of the HVB Group would be transferred to the new Real Estate Restructuring segment together

with the remaining portfolios of the Real Estate Workout segment. HVB stated that the aim was to completely eliminate the portfolios allocated to the new segment without disrupting the market by exploiting various options and the opportunities arising from the development of the real estate markets. To facilitate a swift reduction of these portfolios, the valuation method for the real estate collateral securing these portfolios was changed. In contrast to the previous approach, which in many instances aimed to restructure the individual commitments - sometimes over the long run - before returning them to regular treatment, the valuation of real estate collateral is now made at liquidation value. As a consequence, for fiscal year 2004 an allocation to special provisions for bad debts amounting to €2.5 billion was made. Starting with the first quarter of 2005, the HVB Group reports separately on this new segment in its financial statements and interim reports.

In November 2004, HVB launched its efficiency program PRO (Process Redesign and Optimization) aimed at realizing a cost reduction potential of at least €280 million p.a. (with the full effect showing for the first time in 2007). The program pursues the goal of streamlining back-office divisions in HVB and its German subsidiaries and focuses on the subprojects “optimization of central and staff functions”, “improvement of credit processes”, and “optimization of transaction banking”. HVB reported that of the total cost reduction potential, it expects approximately €55 million p.a. to have a favourable effect on the 2005 income statement of the HVB Group in the form of lower non-personnel costs and that it expects more than 60% of the total potential to be reflected in the 2006 income statement. HVB further reported that it expects the full impact on earnings of the HVB Group to become visible in 2007 and that within the framework of the PRO, the group’s staff will be reduced by 2,200 to 2,400. HVB has also reported its expectations that the restructuring provisions already included in the 2004 consolidated financial statements are sufficient for a successful implementation of the PRO.

In November 2004, Bank Austria Creditanstalt and its Bulgarian subsidiary HVB Bank Biochim further expanded the CEE network by signing an agreement to purchase 99.9% of the shares in Hebros Bank, a bank in Bulgaria. Hebros Bank has total assets of approximately €393 million, with some 1,000 employees and serves over 200,000 customers (all as of March 31, 2005). The acquisition was consummated on March 2, 2005.

In December 2004, Bank Austria Creditanstalt acquired 98.3% of the shares in the Serbian Eksimbanka which has total assets of €137 million and 32 branches (as of March 31, 2005).

In June 2005, Bank Austria Creditanstalt and Ion Tiriac have signed an agreement to merge HVB Bank Romania with Banca Tiriac in Bucharest. Following the merger, BA-CA Group will hold the majority (50.1%) in the new bank. Banca Tiriac has a nationwide network of 60 offices and total assets of €706 million (as at March 31, 2005).

## **BUSINESS OVERVIEW**

The HVB Group offers a comprehensive range of banking and financial products and services to a broad range of customer groups in the retail, corporate and public sectors. Until July 19, 2005 HVB was one of only few private sector banks in Germany with the status of a mixed mortgage bank, meaning it was allowed to engage in commercial banking as well as mortgage banking activities, including in particular the issuance of Pfandbriefe for the purpose of refinancing its mortgage and public sector loans. Since July 19, 2005, the issuance of Pfandbriefe is, according to the new German Pfandbrief Act (*Pfandbriefgesetz*), no longer limited to mortgage banks or mixed mortgage banks, but permitted for all private sector and public sector banks meeting specified requirements.

The results of the HVB Group’s business segments and business units reported in HVB Group’s financial statements for financial year 2004 are not comparable with the results of HVB Group that have been reported for the first quarter of financial year 2005. In compliance with IAS 14.76, HVB Group has restated its results for financial year 2004 included in its interim report for the first quarter of financial year 2005, taking into account the following changes in the HVB Group’s financial reporting as of January 1, 2005:

- The Real Estate Restructuring business segment (RER) has been formed by transferring the workout portfolios of the entire German real estate finance business of HVB previously assigned to the Germany business segment together with the remaining portfolios of the Real Estate Workout segment.

- In the Austria and CEE business segment, HVB Group has decided to increase transparency in both its internal and external reporting with a view to enhancing management of the business units. Consequently, starting the first quarter of 2005 onwards, HVB Group reports the SMEs Austria business unit separately from the Private Customers, Large Corporates and Real Estate, and CEE business units.
- The improvement of HVB Group's interest management, which is based on the market interest calculation method, and the adjustment of HVB Group's refinancing structure in order to take advantage of the opportunities offered by the market had various implications for segmental net interest income. In this context, HVB Group has transferred the planning responsibility for transactions not relating to the trading book from the Markets business unit of the Corporates and Markets business segment to the other relevant business segments in order to create a clearer division of responsibilities. HVB Group has also made changes to the intragroup settlement arrangements, which have had an effect on segmental net commission income.

However, the financial information with respect to the HVB Group's business segments that is being provided in this Prospectus for fiscal year 2004 has been derived from HVB Group's financial statements for financial year 2004 and should, therefore, not be compared with HVB Group's financial information on its business segments reported for the first quarter of financial year 2005.

### OVERVIEW OF STRATEGY

In April 2004, HVB completed its "Transformation 2003 Program". The most important measures of the transformation program taken by the HVB Group were as follows:

- Reduction in July 2003 of HVB's almost 100% stake in Bank Austria Creditanstalt to approximately 77.5% through a capital increase by an initial public offering of ordinary no-par value voting bearer shares of Bank Austria Creditanstalt on the Vienna Stock Exchange. Since October 2003, Bank Austria Creditanstalt has also been listed on the Warsaw Stock Exchange.
- Sale of non-strategic subsidiaries and participations in the second half of 2003, including HVB's 100% interest in norisbank AG, its Nuremberg-based banking subsidiary focusing on the consumer credit business, to DZ BANK AG for a purchase price of €416 million, its 100% interest in its private banking subsidiary Bank von Ernst & Cie. AG, Berne, to The Royal Bank of Scotland group at a purchase price of €320 million and its 100% interest in Bankhaus BethmannMaffei OHG, Munich, to Delbrück & Co. AG, a company of the ABN AMRO group, at a purchase price of €103 million. The closing of the latter transaction took place in January 2004. In December 2003, HVB also sold and transferred the shopping mall "Fünf Höfe" in Munich to the real estate trust company Difa at a purchase price of €270.5 million.
- Transfer of substantial parts of the HVB Group's real estate financing business with commercial real estate customers to Hypo Real Estate Holding AG and its consolidated subsidiaries (together, "Hypo Real Estate Group") by way of a spin-off (*Abspaltung*) and several individual portfolio transfers. The spin-off of a large portion of the HVB Group's German commercial real estate financing activities pursuant to the provisions of the German Transformation Act (*Umwandlungsgesetz*) became legally effective upon its registration with the commercial register on September 29, 2003, with retroactive effect for accounting purposes as of January 1, 2003. In addition, HVB also sold and transferred several non-German European commercial real estate loan portfolios and its commercial real estate loan portfolio in the United States to Hypo Real Estate Group. Taken together, the transfer of commercial real estate financing activities to Hypo Real Estate Group comprised HVB's three German mortgage bank subsidiaries (HVB Real Estate Bank AG ("HVB Real Estate"), Württembergische Hypothekenbank AG and Westfälische Hypothekenbank AG ("WestHyp")), and all of the HVB Group's commercial real estate financing activities outside Germany, Austria, and Central and Eastern Europe. As a result of the transactions described above, the HVB Group reduced its risk-weighted assets by a total of approximately €57.6 billion. The commercial real estate lending operations of HVB in Germany and of BA-CA Group in Austria and Central and Eastern Europe were not transferred and remained with the HVB Group. In connection with the spin-off of Hypo Real Estate Group, HVB agreed to indemnify HVB Real Estate (which has been renamed Hypo Real Estate Bank AG in the meantime) and WestHyp (which has been merged into HVB Real Estate in the meantime) if and to the extent that any of the two banks incurs a net loss in financial years 2003 and 2004 due to specific



loan loss provisions made in respect of loans that were originated or acquired by the two banks on or before January 1, 2003. HVB's total obligation under the indemnity was limited to €590 million, of which an amount of €460 million was drawn for financial year 2003 and an amount of €130 million was drawn for financial year 2004.

- Increased integration of the HVB Group's internal organization and processes and reduction of operating costs through the deconsolidation of a series of smaller companies of the HVB Group, the integration of its asset management and private banking activities into the HVB Group's Germany and Austria & Central and Eastern Europe ("Austria/CEE") business segments with effect as of January 2003 and employee reductions, primarily through staff cuts and the deconsolidation of subsidiaries.
- Increase of HVB's share capital by €643,231,320 to €2,252,097,420 through the issuance of 214,410,440 new no-par value ordinary bearer shares, effective March 1, 2004. The gross proceeds from the capital increase amounted to approximately €3 billion.

By the close of 2004, the HVB Group had taken further steps toward focusing its business model, bolstering its value creation structures on a sustained basis, and expanding its strategic room for manoeuvre. Having streamlined the investment portfolio and carried out the capital increase in the spring of 2004, the HVB Group has reported that it is now concluding this phase of setting the Bank's direction for the future by restructuring its real estate finance operations as announced at the start of 2005. Thus, the HVB Group claims that a solid foundation was created for its "Growing with Europe" strategic program, which was initiated during 2004 and is expected to be accelerated this year. With this strategic program, the HVB Group seeks to strengthen its leading position in its core markets of Germany, Austria and Central and Eastern Europe. In particular, the HVB Group has stated its intention to sustainably increase its profitability through consistently focusing on a customer- and results-driven approach. The HVB Group has stated the principal objectives of its strategy program are as follows:

- *Increase its operating profitability.* In order to achieve an improvement in its operating profitability, the HVB Group seeks to increase the proportion of commission income in its core business areas through, for example, stepping up the cross-selling of products and services throughout the HVB Group. In its lending business, the HVB Group seeks to increase margins by consequently applying risk-adjusted pricing. In general, the HVB Group intends to strengthen the focus of its banking business on private and corporate customers in its core markets Germany, Austria and Central and Eastern Europe.
- *Sharpen its business profile.* The HVB Group aims to further streamline its internal organization and to reduce operating expenses. The internal integration of the HVB Group is intended to be increased. The HVB Group also seeks to benefit from cost synergies resulting from the intended integration of its group-wide asset management activities.
- *Continue to improve its capital and risk management.* Finally, the HVB Group intends to allocate its capital resources to its core business in accordance with a results-driven approach. Furthermore, HVB Group plans to reduce its risk-weighted assets in its non-European business and in its business with corporate customers in Austria.

### **Germany**

*Overview.* The HVB Group is one of the leading providers of banking and financial services in Germany. As of December 31, 2004, the HVB Group's Germany business segment had approximately 4 million customers and 12,097 employees. In 2004, the Germany business segment reported operating revenues of €4,007 million, an operating profit of €18 million and a net loss before taxes of €2,068 million. In the first six months of 2005, the Germany business segment reported operating revenues of €2,057 million, an operating profit of €359 million and net income before taxes of €353 million.

*Strategic Focus.* The HVB Group has stated that in Germany it intends to tailor the range of services it offers to private customers increasingly towards the special needs of specific customer groups and to achieve this to plan to combine standardized products and services to meet the needs of each group efficiently. The HVB Group has stated its goal to enhance the cross-selling of, among other products, insurance products, consumer loans and mutual funds and that private real estate financing continues to be a core competence and an important source of revenue for the business segment. In this context the Germany business segment focuses on the acquisition of low-risk new business and a sustained intensification of its cross-selling approach (e.g. sales of home loan and savings products, life and property insurances) and also seeks to



increase its customer base of high net worth individuals and to expand its private banking activities. The HVB Group has further stated that in the corporate customers area, the Germany business segment plans to increase the sale of capital markets-related products and that in order to increase the profitability of the Germany business segment, it also intends to improve risk-adjusted pricing for loans and other credit-related products through improved credit risk management procedures. In addition, the HVB Group stated that after spinning off the workout portfolios into the separate business segment Real Estate Restructuring, it intends to increase the profitability of its commercial real estate financing activities in the Real Estate business unit of the Germany business segment, particularly by risk-adjusted pricing, consistent application of its stricter earnings and risk criteria and sustained reduction of unprofitable parts of the loan portfolio.

*Products and Services.* In the retail banking area, the Germany business segment offers a wide range of products and services, including checking and savings accounts, payment transfers, consumer loans, debit and credit cards, securities brokerage, asset management, mutual funds, pension planning, insurance products, and home loan and savings products, which combine an initial period of saving by the customer with a subsequent loan for the purchase, construction or improvement of residential housing at a below-market interest rate. Brokerage services by telephone and Internet primarily for private customers are operated by DAB Bank AG (“DAB Bank”), a subsidiary in which HVB holds a 76% interest. After the sale of HVB’s former consumer banking subsidiary norisbank AG, the Germany business segment’s consumer lending activities focus on “HVB Sofortkredit” products. The retail banking activities of the Germany business segment also encompasses the HVB Group’s private banking operations and asset management activities in Germany. The HVB Group’s private banking services, which are conducted under the “HVB Private Banking” brand name, are targeted at high net worth individuals seeking individual wealth management solutions. The HVB Group’s asset management activities comprise investment fund products and asset management services. The HVB Group offers not only HVB Group investment fund products, mainly under the “Activest” brand name, but also third-party investment fund products to provide its retail customers with a broad range of investment options. Investment fund products include conventional mutual funds as well as innovative products, such as guarantee funds and certificates. The HVB Group also manages and distributes a wide range of institutional funds (*Spezialfonds*), tailored to meet institutional investors’ specific requirements. The HVB Group’s INDEXCHANGE funds have a strong market position in Germany in the growing business of exchange-traded funds; so-called ETFs, which are passively managed equity funds.

In the corporate customers area, the Germany business segment provides companies and self-employed customer groups with a full range of banking products and services, including standard lending and capital markets-related finance products, electronic banking, cash management and asset management. In addition, mid-sized corporate customers are offered a number of more complex capital markets-related finance solutions developed by the Corporates & Markets business segment, including structured finance, asset securitization and interest-rate and currency exchange-rate swaps. The HVB Group also offers innovative mezzanine products as well as private equity advisory services. Through HVB Ratings Advisory GmbH, the HVB Group assists companies preparing to undergo an initial rating analysis by an independent rating agency.

With regard to the Real Estate business unit, the HVB Group stated its intention to significantly improve the earnings-risk profile and thus the profitability of its commercial real estate financing activities and to handle new business on a very cautious and selective basis, focused on creditworthy real estate investors and the financing of substantial portfolio deals. In addition, the HVB Group stated its goal to increase the scope of its cross-selling of banking and financial services to professional real estate investors and hence further increase income from commission and derivatives. Moreover, HVB is selling capital markets-based real estate financing solutions and services as, for example, structured or syndicated finance and advisory services in connection with corporate transactions (“Real Estate M&A”).

*Distribution.* The Germany business segment generally provides “multi-channel” access, giving customers the choice of several access channels to banking services, each with differing degrees of service: the branch network, telephone banking, online banking and external distributors. On September 21, HVB announced its intention to provide private customers, through the newly-formed HVB Finanzberatung GmbH, a new service based on the concept of mobility of external specialists, with customer-tailored service models and products. Since the merger creating HVB in 1998, reducing the number of branches in Germany has been a strategic priority for the HVB Group. Retail asset management products are primarily distributed through the branch network of HVB and through DAB Bank.

HVB Group home loan and savings products are marketed primarily by Vereinsbank Victoria Bauspar AG, which is 70% owned by the HVB Group and 30% owned by ERGO Versicherungsgruppe AG (“ERGO”). The HVB Group and the VICTORIA insurance subsidiaries of ERGO, which is the holding company for the primary insurance business of Munich Re Group, cooperate (since 2001 exclusively) in the distribution of selected financial and insurance products to private customers throughout Germany. The HVB Group/Munich Re Group cooperation focuses on selling VICTORIA capital and residual debt life insurance products to private customers of the HVB Group and selling selected HVB Group banking and financing products, in particular real estate loans and “HVB Sofortkredit” consumer loans, to VICTORIA customers. The HVB Group intends to further intensify its successful cooperation with Munich Re Group, in particular in the areas of pension planning, consumer lending and life insurance.

Smaller corporate customers and professionals are serviced by 102 specialized sales teams within the HVB Group’s German branch network and by regional service centers. The HVB Group’s corporate customers are serviced by approximately 60 specialized sales teams within the branch network and can also directly access online payment systems. Furthermore, each corporate customer (given sufficiently attractive earnings potential) is assigned a local relationship manager, assisted by specialists in the various business areas, special head office units and foreign branches.

### **Austria and CEE**

*Overview.* The HVB Group is one of the leading providers of banking and financial services in Austria and Central and Eastern Europe, with an extensive branch network in both regions. As of June 30, 2005, HVB Group’s Austria/CEE business segment had more than 7.1 million customers (including the Romanian Banca Tiriac) and 25,842 employees. In 2004, the Austria/CEE business segment reported operating revenues of €3,426 million, an operating profit of €743 million and net income before taxes of €622 million. In the first six months of 2005, the Austria/CEE business segment reported operating revenues of €1,841 million, an operating profit of €467 million and net income before taxes of €452 million. The Austria/CEE business segment comprises three business units: Private Customers Austria, Corporate Customers Austria, and Central and Eastern Europe. From January 1, 2005 on, the Austria/CEE business segment comprises four business units: Private Customers Austria, SMEs Austria, Large Corporates and Real Estate, and Central and Eastern Europe.

*Strategic Focus.* In Austria, the HVB Group seeks to maintain its leading market position and strengthen its profitability and has stated that in the retail banking area, the Austria/CEE business segment aims to increase revenues by enhancing its cross-selling efforts and strengthening its distribution network whereas in the corporate banking area the emphasis is on the continuous improvement of risk-adjusted pricing and credit policies, in line with the HVB Group policies and standards, with the intention of containing risk-weighted asset growth. Further, the HVB Group has stated that the Austria/CEE business segment also aims to increase the commission income generated and seeks to leverage its banking network in Central and Eastern Europe to drive growth in cross-border transactions with Austrian and multinational customers. In Central and Eastern Europe, where the HVB Group reported considerable potential for economic expansion, it has stated that the Austria/CEE business segment’s general focus is on achieving profitable growth with a special emphasis on broadening and deepening BA-CA Group’s region-wide integrated network of banking operations and on leveraging HVB Group’s product expertise gained in Germany, Austria and elsewhere. While the HVB Group has reported its goal to pursue organic growth across the region, it stated its openness to acquiring banks when perceived as attractive opportunities and that the Austria/CEE business segment also intends to further rationalize its operations. In October 2004, Bank Austria Creditanstalt, while continuing to be a member of the Austrian savings banks sector, left the Austrian Association of Savings Banks (*Österreichischer Sparkassenverband*) and joined the Austrian Association of Banks and Bankers (*Verband österreichischer Banken und Bankiers*) in order to transfer its employees to the collective bargaining agreement applicable to employees of the member banks of the Austrian Association of Banks and Bankers. New internal staff service regulations based on this collective bargaining agreement were approved by the supervisory board of Bank Austria Creditanstalt and came into force on April 1, 2005.

*Products and Services.* In Austria, the business segment offers a full range of banking and financial products and services: Private customers (including professionals and small business customers with average annual sales below €1.5 million) are offered a wide range of lending and deposit products and services by BA-CA Group, including checking and savings accounts, payment transfers, overdraft facilities, consumer loans, debit and credit cards, real estate financing, securities brokerage, asset management, fund products, insurance products, and home loan and savings products. The HVB Group’s retail financing activities in

Austria focus on residential real estate financing, consumer loans and overdraft facilities. In cooperation with two savings and loan banks (*Bausparkassen*), Bausparkasse Wüstenrot AG and Bausparkasse der österreichischen Sparkassen AG, the HVB Group also sells home loan and savings contracts to private customers. In addition, BA-CA Group offers tailored investment advice and other private banking services to high net worth individuals predominantly under the “BANKPRIVAT” brand name. Through its branch network, BA-CA Group also distributes a wide range of insurance products (mainly life insurance, supplementary pension products and credit protection insurance) of Bank Austria Creditanstalt Versicherung AG and Union Versicherungs-AG, in each of which Bank Austria Creditanstalt holds an equity interest of 10%. The HVB Group’s asset management activities in Austria are largely conducted by specialized subsidiaries of Bank Austria Creditanstalt and encompass, *inter alia*, mutual funds, equity and sector funds, which are mainly marketed under the brand “Capital Invest”.

Smaller corporate customers (*i.e.*, those with less than €40 million of average annual sales) are provided with traditional lending, basic capital markets-related and, in selected areas, more complex capital market solutions. Corporate customers with over €40 million of average annual sales and smaller growth-oriented companies receive integrated corporate finance services, which combine both relationship banking and transaction-driven customer support. In addition, BA-CA Group’s Austrian operations have a special focus on international trade finance and cross-border banking services (including international cash management), capital markets-related advisory services (including corporate finance, mergers and acquisitions, structured finance and loan syndication) and leasing (including cross-border and structured leasing). Finally, BA-CA Group offers commercial real estate financing services to commercial real estate customers.

In Central and Eastern Europe, the HVB Group offers the complete range of financial services: retail and corporate banking services, investment banking and leasing products. For the time being, factoring services are provided via specialized subsidiaries in Hungary, the Czech Republic and Slovakia. In particular in Poland, Croatia, Bulgaria and Bosnia-Herzegovina, the HVB Group’s banking operations have already grown into full-sized universal banking operations.

*Distribution.* In line with the group-wide concept of “multi-channel” access, customers of the HVB Group in Austria and in the majority of the Central and Eastern European countries in which the HVB Group operates can select between several ways to access HVB Group’s products and services: The segment’s customers can choose between the branch network, a mobile sales force, telephone banking and online banking. In Austria, the HVB Group provides its banking and financial services predominantly under the “Bank Austria Creditanstalt” brand. Additionally, private banking services for high net worth customers are marketed through Bank Austria Creditanstalt’s subsidiaries Schoellerbank AG and BANK PRIVAT AG. In addition to Bank Austria Creditanstalt’s branch network, Austrian customers are serviced through a mobile sales force, combining mobile advisers employed by Bank Austria Creditanstalt, affiliated agents and independent distribution partners. Corporate customers in Austria are also able to access banking services via the Internet using BusinessNet, an Internet banking business portal for corporate customers in Austria. In addition, corporate customers of Bank Austria Creditanstalt are serviced through specialized corporate customer service centers. In Central and Eastern Europe, customers are serviced through Bank Austria Creditanstalt’s integrated network of banking subsidiaries. Alternative channels of access to HVB Group’s products and services like mobile sales force, telephone banking and online banking are also offered in most countries. Bank Austria Creditanstalt currently has banking subsidiaries in ten Central and Eastern European countries: Poland, the Czech Republic, Slovakia, Hungary, Slovenia, Croatia, Bulgaria, Romania, Serbia and Montenegro, and Bosnia and Herzegovina. In addition, BA-CA Group has a representative office in Macedonia.

### **Corporates & Markets**

*Overview.* The HVB Group’s Corporates & Markets business segment comprises HVB Group’s capital markets-oriented business activities, including any such activities in Germany, Austria and Central and Eastern Europe. Most of the business segment’s corporate customers are listed on German or other European stock exchanges. Among the business segment’s approximately 1,000 institutional clients are financial institutions, insurance companies, central banks and other large public-sector entities, as well as other large institutional investors. Furthermore, the business segment is responsible for approximately 270 corporate customers. As of June 30, 2005, the Corporates & Markets business segment had 3,875 employees. In 2004, the business segment reported operating revenues of €1,913 million, an operating profit of €827 million and net income before taxes of €737 million. In the first six months of 2005, the Corporates & Markets business segment reported operating revenues of €1,005 million, an operating profit

of €361 million and net income before taxes of €440 million. The Corporates & Markets business segment acts as an intermediary between issuers, capital markets and investors.

*Strategic Focus.* The Corporates & Markets business segment's strategic goal is to further strengthen its strong market position in Germany and its leading position in Austria and Central and Eastern Europe. HVB stated that to this end, the Corporates business unit seeks to increase HVB Group's proportion of commission-based income by leveraging HVB Group's lending-based customer relationships to increase the sale of selected capital markets and treasury products. In particular, the HVB Group stated that it intends to sell to its corporate customers more capital markets-oriented services, such as structured financing and active credit portfolio management services for balance sheet management purposes, and fewer traditional lending services. Based on the concept of an "integrated Capital Markets bank", HVB Group customers are offered both corporate lending as well as access to capital markets-oriented financing solutions tailored to their specific needs. Furthermore, the Markets business unit combined its expertise in the equity-linked business with its fixed-income derivatives know-how in order to deliver a rich variety of cross-asset structured products, and herewith acts as a customer-oriented vendor of risk management products across all asset classes.

*Products and Services.* The Corporates business unit is responsible for providing capital markets and corporate finance products and advisory services to institutional and corporate customers and to HVB Group's other business segments. The activities of the Corporates business unit comprise of acquisition and leveraged finance, project finance, lease asset finance, active credit portfolio management, mergers and acquisitions advice, securitization, foreign trade, loan syndication, cash management, securities settlement services and the structuring of equity capital markets transactions as well as consulting and other advisory services. HVB has stated though that it expects the focus of its corporate finance activities to continue to be on underwriting corporate bonds and arranging syndicated loans rather than on equity offerings. The HVB Group is also active in creating innovative structures for asset-backed commercial paper programs, asset- and mortgage-backed securitizations and other securitization products.

The HVB Group's activities in the Markets business unit cover a broad range of treasury and capital market products and services, ranging from money market, foreign exchange, fixed-income and equity securities transactions in primary and secondary markets to derivative products and custodial services. The main focus of the Markets business unit is on sales and trading for customers, but it also engages in trading for HVB Group's own account. In Europe, the HVB Group has a strong position in the area of equity-linked products and the European Covered Bond market.

Finally, the Corporates & Markets business segment coordinates all capital markets funding activities for the HVB Group. The HVB Group's funding activities continue to focus on the German Pfandbrief market, particularly the jumbo Pfandbrief market (issuances of €500 million and more).

*Distribution.* While institutional clients and larger corporate customers are serviced by the Corporates & Markets business segment through a product-know how and solution-driven approach, mid-sized corporate customers are serviced through a more customer-driven approach. The HVB Group's capital markets product distribution teams headquartered in Munich provide sales support with respect to all customers of the business segment. In addition, large corporate and institutional customers are supported individually by specialized customer relationship managers. In Austria, the segment's customers are serviced in particular by Vienna-based sales teams of Bank Austria Creditanstalt. These experts also support the Central and Eastern European banking subsidiaries of Bank Austria Creditanstalt in developing their treasury and capital markets business. These subsidiaries play a prominent role in providing treasury and capital markets products to major local companies in Poland, the Czech Republic, Hungary and Slovakia, among other countries. In Russia, HVB Group's customers are serviced through International Moscow Bank. In Western Europe (other than Germany), the HVB Group services its customers primarily through HVB Group branches in London, Paris, Milan, Madrid, Athens and Zurich. The HVB Group also offers selected capital market products through branches in North America and Asia.

#### **Real Estate Restructuring**

The Real Estate Restructuring business segment has been formed by transferring the workout portfolios from the entire German real estate finance business of HVB to the new Real Estate Restructuring business segment together with the remaining portfolios of the Real Estate Workout segment. It was set up as of December 31, 2004 to eliminate risks more rapidly. HVB has stated that its aim is to make the portfolio



marketable and to completely eliminate it without disrupting the market, by exploiting various options and the opportunities arising from the future development of real estate markets.

To facilitate the rapid reduction of these portfolios, the valuation method for real estate collateral was changed. In contrast to the previous approach which, in many instances, aimed to restructure the individual exposures, sometimes in the long run, before returning them to regular treatment, the valuation of real estate collateral is now made at liquidation value. The change in valuation increases the marketability of this portfolio with the aim of more rapidly releasing regulatory capital and easing the pressure on refinancing and costs.

To take account of the change in the valuation approach and enable a reduction also through disposals without incurring any losses, an allocation to special provisions for bad debts of €2.5 billion was necessary for this segment in the 2004 consolidated financial statements of the HVB Group. This has led to a significant increase in the coverage ratio.

In the first six months of 2005, the new business segment “Real Estate Restructuring” reported operating revenues of €73 million, an operating profit of €19 million and a net loss before taxes of €48 million. Figures for operating revenues and general administrative expenses remained largely stable compared with the adjusted prior year figures. As no further loan-loss provisions were to be made for the loan portfolios allocated to this segment in 2005, the segment reported an operating profit of €19 million for the first six months of 2005 (after an operating loss of €418 million (adjusted) for the first six months of 2004).

**Principal Markets**

The HVB Group is one of the major banks in Europe and its core markets are Germany, Austria and Central and Eastern Europe. The HVB Group also has a strong presence in Russia and the Baltic states and has offices in the world’s main financial centers. Its market position has been reinforced by countries like Poland, the Czech Republic, Slovakia, Hungary, Slovenia, and the Baltic states joining the European Union.

**ADMINISTRATIVE, MANAGEMENT, AND SUPERVISORY BODIES****General**

Like all German stock corporations, HVB has a two-tier board system. The Management Board (*Vorstand*) is responsible for management and the representation of HVB with respect to third parties. The Supervisory Board (*Aufsichtsrat*) appoints and removes the members of the Management Board and supervises the Management Board’s activities.

The members of the Management Board and the Supervisory Board of HVB may be reached at the bank’s business address (Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Kardinal-Faulhaber-Strasse 1, 80333 Munich, Germany).

The composition of the Management Board and the Supervisory Board of HVB and the principal occupations of the members of its Supervisory Board are as follows:

**Management Board**

- Johann Berger
- Dr. Stefan Jentzsch
- Dr. Michael Kemmer
- Christine Licci
- Michael Mendel
- Dieter Rampl
- Dr. Wolfgang Sprißler

## Supervisory Board

Name	Principal Occupation
Dr. Dr. h.c. Albrecht Schmidt, Chairman .....	Former Spokesman of the Management Board of HypoVereinsbank
Peter König, Deputy Chairman <sup>(1)</sup> .....	Employee of HypoVereinsbank
Dr. Hans-Jürgen Schinzler, Deputy Chairman ..	Chairman of the supervisory board of Münchener Rückversicherungs-Gesellschaft AG
Dr. Dieter Münich <sup>(2)</sup> .....	Lawyer
Dr. Mathias Döpfner .....	Chairman of the management board of Axel Springer AG
Volker Doppelfeld .....	Member of the supervisory board of BMW AG
Klaus Grünewald <sup>(1)</sup> .....	Head of Department, Regional Division of Bavaria (Landesbezirk) of verdi e.V.
Anton Hofer <sup>(1)</sup> .....	Employee of HypoVereinsbank
Max Dietrich Kley .....	Member of the supervisory board of BASF AG
Friedrich Koch <sup>(1)</sup> .....	Employee of HypoVereinsbank
Hanns-Peter Kreuser <sup>(1)</sup> .....	Employee of HypoVereinsbank
Dr. Lothar Meyer .....	Chairman of the management board of ERGO Versicherungsgruppe AG
Herbert Munker <sup>(1)</sup> .....	Employee of HypoVereinsbank
Gerhard Randa .....	Executive Vice President, Planning, of Magna International Inc.
Prof. Dr. Wilhelm Simson .....	Member of the supervisory board of E.ON AG
Prof. Dr. Dr. h.c.Hans-Werner Sinn .....	President of the ifo-Institute for Economic Research
Maria-Magdalena Stadler <sup>(1)</sup> .....	Employee of HypoVereinsbank
Ursula Titze <sup>(1)</sup> .....	Employee of HypoVereinsbank
Jens-Uwe Wächter <sup>(1)</sup> .....	Employee of HypoVereinsbank
Helmut Wunder <sup>(1)</sup> .....	Employee of HypoVereinsbank

(1) Employee representative.

(2) Former Chief Legal Counsel of HVB Group, now in retirement.

HVB reported that as of the date when it last had to publish this information in accordance with applicable securities laws, the above mentioned members of the Board of Directors and members of the supervisory board of HVB did not have potential conflicts of interests between any duties to HVB and their private interests or other duties.

## Major Shareholders

The German Securities Trading Act (*Wertpapierhandelsgesetz*) requires each investor whose investment in a German stock corporation listed on the official market of a German or European Economic Area stock exchange (including HypoVereinsbank) reaches, exceeds or falls below any of the thresholds of 5%, 10%, 25%, 50% or 75% of the voting rights of such stock corporation to notify such stock corporation and the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) promptly, but in any event within seven calendar days. HVB has been informed of the following shareholdings exceeding the relevant thresholds pursuant to the Security Trading Act:

Shareholder	Shareholdings (as a percentage of HypoVereinsbank's share capital)	Shareholdings (as a percentage of HypoVereinsbank's ordinary bearer shares)
Münchener Rückversicherungs-Gesellschaft AG (in part, indirectly through subsidiaries) .....	18.40 <sup>(1)</sup>	18.76

(1) Pursuant to a notification in compliance with WpHG dated March 31, 2004.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial data presented below are derived from and should be read in conjunction with, the HVB Group financial statements and the HVB Group unaudited interim financial statements for the relevant periods presented. The HVB Group financial statements as of and for the years ended December 31, 2004 and 2003 have been audited by KPMG.

## Effect of Applying New and Revised IFRS

The new and revised IFRS are to be applied for the first time from January 1, 2005. The initial use is generally applicable retrospectively, meaning the standards are applied as if they had always been



applicable. In its interim report for the first six months of 2005, the HVB Group has restated the comparative figures for financial year 2004 to reflect the new accounting standards. The HVB Group has reported that the application of the new and revised IFRS standards will have the following material impact on its balance sheet and income statement for 2004:

- Minority interest will be shown as a separate sub-item under shareholders' equity. Thus, the amount involved is disclosed within shareholders' equity separately from the shareholders' equity attributable to shareholders of HVB. Consequently, total shareholders' equity at December 31, 2004 increased by minority interests totaling €2,509 million.
- Financial assets are to be divided into four categories and measured in accordance with this classification. The "at fair value through profit or loss" category is divided into two subcategories. Generally, it is now also possible to designate all financial assets as at fair value through profit or loss upon initial recognition as well as financial assets held for trading. Such assets are measured at fair value and disclosed in profit or loss in the income statement. Due to the so-called EU endorsement, this option does not currently exist for financial liabilities. Although a designation made in the past is normally irrevocable, the revised IAS 39 permits reclassification when it is first applied. The HVB Group has generally only classified financial assets as to be measured at fair value through profit or loss for hedges. On account of the initial application of the new IAS 39, the cash reserve has declined by €578 million as treasury bills of Bank BPH Spółka Akcyjna have been re-designated under the fair value option. In this context, Bank BPH Spółka Akcyjna has reclassified the treasury bills as investments. Thus the reduction in the cash reserve is matched by a rise in investments of the same amount.
- The definition of objective evidence of impairment has been expanded, primarily for equity instruments (essentially shares) classified as "available for sale" under IFRS ("AfS"). Among other things, a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is objective evidence of impairment. By way of contrast with the previous approach, the two leading indicators are now to be evaluated separately from each other. Due to the retrospective application of this new regulation, HVB has written down shareholdings, primarily in Münchener Rück AG, by a total of €182 million for 2004. This results in a reduction in net income from investments and an increase in the AfS reserve by this amount for 2004.
- Under the revised IFRS, reversals of impairment losses on AfS equity instruments must be recognized in the AfS reserve under shareholders' equity without affecting reported profit or loss. The AfS reserve is to be reversed as profit or loss when the asset is de-recognized, enabling the correspondingly adjusted gain or loss on disposal to be reflected in the income statement. Write-ups totaling €36 million recognized in profit or loss in 2004 have been reversed accordingly and the corresponding amount has been included in the AfS reserve. At the same time, there was an increase in net income from investments on account of the disposal of HVB Group's investment in Brau und Brunnen AG in 2004, after write-ups taken in profit and loss in previous years had to be eliminated to reflect the new rule as mentioned above. As a result of the revision of this standard, net income from investments increased by an aggregate of €23 million and the AfS reserve by an aggregate of €42 million.
- Where there is no evidence of impairment of financial assets carried at cost examined individually, such assets are to be combined to form groups with the same credit risk characteristics. A method for calculating impairment due to these risks inherent in financial assets carried at amortized cost is prescribed in IAS 39. According to this method, future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historic loss experience. This historic loss experience is to be used to record an impairment in a portfolio loss for incurred but not reported losses. This change served to increase loan-loss provisions at HVB's Bank Austria Creditanstalt subsidiary by €113 million retrospectively at December 31, 2003. Of this total, €18 million has been reversed retrospectively for 2004.
- Under the revised IAS 28, the financial statements of companies valued at equity are, without exception, to be adjusted to reflect uniform group accounting policies. The necessary adjustments result in an increase in investments in companies valued at equity and consolidated shareholders' equity at December 31, 2004. The goodwill on companies valued at equity is now carried under investments in the balance sheet instead of intangible assets.

**Income Statement Data<sup>(1)</sup>**

	Six months ended June 30, 2005 (unaudited)	Year ended December 31, 2004 after adjustment <sup>(2)</sup>	Year ended December 31, 2004 before adjustment <sup>(2)</sup>	Year ended December 31, 2003
	(€ millions)			
Net interest income .....	2,897	5,662	5,656	5,881
Provisions for losses on loans and advances .....	649	1,795	1,813	2,313
Net interest income after provisions for losses on loans and advances .....	2,248	3,867	3,843	3,568
Net commission income .....	1,521	2,845	2,845	2,795
Trading profit .....	423	728	718	820
General administrative expenses .....	3,223	6,118	6,118	6,371
Balance of other operating income and expenses .....	(9)	101	101	620
Operating profit (loss) .....	960	1,423	1,389	1,432
Net income from investments .....	84	(64)	102	(1,806)
Amortization of goodwill .....	—	165	165	1,134
Additions to restructuring provisions .....	—	250	250	—
Allocation to special provisions for bad debts .....	—	2,500	2,500	—
Balance of other income and expenses .....	(73)	(357)	(357)	(638)
Profit (loss) from ordinary activities/net income (loss) before taxes .....	971	(1,913)	(1,781)	(2,146)
Taxes on income .....	267	224	211	296
Net income (loss) after taxes .....	704	(2,137)	(1,992)	(2,442)
Minority interest in income (loss) .....	(138)	(288)	(286)	(197)
Net income (loss) adjusted for minority interest .....	566	(2,425)	(2,278)	(2,639)
Transfers to (from) retained earnings .....	— <sup>(3)</sup>	(2,425)	(2,278)	(2,639)
Consolidated profit (loss) .....	566	—	—	—

HVB did not generate any profit available for distribution in 2004. Hence no dividend was paid for the 2004 fiscal year.

(1) Derived from HVB Group's audited annual financial statements for the year 2004 (regarding 2003 and 2004 figures) and HVB Group's unaudited interim financial statements as of June 30, 2005.

(2) 2004 figures adjusted to reflect new and revised IFRS which are to be applied as of January 1, 2005.

(3) Transfers to (from) retained earnings are only carried out in the annual financial statements.

Balance Sheet Data<sup>(1)</sup>

	As of June 30, 2005 (unaudited)	As of December 31, 2004 after adjustment <sup>(2)</sup>	As of December 31, 2004 before adjustment <sup>(2)</sup>	As of December 31, 2003
	(€ millions)			
<b>Assets</b>				
Cash reserve .....	5,872	6,903	7,481	5,708
Assets held for trading purposes .....	103,334	91,711	91,726	80,462
Placements with, and loans and advances to, other banks .....	51,862	47,479	47,479	52,842
Loans and advances to customers .....	281,765	275,119	275,119	283,525
Allowances for losses on loans and advances .....	(13,858)	(13,404)	(13,315)	(11,361)
Investments .....	46,801	44,483	43,648	53,000
Property, plant and equipment .....	2,809	2,855	2,855	3,001
Intangible assets .....	2,671	2,627	2,799	2,721
Income tax assets .....	4,047	4,157	4,133	4,072
Other assets .....	7,442	5,455	5,483	5,485
<b>Total assets .....</b>	<b>492,745</b>	<b>467,385</b>	<b>467,408</b>	<b>479,455</b>
<b>Liabilities and Shareholders' Equity</b>				
Deposits from other banks .....	109,428	103,606	103,606	112,964
Amounts owed to other depositors .....	152,747	144,451	144,451	140,312
Promissory notes and other liabilities evidenced by paper .....	111,092	109,562	109,562	122,728
Liabilities held for trading purposes .....	68,144	59,831	59,861	55,233
Provisions .....	4,514	4,460	4,460	4,293
Income tax liabilities .....	3,069	3,030	3,010	2,554
Other liabilities .....	10,091	10,015	10,004	9,400
Subordinated capital .....	18,299	18,454	18,454	19,183
Minority interest .....	*	*	2,515**	2,476**
Shareholders' equity .....	15,361	13,976	11,485	10,312
Shareholders' equity attributable to shareholders of HypoVereinsbank .....	12,357	11,467	**	**
Subscribed capital .....	2,251	2,252	2,252	1,609
Additional paid-in capital .....	9,099	9,103	9,331	9,295
Retained earnings .....	—	—	—	—
Reserve arising from currency and other changes .....	281	227	227	(40)
Change in valuation of financial instruments .....	160	(115)	(325)	(552)
AfS reserve .....	409	354	132	326
Hedge reserve .....	(249)	(469)	(457)	(878)
Consolidated profit .....	566	—	—	—
Minority interest .....	3,004*	2,509*	**	**
<b>Total shareholders' equity and liabilities .....</b>	<b>492,745</b>	<b>467,385</b>	<b>467,408</b>	<b>479,455</b>

\* In the HVB Group's interim report for the first six months of 2005, "Minority interest" was reported as separate sub-item under "Shareholders' Equity"; see "Effect of Applying New and Revised IFRS".

\*\* Minority interests in the annual reports for the years ended December 31, 2003 and 2004 (after adjustment) are included in shareholders' equity.

(1) Derived from HVB Group's audited annual financial statements for the year 2004 (regarding 2003 and 2004 figures) and HVB Group's unaudited interim financial statements as of June 30, 2005.

(2) 2004 figures adjusted to reflect new and revised IFRS which are to be applied as of January 1, 2005.

**Capitalization of the HVB Group**

The following table sets forth the consolidated capitalization of the HVB Group as of June 30, 2005.

	in € million (except as otherwise indicated)
<b>Liabilities and Shareholders' Equity</b>	
Promissory notes and other liabilities evidenced by paper .....	111,092
Subordinated capital .....	18,299
Shareholders' equity .....	15,361
Shareholders' equity attributable to shareholders of HVB AG .....	12,357
Subscribed capital .....	2,251
Additional paid-in capital .....	9,099
Retained earnings .....	—
Reserve arising from currency and other changes .....	281
Change in valuation of financial instruments .....	160
Consolidated profit .....	566
Minority interest .....	3,004
Total capitalization .....	144,752
Regulatory Banking Capital and Capital Adequacy Ratios (BIS) <sup>(1)</sup>	
Equity funds:	
Core capital (Tier I) (€ billion) .....	15.7
Total equity funds (Tier I + Tier II + Tier III) (€ billion) .....	27.8
Risk-weighted assets (€ billion) .....	246.5
BIS core capital ratio (Tier I) (%) .....	6.4
BIS equity funds ratio (Tier I + Tier II + Tier III) (%) .....	10.0

(1) Figures are prepared in accordance with the BIS rules.

**Independent Auditors**

The independent auditors (*Wirtschaftsprüfer*) of HVB are KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Ganghoferstrasse 29, 80339 Munich, Federal Republic of Germany ("KPMG"). KPMG have audited the consolidated financial statements of the HVB Group and the non-consolidated financial statements of HVB as of and for the years ended December 31, 2004, 2003 and 2002 and have, in each case, issued an unqualified audit opinion thereon.

**LITIGATION AND OTHER PROCEEDINGS****Strukturvertrieb-Transactions**

HVB is involved in civil proceedings with numerous retail customers in Germany relating to financings of tax-driven real estate investments that were originated through external agents (*Strukturvertrieb*) primarily during the years 1989 through 1994. One of the main legal issues in dispute concerns the interpretation of German consumer protection laws, in particular, the provisions of the German Doorstep Transactions Rescission Act (*Haustürwiderrufs-Gesetz*, the "Act"), which implemented into German law the EU Council Directive 85/577 EEC of December 20, 1985 (the "Directive"). The Act grants a unilateral right of withdrawal at any time to a consumer who is party to a transaction that was initiated or concluded in a "doorstep situation", i.e., at the consumer's place of work or private residence or at a public place (other than at the specific request of the consumer), if the consumer was not notified in writing of his statutory right of withdrawal at the time of the transaction. Based on a decision of the European Court of Justice ("ECJ") of December 13, 2001, German courts apply the provisions of the Act also to real estate financing agreements. In so applying the Act, the Eleventh Senate of the German Supreme Court (*Bundesgerichtshof*, "BGH") which, among other things, is in charge of proceedings involving consumer loan agreements, has repeatedly confirmed its long-held view that the rescission of a real estate financing agreement pursuant to the Act will generally not affect the validity of the underlying real estate purchase agreement. Rather, the real estate financing agreement and the real estate purchase agreement have in general to be considered as distinct and separate contracts. Therefore, pursuant to the view of the Eleventh Senate, a customer of HVB who is able to prove that he entered into the financing agreement in a "doorstep situation" and did not receive the required written notice regarding his statutory right of withdrawal may rescind only the financing agreement and not the underlying real estate purchase agreement. The Eleventh Senate of the BGH has held repeatedly that as a result of such withdrawal, the customer will not be relieved from his obligations under the financing agreement in exchange for a transfer of title to the relevant real estate but will be obligated to repay the outstanding

principal of the loan plus interest at customary market rates to the lender. Furthermore, the Eleventh Senate has expressed the opinion that a customer may only rescind the financing agreement if and when the doorstep situation giving rise to the rescission right has been created either by the bank or at least with the bank's knowledge so that the creation of the doorstep situation falls within the bank's area of responsibility.

On July 29, 2003, the District Court of Bochum (*Landgericht Bochum*, "LG Bochum"), in proceedings involving a German bank other than HVB, referred four questions to the ECJ on the interpretation of the Directive and article 95(3) of the EC Treaty in connection with real estate financing agreements. In particular, the ECJ has been asked to examine whether the interpretation of German law by the Eleventh Senate of the BGH, according to which a consumer who has entered into a real estate financing transaction in a "doorstep situation" may withdraw from the financing agreement but not the purchase agreement complies with European consumer protection principals set forth in the Directive and article 95(3) of the EC Treaty.

At the date of this Prospectus, the proceedings before the ECJ are still pending. At the oral hearing, the ECJ has given no indication as to how it will decide the legal questions presented to it. In his closing statement of September 28, 2004, the Attorney General of the ECJ pointed out that under European law and contrary to the view held by the LG Bochum the rescission of the real estate financing agreement does not in any way affect the validity of the purchase agreement. Furthermore, the Attorney General dismissed the questions raised by the LG Bochum concerning the effects of the repayment of the loan and the calculation of interest thereon on consumers as inadmissible because the LG Bochum failed to provide sufficient reasons as to why those effects would violate European law. Subsequent to the ECJ-referral decision of the LG Bochum, the Eleventh Senate of the BGH has issued decisions stating that since the Eleventh Senate considers the relevant provisions of German law as clear and unequivocal, the Eleventh Senate of the BGH does not see itself in a position to change its current ruling practice, even if the ECJ were to issue a decision inconsistent with the Eleventh Senate's view. It is not possible to predict whether the Eleventh Senate of the BGH will be able to uphold this opinion if the ECJ actually were to render such judgment. Even if the ECJ were to find the relevant decisions of the Eleventh Senate of the BGH to be in violation of European law and the Eleventh Senate were to change its current ruling practice as a consequence thereof, this would not change the need for every customer invoking such rulings of the ECJ and the Eleventh Senate to prove the existence of a "doorstep situation".

On May 27, 2004, the Higher District Court of Bremen (*Hanseatisches Oberlandesgericht Bremen*, "OLG Bremen") has issued ECJ-referral decisions in three cases none of which involves HVB. The questions raised in these referral decisions are to a large extent identical with those contained in the referral decision of the LG Bochum. In addition, the OLG Bremen requests the ECJ's opinion on whether the ECJ concurs with the opinion of the OLG Bremen that the Eleventh Senate of the BGH does not act in compliance with the Directive 85/577 EEC when it holds that the financing agreement may only be rescinded if the creation of the underlying "doorstep situation" falls within the bank's area of responsibility. In his closing statement of June 2, 2005, the Attorney General of the ECJ pointed out that according to European law the right to rescind the real estate financing agreement also applies to cases where a third person acting in the name and on behalf of the bank was involved in negotiating or concluding the real estate financing agreement, irrespectively of whether the bank knew of the activities of such third person. Furthermore, the Attorney General stated that European law does not prevent national legislators from providing for a legal obligation pursuant to which in the case of a withdrawal from the real estate financing agreement the loan, including any statutory interest, must be immediately repaid to the bank. According to the statement of the Attorney General, however, for as long as the borrower has not been informed of his or her right of withdrawal, the bank may not demand payment of interest for late payment. The opinion of the Attorney General is not binding for the ECJ. In the past, the Eleventh Senate of the BGH repeatedly held that it was prevented from changing its long-held view, according to which the bank is entitled to interest at customary market rates for late payment by virtue of the relevant provisions of German law that are clear and unequivocal, leaving no room for interpretation. It is not possible to predict whether the Eleventh Senate of the BGH will be able to uphold this opinion if the ECJ actually were to follow the statement of the Attorney General.

The lawsuits pending against HVB involve, *inter alia*, financing agreements which were signed by third parties (fiduciaries) authorized by the customers to act in their name and on their behalf, rather than by the customers themselves. Several Senates of the BGH have recently held that third party (fiduciaries) which engage exclusively or mainly in the handling of real estate purchase transactions without permission to provide legal advice violate the German Act on Legal Advice (*Rechtsberatungsgesetz*). In those cases, the



power of attorney underlying a fiduciary's authorization is invalid. In accordance with the BGH's established decision practice, the contracts signed by such fiduciaries are nonetheless valid if it can be demonstrated that at the time of the conclusion of the agreement concerned the original or a notarized copy of the deed containing the power of attorney was presented to the bank. In the past, HVB was successful in providing such evidence in the majority of the relevant cases.

If HVB fails to provide such evidence, it may, according to the BGH's established decision practice, still be entitled to a repayment of the loan in question, if HVB can successfully invoke the doctrine of authorization by estoppel, i.e., if HVB can demonstrate that given the particular circumstances in which the financing agreements were concluded, HVB relied in good faith on the alleged authorization of the fiduciary acting on behalf of the customer.

If HVB is not able to prove the requirements for invoking the doctrine of authority by estoppel, the loan agreement with the customer is invalid. Therefore, HVB's claims for repayment of the funds advanced to the customer or, at the customer's direction, a third party under the invalid loan agreement can only be based on principles of statutory law, such as unjust enrichment.

In the event that the funds were advanced to a third party without corresponding instructions of the customer, HVB may have a claim for repayment against such third party.

In its decisions of April 20, 2004 which involved HVB, the Eleventh Senate of the BGH has, in general, reconfirmed these principles. In the cases decided by the Eleventh Senate, HVB was not able to provide evidence that the original power of attorney had been presented to it or that the requirements for invoking the doctrine of authority by estoppel were met. The Eleventh Senate of the BGH did not have to decide on the existence of any claim of HVB against the borrowers based on statutory law.

#### **Financing of Funds**

In a series of decisions dated June 14, 2004 in which HVB was not involved, the Second Senate of the BGH being responsible for civil law and in particular corporate law matters has addressed legal issues with respect to the financing of the participation of consumers in closed-end real estate funds. The Second Senate of the BGH denies – *inter alia* in its decision dated March 21, 2005 – the qualification of loans as mortgage-secured in cases where mortgages have been granted with respect to property of the fund prior to the borrower's participation in such fund as well as in cases where mortgages have been granted with respect to property of the customer at the time the loan facility was agreed on. The Second Senate's opinion deviates from the wording of the relevant law and from the opinion generally prevailing up to now among scholars and in court decisions (including decisions of the Eleventh Senate of the BGH that is the Senate responsible for banking matters), according to which the qualification as a mortgage-secured loan depends on the conditions of the loan agreement and not on the point in time when the mortgage has been granted. The Eleventh Senate of the BGH expressly upheld and confirmed this view in its decision of October 26, 2004.

In cases of a financing of the participation in a fund by a consumer through a loan which is not mortgage-secured, the BGH has strengthened the rights of customers against the lender. In cases where the financing and the participation constitute a so-called "linked transaction" (*verbundenes Geschäft*), the customer can raise objections against the repayment claim of such lender which he has due to a deception or wrongful advice (*Einwendungsdurchgriff*).

The BGH assumes the existence of a linked transaction where the lenders use the distributor who has arranged the participation in the fund for the purpose of concluding the loan agreement. This is the case when the distributor organizations which are mandated by the fund companies and initiators of funds arrange also the conclusion of the loan agreements using the standard forms of loan agreements of the relevant lender or when the lender uses standard forms of agreements used by the distributor and does not have any direct contact to the customer when concluding the loan agreement.

If the customer of a linked transaction is entitled to objections against the fund, its founding partners, initiators or persons responsible for the prospectus, which may lead to damage claims, the customer may, under narrow conditions, demand from the lender to put him or her in a position as if he or she had never participated in the fund. The customer may demand from the lender to repay principal and interest paid by the customer. The financial advantages resulting from the participation (tax savings, dividend payments) would be taken into account and the participation and the claims arising from the objections would have to



be transferred to the relevant lender. In some of the court decisions mentioned above, objections of customers were in the view of the BGH justified because the initiators of the funds had been convicted for fraud.

In the case where a loan which was not mortgage-secured was concluded in a doorstep situation and the customer was not properly advised with respect to his or her right of rescission (and may thus in some cases already for this reason be entitled to withdraw from the loan agreement), the Second Senate has stated that a lender may not claim repayment of the loan from the customer if the lender had any connection to the fund or to its distributor organization which exceeded the mere processing of payments and the loan was not disbursed to the customer but directly to the fund.

At this point in time, the number and volume of loans of HVB which are affected by the new decision of the BGH cannot be determined, because in the past there was no need to have data collected with regard to the above criteria and because determining as to whether there is a linked transaction and whether the customer can raise objections depends on the specific facts of the particular case which would have to be proven by the customer.

#### **Appointment of HVB's Auditors and Validity of Financial Statements**

In November 2002, the BGH held that the shareholders' resolution appointing HVB's auditors for financial year 1999 was invalid, because HVB had asserted claims, purportedly arising from another contractual relationship, against the auditors at the time of the resolution, giving rise to concerns with respect to the auditors' impartiality. Following the judgment of the BGH, the successful plaintiff filed a constitutional complaint (*Verfassungsbeschwerde*) with the German Federal Constitutional Court (*Bundesverfassungsgericht*).

Several shareholders of HVB initiated legal proceedings against HVB before the District Court of Munich (*Landgericht München I*) challenging the validity of the financial statements of HVB for financial year 2001, as well as various resolutions related thereto (such as the resolution on the distribution of dividends for 2001) adopted by HVB's shareholders' meeting in 2002. Furthermore, following the judgment of the BGH of November 2002 described above, these shareholders also challenged the validity of the financial statements for financial years 1999, 2000 and 2002. In March 2003, the court dismissed the complaints because it found them to constitute an abuse of rights. The plaintiffs appealed and, as part of the appeal, also challenged the validity of the appointment of HVB's auditors for financial year 2003. In September 2003, the Higher Regional Court of Munich (*Oberlandesgericht München*) dismissed the appeal. The shareholders filed various judicial remedies with several courts, *inter alia* with the BGH, claiming, *inter alia*, a breach of procedural rules. In November 2004, the BGH rejected such remedies as inadmissible.

#### **Spin-off of Certain Parts of HVB's Commercial Real Estate Business to Hypo Real Estate Group**

Certain shareholders of HVB have initiated legal proceedings against the shareholders' resolution approving the transfer of certain parts of HVB's commercial real estate business to the Hypo Real Estate Group by way of a spin-off before the District Court of Munich (*Landgericht München I*). On June 9, 2005 the District Court of Munich dismissed the claim; the judgment, however, is subject to appeal.

#### **Appointment of Shareholder Representatives on HVB's Supervisory Board**

In April 2004, the District Court of Munich (*Landgericht München I*) held that the election at the annual general shareholders' meeting on May 14, 2003 of the shareholder representatives on the HVB's supervisory board was invalid due to defects in the procedure by which the ten shareholder representatives were elected. The shareholder representatives were re-elected at the annual general shareholders' meeting on April 29, 2004.

After the resignation of a shareholder representative from the HVB's supervisory board in December 2003, one new shareholder representative was appointed by the Local Court of Munich (*Amtsgericht München*) in January 2004. One shareholder filed a complaint against this decision which was served upon HVB on November 22, 2004. The plaintiff's complaint against the appointment of this shareholder representative by court order was dismissed by the District Court of Munich (*Landgericht München I*) on February 24, 2005.

Upon the bank's application to also appoint the other nine shareholder representatives by court order in order to eliminate any legal uncertainty with respect to the validity of the election of such representatives on its supervisory board, the Local Court of Munich appointed these nine shareholder representatives by court order on February 17, 2004. On February 25, 2004, as a further precaution, the HVB's supervisory board confirmed those of its resolutions, including those passed by its committees, that had been adopted since

May 14, 2003 and were potentially affected by the legal proceedings challenging the validity of the election of the shareholder representatives. Therefore, even if certain resolutions adopted between May 14, 2003 and February 25, 2004 were void when originally adopted, such resolutions, in HVB's view, became effective upon their ratification by the bank's supervisory board on February 25, 2004.

The plaintiff's complaint against the appointment of the nine shareholder representatives by court order was dismissed by the District Court of Munich (*Landgericht München I*) on April 27, 2004. The plaintiff's further complaint against the aforementioned decision of the District Court of Munich (*Landgericht München I*) was dismissed by the Highest Court of Bavaria (*Bayerisches Oberstes Landesgericht in München*) on July 9, 2004, the further judicial remedy against the aforesaid decision on November 15, 2004. A further shareholders' complaint against the appointment of the nine shareholder representatives by court order on February 17, 2004 was dismissed by the District Court of Munich (*Landgericht München I*) on October 21, 2004; the shareholders' appeal against this decision was dismissed by the Highest Court of Bavaria (*Bayerisches Oberstes Landesgericht in München*) on February 4, 2005. A further shareholder's complaint against the appointment of the nine shareholder representatives by court order on February 17, 2004 was dismissed by the Higher Regional Court of Munich (*Oberlandesgericht München*) on May 13, 2005.

#### **Shareholder Complaints Against the Election of Shareholder Representatives on the Supervisory Board as well as the Election of the Auditors of HVB**

Those shareholders of HVB, who filed complaints against the appointment by court order of the shareholder representatives, also initiated legal proceedings against HVB at the District Court of Munich (*Landgericht München I*), challenging the validity of the re-election of the members of the supervisory board at the annual general shareholders' meeting on April 29, 2004, as well as other resolutions passed at this general shareholders' meeting, such as the validity of the appointment of HVB's auditors for financial year 2004. On June 9, 2005 the District Court of Munich dismissed the claims; the judgment, however, is subject to appeal.

Several shareholders initiated legal proceedings against HVB at the District Court of Munich (*Landgericht München I*), challenging the election of two members of the supervisory board as well as the election of one substitute member of the supervisory board and the appointment of HVB's auditors for financial year 2005 at the annual general shareholders' meeting on May 12, 2005. The plaintiffs' primary claim is that the appointment of the shareholder representatives on the supervisory board by the Local Court of Munich (*Amtsgericht München*) on February 17, 2004 as well as the re-election of the members of the supervisory board at the general shareholders' meeting on April 29, 2004 was void and concerns with respect to the auditors' impartiality have continued to exist since 1999.

Certain of the shareholders mentioned above have also requested cancellation of the increase of the share capital of HVB out of authorized capital by €643.2 million that was entered into the commercial register on March 1, 2004. The plaintiffs claim that due to the invalidity of the appointment by court order of the nine shareholder representatives on HVB's supervisory board the subsequent consent of the supervisory board to the capital increase out of authorized capital and, thus, the capital increase as such, were also invalid.

#### **Exclusion of Minority Shareholders of Vereins- und Westbank AG – Award Proceedings**

The extraordinary shareholders' meeting of Vereins- und Westbank AG ("VuW"), held on June 24, 2004, resolved upon the transfer of the shares of the minority shareholders to HVB against payment of a cash compensation of €25.00 per outstanding share of VuW. Various shareholders of VuW initiated legal proceedings at the District Court of Hamburg (*Landgericht Hamburg*), challenging the validity of the said resolution. By way of mutual agreement, HVB, after having joined the action for the purpose of a settlement, increased the cash payment to €26.65 for each outstanding share of VuW. Upon registration of the transfer resolution in the commercial register of VuW on October 29, 2004 all shares of the minority shareholders of VuW passed to HVB. Following the aforementioned registration, various shareholders, considering the amount of the increased cash compensation to be insufficient, filed actions with the District Court of Hamburg (*Landgericht Hamburg*), asking the court to determine an adequate (higher) amount of the cash compensation in so-called award proceedings (*Spruchverfahren*). The appropriateness of the cash compensation was evaluated and substantiated by external auditors and reviewed by an independent auditor appointed by court.

#### **Claw-Back Claims by Insolvency Administrator against HVB as Member of a Syndicate of Banks**

In 2002 a corporate customer of HVB filed a petition for insolvency proceedings; following the commencement of such insolvency proceedings, the insolvency administrator asserted claw-back claims

against a syndicate of banks of which HVB was a member. HVB accounted for approximately 9.25% of the syndicate's total outstanding credit facilities. The syndicate banks retained an expert in insolvency law to examine all questions relating to the potential claim of the insolvency administrator; the expert found the legal position of the insolvency administrator not to be very strong and advised the syndicate banks to reject the asserted claims. No court proceedings have been filed yet. HVB has stated that in its view, any legal proceedings initiated by the insolvency administrator, if adversely determined, may result in a maximum liability of HVB in a low triple-digit millions amount of euros.

**European Antitrust Proceedings and Claims of Austrian Consumer Protection Associations**

In December 2001, the European Commission imposed fines in the aggregate amount of approximately €31 million on HVB and its subsidiary Vereins und Westbank for alleged illegal fixing of the fees charged for the exchange of the national currencies of those countries that were to become members of the European Monetary Union. Similar fines were imposed on three other German banks. HVB's appeal against the European Commission's decision with the European Court of First Instance was successful and as a result, the Commission's decision (including the fine) was quashed. The European Commission has appealed the judgment. In June 2002, the European Commission imposed a fine in the amount of approximately €30 million on Bank Austria Creditanstalt for alleged illegal fixing of interest rates, prices of several banking products for retail customers as well as other terms. Similar fines in an aggregate amount of approximately €94 million were imposed on seven other Austrian banks. Bank Austria Creditanstalt challenged the imposition and the amount of the fine before the European Court of First Instance. Although the fine imposed on the HVB Group will likely not be material to the financial position or results of operations of the HVB Group, the affirmation of the European Commission's decision by the European Court of First Instance could have a negative impact on the HVB Group's reputation among its customers, which could in turn adversely affect HVB Group's business and results of operations.

Certain Austrian consumer protection associations and politicians have announced that claims for damages against the banks involved in the proceedings described above, including Bank Austria Creditanstalt, are under consideration. HVB believes that, as a legal matter, it is uncertain whether a violation of article 81 of the EC Treaty may give rise to private claims for damages by individual customers. As at the date of this Prospectus, no actions have been filed against Bank Austria Creditanstalt on this basis. Austrian consumer protection associations have alleged that banks in Austria have been charging their customers excessive interest and fees in contravention of Austrian consumer protection laws. Whether and to what extent such claims are justified depends on the individual circumstances and various legal issues which to date have not been finally resolved by the Austrian courts. In view of the uncertain legal situation, the Austrian Savings Banks Association entered into two settlement arrangements with Austrian consumer protection associations. In order to avoid litigation with customers or consumer protection associations or both, Bank Austria Creditanstalt declared that it will act in accordance with the settlement arrangements. However, other Austrian credit institutions are still involved in civil proceedings, and court decisions rendered against those credit institutions may have adverse consequences for the entire banking industry in Austria.

**Proceedings Relating to the Restructuring of Pension Benefit Plans**

On account of the restructuring of company pensions effected in 1999, legal proceedings were instituted against Bank Austria by certain former employees. In 1999, Bank Austria, the former Creditanstalt AG and other Austrian savings banks outsourced their company pensions (retirement benefits) for employees retiring from January 1, 2000 onwards to two external pension funds as service providers by converting at the same time direct retirement benefits to pension fund benefits based on defined contributions. The vast majority of pension rights of active employees of Bank Austria and Creditanstalt AG were either outsourced under company agreements based on collective settlements in the savings bank sector or through individually contracted agreements. For employees whose entitlements to a company pension were outsourced, this meant a conversion of their rights to a company pension from their retirement date directly from Bank Austria to a right to a share in (and consequently the investment performance of) a pension fund. Bank Austria and Creditanstalt AG made a gross payment of approximately €690 million to the external pension funds in view of their assumption of liability for the period until January 1, 2000, and agreed to pay current pension fund contributions only thereafter.

The worldwide slumps of the capital markets since 1999 as well as the resulting weak performance of pension funds resulted in the fact that the performance of the pension funds did not match the assessment that had been assumed within the scope of the outsourcing. On account of the consequential cuts in company pensions, legal proceedings against Bank Austria were instituted by former employees. The claims demanded

compensation for current and future losses incurred as a result of the weak performance of the pension funds, as well as compensation for the benefits they would have been entitled to without the transfer of the pension rights to pension funds.

In June 2004, the Austrian Supreme Court stated in a test case initiated by the Federation of Austrian Trade Unions against the Federation of Austrian Savings Banks that the transfer of pension obligations to pension funds complied with applicable law as far as collective agreements were concerned and that there is no obligation on the part of Bank Austria to guarantee to employees benefits a particular amount of retirement benefits. Nevertheless, Bank Austria was mandated to make payments, in the form of a subsequent allocation, to employees who at the time of the transfer were about to enter retirement.

To comply with this obligation, Bank Austria made a subsequent allocation in a total amount of approximately €1.3 million (approximately 0.1% of the annual pension expenditure) to the about 150 employees who were considered by Bank Austria as “being shortly before retirement” at the time of the transfer of the pension benefit plans.

However, on account of different interpretations of which employees can be considered to be “shortly before retirement” and which method of calculation is to be applied for the determination of amounts to be subsequently allocated, legal action was taken against Bank Austria by employees as well as by the staff council. The risks associated with these proceedings are classified as low in view of the principles the Supreme Court established in the above-mentioned ruling.

There are other legal proceedings currently pending against Bank Austria instituted by certain former employees whose rights to a company pension were based on an individually contracted basis and who had agreed to the outsourcing of their pension rights on an individually contracted basis. The Supreme Court did not concern itself with the pension fund transferral based on individually contracted agreements. The outcome of the proceedings will also depend on whether the information given to former employees of Bank Austria and Creditanstalt AG prior to the outsourcing of their pension rights complies with the criteria the Supreme Court shall apply to the duty to furnish information. The determination for each of the former employees affected may therefore vary on a case by case basis, so that, at present, a general statement on the outcome of the proceedings is not possible.

#### **Treuhandanstalt Litigation**

Long-pending litigation exists involving purported claims of Treuhandanstalt, the predecessor of Bundesanstalt für vereinigungsbedingte Sonderaufgaben (“BvS”), against Bank Austria (Schweiz) AG, a former subsidiary of Bank Austria Creditanstalt. One of the claims in the proceedings, which were initiated by a claim lodged on June 29, 1994 at the Zurich district court, is that the former subsidiary participated in the embezzlement of funds of two companies based in the former German Democratic Republic (“GDR”). BvS seeks damages in the amount of approximately €128 million plus interest. Bank Austria Creditanstalt would be liable for the obligations of its former subsidiary. The proceedings before the Zurich district court were discontinued in 1997 until a final decision by the German administrative courts whether the appointment of BvS as a trustee for the companies based in GDR was legal. This was confirmed with respect to one of the two companies affected by the decision of September 23, 2003 of an Appellate Administrative Court (*Oberverwaltungsgericht Berlin*) and leave to appeal against this decision was denied in a decision of October 14, 2004 by the Federal Supreme Administrative Court (*Bundesverwaltungsgericht*). An appeal against the latter decision was filed at the (German) Federal Constitutional Court (*Bundesverfassungsgericht*) in December 2004 by the company concerned and its former manager. Although the proceedings before the German administrative courts have been terminated with respect to one of the companies concerned, the Swiss proceedings are being continued. Swiss courts are not prejudiced by the decisions of German administrative courts; rather, they will independently assess and decide the preliminary questions at issue.

#### **Other Proceedings**

In December 2002, Bank Austria Creditanstalt was named (among others) as defendant in an action brought by Constellation 3D, Inc. (a debtor in Chapter 11 proceedings) in the U.S. Bankruptcy Court for the Southern District of New York. The plaintiff is claiming from Bank Austria Creditanstalt an amount of up to US\$45 million as compensation for offences allegedly committed in connection with a loan contract between the pre-petition principal shareholder of the plaintiff and a prospective investor. The charges include, among others, negligent misrepresentation and fraud.



Two criminal investigations are underway in Russia concerning alleged tax evasion and illegal entrepreneurial activity purportedly engaged in by a former indirect subsidiary of Bank Austria Creditanstalt during the period of its ownership (mid-1996 to 2000). The investigations also concern a company in which Bank Austria Creditanstalt's subsidiary had an approximately 25% shareholding.

In April 2002, B.I.I. Creditanstalt International Bank Ltd. (Cayman Islands) initiated provisional liquidation proceedings in the Cayman Islands due to losses incurred in the financial crisis in Argentina. Bank Austria Creditanstalt owned a 50% interest in the company at that time. A Scheme of Arrangement for the Cayman Islands company was approved by its creditors in December 2002 and confirmed by the competent Cayman Islands court in January 2003. Some creditors of the company, whose aggregate deposits totaled US\$34 million at the time of the initiation of the liquidation proceedings, have informed Bank Austria Creditanstalt and HVB that they are of the opinion that Bank Austria Creditanstalt and certain other parties can be held liable under Argentine law for the Cayman Islands company's unpaid liabilities. Currently, the purported facts put forward by such creditors, and on which the claims in respect of such liabilities are based, are being examined in Argentina and in the Cayman Islands. Further, discussions are held with the creditors. As of the date of this Prospectus, none of the creditors of the company has initiated any legal proceedings against the HVB Group. While the discussions mentioned above are pending, the statute of limitation has been suspended. To reduce uncertainties and avoid potential litigation and other costs, HVB has offered to the creditors of the Cayman Islands company in connection with the scheme of arrangement to enter into an assignment and release agreement whereby the participating creditors, among other things, waive all claims against Bank Austria Creditanstalt and certain other parties. At this time, the estimated maximum amount of creditors' claims that are not covered by the assignment and release is US\$65 million not including interest accrued since the commencement of the liquidation proceedings. This amount will be reduced by the proceeds of the liquidation proceedings of the Cayman Islands company to be distributed to its creditors under the Scheme of Arrangement, which provides for a dividend of 60% of the proceeds of the assets to be paid to the creditors of the Cayman Islands company out of the liquidation of the company's assets.

In December 2003, Guernsey-based Duferco Participants Holding Ltd. initiated arbitration proceedings against Bank Austria Creditanstalt in connection with a syndicated trade finance facility for bankrupt Sartid International SA. (former subsidiary for distribution purposes of the Serbian steel company Sartid AD). The facility had been arranged by a subsidiary of Bank Austria Creditanstalt and in respect of which Duferco Participations Holding Ltd. had acted as guarantor. Duferco Participations Holding Ltd. claimed total damages of approximately US\$35 million plus interest, alleging that Bank Austria Creditanstalt's subsidiary failed to arrange adequate security for the facility. – In July 2005, the arbitration court decided to dismiss the claim nearly totally with the exception of a small amount of approximately US\$323,000 plus interest thereon. The period for filing challenges of the award is still open.

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## The Combined Group

*The following discussion of the Combined Group, including its strategy, expected synergies and integration costs, capital structure and management and governance structure, and the terms of the proposed Business Combination and the Offers (as previously defined in the Summary), contain forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those projected in these forward-looking statements. See “Forward-Looking Statements”.*

On June 12, 2005, the Bank and HypoVereinsbank entered into the Business Combination Agreement setting out the basic agreements and understandings of the Bank and HypoVereinsbank with respect to the combination of UniCredit Group’s and HVB Group’s businesses, the transaction structure, the future organizational and corporate governance structure of the Combined Group and the respective responsibilities of the Bank and Hypo Vereinsbank within the Combined Group.

### **STRATEGY OF THE COMBINED GROUP**

The Bank and HVB have agreed that the proposed Business Combination will be built on the presence of the Combined Group in Southern Germany, Austria and Northern Italy as well as the divisionalized structure already in place in certain geographic areas in which the UniCredit Group and the HVB Group operate. The objective of the proposed business combination is to create a new force in European banking with leading positions in multiple home markets, leadership in Central and Eastern Europe (“CEE”) as well as a balanced business portfolio and enhanced growth prospects.

The main strategic goals of the Combined Group are to:

- strengthen its competitive position in its markets of presence;
- maintain and leverage its leading market positions in key CEE markets;
- optimize and consolidate local entities and operations in CEE markets;
- exploit complementary strengths and critical mass in scale-driven business areas;
- focus on growth in selected regions and business areas;
- maximize revenue and cost synergies by sharing best practices;
- optimize brand portfolios and production capabilities;
- rationalize overlapping and duplicated functions; and
- implement a fully divisionalized business model.

### **BUSINESS AND ORGANIZATIONAL MODEL OF THE COMBINED GROUP**

The Combined Group’s business and organizational model will be based on a customer-centric approach based on:

- divisionalization by client segment aimed at increasing knowledge of customer needs, tailored service models and full management focus and accountability;
- a global banking services division operating as the Combined Group’s execution unit; the global banking services division shall improve the cost structure and internal processes of the Combined Group, provide group-wide services to all business lines and regional entities in the areas of human resources, IT, organization, operations, procurement, security and building/facility management; and
- a multi-local approach aimed at maintaining the main local legal entities already existing, tailored to the characteristics of each market and leveraging on already recognized brands.

The Combined Group intends to achieve these objectives through clear corporate governance rules, as further described below.



## SELECTED PRO FORMA FINANCIAL INFORMATION FOR THE COMBINED GROUP

*This section contains certain unaudited pro forma consolidated financial information for the Bank. This section describes the effects resulting from the proposed acquisition of all the shares of HVB through the Offers proposed by the Bank with regard to HVB, and the further effects of the Bank Austria Offer and the BPH Offer. The following information should be read in conjunction with the UniCredit Group's unaudited consolidated pro forma financial statements as of and for the year ending December 31, 2004 incorporated by reference in this Offering Circular.*

The tables and data below were derived from the following sources:

- (i) historical data contained in the consolidated financial statements of the UniCredit Group as of and for the year ended December 31, 2004;
- (ii) historical data contained in the consolidated financial statements of the HVB Group as of and for the year ended December 31, 2004 and, for certain specific items, from historical data in the consolidated financial statements of the Bank Austria Creditanstalt and Bank BPH Groups as of and for the year ended December 31 2004; and
- (iii) pro forma accounting entries necessary to account for the effect of the acquisition by the Bank of the shares of HVB, Bank Austria Creditanstalt and Bank BPH through the Offers and to conform with the accounting policies of the companies involved as described below.

Reclassifications were made to the above-mentioned financial statements to take into account some classification requirements of IFRS (for example on the reclassification of extraordinary income and expenses).

### Overview of Key Figures

	UniCredit Group as of and for the year ended December 31, 2004	HVB Group as of and for the year ended December 31, 2004	Consolidated pro-forma position as of and for the year ended December 31, 2004
		(unaudited) (€ millions)	
Net Interest Income.....	5,093	5,656	10,691
Total Revenues.....	9,957	9,219	19,133
Operating Profit.....	4,398	3,254	7,708
Profit from Ordinary Activities .....	2,969	(1,781)	1,613
Group portion of Net Profit / (Loss) for the Year .....	2,131	(2,278)	143
Assets Held For Trading .....	58,321	91,726	150,048
Due from Banks.....	36,512	47,479	83,992
Due from Customers .....	141,091	261,804	402,761
Total Assets .....	264,698	467,408	738,629
Due to Customers and Securities in Issue.....	156,746	254,013	410,646
Minorities Portion of Shareholders' Equity .....	1,129	2,515	1,788
Shareholders Equity .....	13,732	11,485	33,298
Consolidated Net Earnings Per Share (€) .....	0.34	(3.03)	0.01
Consolidated Net Equity Per Share (€).....	2.20	15.30	3.04

### PRO FORMA BALANCE SHEET AND INCOME STATEMENT DATA

#### Basis of Preparation

This section shows the effects resulting from the potential acquisition of the entire share capital of HVB via the HVB Offer, the potential acquisition of 22.5% of the share capital in Bank Austria Creditanstalt through the Bank Austria Offer and the potential acquisition of 29% of the share capital of Bank BPH through the BPH Offer, assuming that HVB does not tender shares held in Bank Austria Creditanstalt and Bank Austria Creditanstalt does not tender shares held in Bank BPH as part of the respective Offers.

With respect to the share-for-share offer and mandatory cash alternative offer made to the shareholders of Bank Austria Creditanstalt and Bank BPH, the following pro forma information assumes that each offer will consist wholly of a share-for-share exchange, taking into account that a share-for-share exchange is, based on current share prices, economically advantageous for the shareholders of both companies.

For the purposes of the pro forma information, the capital increase by the Bank, resulting from the share-for-share exchange offer made to HVB, Bank Austria Creditanstalt and Bank BPH, was based on a share price of €4.095, which is the price approved by the Bank's extraordinary shareholders' meeting on July 29, 2005.

Furthermore, in compiling the current tables and data, the accounting policies of the two Groups have been harmonized to the extent permitted by relevant information that could be derived from the financial statements of the HVB Group. In particular, it should be noted that the consolidated financial statements of the UniCredit Group as of and for the year ended December 31, 2004 were prepared in accordance with the provisions of the Legislative Decree of January 27, 1992, and in accordance with the instructions of Banca d'Italia. The European Commission has approved the mandatory introduction of International Accounting Standards/International Financial Reporting Standards (IAS/IFRS – "IFRS") issued by the International Accounting Standards Board (IASB) for listed companies on regulated European markets. The UniCredit Group must prepare its consolidated financial statements as of and for the year ended December 31, 2005 in accordance with IFRS.

As a result of the factors above, and considering that HVB has, in previous periods, prepared its consolidated financial statements in accordance with IFRS, in the preparation of the pro forma information set forth below, other than any adjustments necessary to reflect retrospectively the proposed transaction, adjustments have been made to financial information of the UniCredit Group in order to conform such information with IFRS applicable and as endorsed by the European Commission as of December 31, 2004. Accordingly, as provided by IFRS 1 "First time adoption of International Financial Reporting Standards", IAS 32 "Financial instruments: disclosure and presentation" and IAS 39 "Financial instruments: recognition and measurement" were not applied to the financial statements of the UniCredit Group for the financial year ended December 31, 2004, as application of IAS 32 and IAS 39 is mandatory only beginning with the financial year ended December 31, 2005. The relevant tax impact of the pro forma adjustments was included, where appropriate, on the basis of theoretically applicable tax rate as of December 31, 2004.

#### Pro Forma Consolidated Balance Sheet

Pro Forma Consolidated Balance Sheet as of December 31, 2004

	UniCredit Group as of December 31, 2004	HVB Group as of December 31, 2004	Pro Forma Adjustments	Consolidated Pro Forma Position as of December 31, 2004
<b>Assets</b>				
			(unaudited) (€ millions)	
Cash and Deposits with Central Banks and Post Offices ....	2,084	7,481	—	9,565
Assets Held For Trading.....	58,321	91,726	1	150,048
Due From Banks .....	36,512	47,479	1	83,992
Due From Customers .....	141,091	261,804	(134)	402,761
Equity Investments .....	13,534	43,648	(100)	57,082
Intangible Fixed Assets .....	334	788	(5)	1,117
Property, Plant and Equipment .....	2,250	2,855	656	5,761
Income Tax Assets .....	702	4,133	167	5,002
Goodwill and Positive Consolidation Differences .....	1,705	2,011	6,041	9,757
Other Assets .....	8,165	5,483	(104)	13,544
<b>Total Assets .....</b>	<b>264,698</b>	<b>467,408</b>	<b>6,523</b>	<b>738,629</b>

	UniCredit Group as of December 31, 2004	HVB Group as of December 31, 2004	Pro Forma Adjustments	Consolidated Pro Forma Position as of December 31, 2004
<b>Liabilities</b>				
		(unaudited) (€ millions)		
Due To Banks .....	37,703	103,606	108	141,417
Due To Customers And Securities In Issue .....	156,746	254,013	(113)	410,646
Liabilities Held For Trading .....	35,106	59,861	(1)	94,966
Reserves:				
– Reserve for Employee Severance Pay .....	1,026	—	(58)	968
– Provision For Risks And Charge .....	1,345	4,460	(101)	5,704
Income Tax Liabilities .....	860	3,010	50	3,920
Other Liabilities .....	10,510	10,004	413	20,927
Subordinated Debts .....	6,541	18,454	—	24,995
Minorities .....	1,129	2,515	(1,856)	1,788
Shareholders equity .....	13,732	11,485	8,081	33,298
<b>Total Liabilities and Shareholders Funds .....</b>	<b>264,698</b>	<b>467,408</b>	<b>6,523</b>	<b>738,629</b>

**Pro Forma Consolidated Income Statement**

	UniCredit Group as of December 31, 2004	HVB Group as of December 31, 2004	Pro Forma Adjustments	Consolidated Pro Forma Position as of December 31, 2004
		(unaudited) (€ millions)		
Interest Income And Similar Revenues .....	9,460	16,672	7	26,139
Interest Expense And Similar Charges .....	(4,647)	(11,553)	(62)	(16,262)
Dividends And Other Income From Equity Investments .....	280	537	(3)	814
Net Interest Income .....	5,093	5,656	(58)	10,691
Commission Income .....	4,454	3,472	26	7,952
Commission Expense .....	(575)	(627)	(4)	(1,206)
Net Commissions .....	3,879	2,845	22	6,746
Trading Profit / (Loss) .....	985	718	(7)	1,696
Net Non-Interest Income .....	4,864	3,563	15	8,442
<b>Total Revenues .....</b>	<b>9,957</b>	<b>9,219</b>	<b>(43)</b>	<b>19,133</b>
Operating Expenses: .....	(5,984)	(6,118)	46	(12,056)
– Payroll Costs .....	(3,401)	(3,514)	46	(6,869)
– Other Administrative Expenses .....	(2,074)	(2,029)	(3)	(4,106)
– Writedowns Of Tangible and Intangible Fixed Assets ..	(509)	(575)	3	(1,081)
Other Operating Income/Expense .....	425	153	53	631
<b>Net Operating Income .....</b>	<b>4,398</b>	<b>3,254</b>	<b>56</b>	<b>7,708</b>
Net Writedowns Of Loans .....	(892)	(4,313)	4	(5,201)
<i>Of Which Extraordinary Items</i> .....	—	(2,500)	—	(2,500)
Amortization Of Goodwill And Positive Consolidation Differences. ....	(276)	(165)	429	(12)
Net Profit From Investments .....	181	102	(54)	229
Provisions .....	(442)	(659)	(10)	(1,111)
<i>Of Which For Extraordinary Restructuring Charges</i> .....	(209)	(250)	8	(451)
Profit From Ordinary Activities .....	2,969	(1,781)	425	1,613
Income Taxes For The Year .....	(866)	(211)	(128)	(1,205)
Release Of Reserve For General Banking Risks And Bad Debt Reserve .....	197	—	(197)	—
<b>Net Profit .....</b>	<b>2,300</b>	<b>(1,992)</b>	<b>100</b>	<b>408</b>
Minority Interests .....	(169)	(286)	190	(265)
<b>Group Portion of Net Profit (Loss) For The Year .....</b>	<b>2,131</b>	<b>(2,278)</b>	<b>290</b>	<b>143</b>

## TRANSACTION STRUCTURE

### The Tender Offers

In the Business Combination Agreement, the Bank and HVB agreed on the terms and conditions of the HVB Offer, the Bank Austria Offer and the BPH Offer (such offers as previously defined in the Summary).

#### HVB Offer

In the Business Combination Agreement the Bank agreed to launch a voluntary share for share offer for all shares in HVB in accordance with the provisions of the German Takeover Act (“WpÜG”) based on the exchange ratio of five New UniCredit Ordinary Shares (as previously defined in the Summary) for each HVB share. Under the terms of the Business Combination Agreement the management board of HVB shall, and shall use its best efforts to procure that the supervisory board of HVB shall, as soon as practicably possible, but no later than two weeks after the publication of the offer documents relating to the HVB Offer, issue the statement pursuant to section 27 WpÜG in which the management board and the supervisory board of HVB, respectively, confirm that the terms of the HVB Offer are fair and reasonable for HVB’s shareholders and recommend to HVB’s shareholders to accept the HVB Offer, to the extent that such confirmation and recommendations are in compliance with the requirements applicable to the respective statements set forth in section 27(1) WpÜG and are otherwise within the limits of, and subject to, applicable law, in particular the management board’s and supervisory board’s fiduciary obligations to HVB. Following the launch of the HVB Offer on August 31, 2005, the management board of HVB issued a statement recommending that HVB shareholders accept the HVB Offer; on the same date, the supervisory board of HVB issued a statement expressing that it supports the transaction. Further, the Bank agreed to use its best efforts to ensure that each of its major shareholders will issue a positive support statement in favour of the proposed business combination. The Bank undertook to use its best efforts to list its ordinary shares on the Frankfurt stock exchange simultaneously with the completion of the HVB Offer.

Under the terms of the Business Combination Agreement the HVB Offer shall be subject solely to the conditions that regulatory approvals (banking supervisory and merger control clearances) have been obtained and a minimum acceptance level of 65% of the share capital has been reached.

#### Bank Austria Offer

In the Business Combination Agreement the Bank also agreed to launch a voluntary share for share offer for the shares in Bank Austria Creditanstalt with a cash alternative in accordance with the provisions of the Austrian Takeover Act. The Bank Austria Offer shall be based on an exchange ratio of 19.92 New UniCredit Ordinary Shares for each Bank Austria Creditanstalt share. The cash offer shall be made at the price of €70.04 per Bank Austria Creditanstalt share or any other price that the Bank considers appropriate to comply with minimum price requirements under applicable Austrian law. After consultation with the Austrian Takeover Commission, the cash offer to shareholders of Bank Austria was set at the price of €79.60 per share; the Austrian Takeover Commission indicated that this price would reflect *clausula rebus sic stantibus* the minimum requirements of the Austrian Takeover Regulations. HVB agreed not to tender its Bank Austria Creditanstalt shares in the Bank Austria Offer.

Under the terms of the Business Combination Agreement the Bank Austria Offer shall solely be subject to the conditions that regulatory approvals (banking supervisory and merger control clearances) have been obtained and the HVB Offer has been completed.

#### BPH Offer

Under the Business Combination Agreement, the Bank further agreed to launch a voluntary share for share offer for the shares in BPH with a cash alternative in accordance with the provisions of the Polish takeover rules. The Bank is currently in negotiations with the Polish authorities to determine an offer structure permitting the BPH Offer to be launched. Further, the parties agreed that the share offer shall be based on an exchange ratio of 33.13 New UniCredit Ordinary Shares for each Bank BPH share and that the cash offer shall be made at a price of Polish zloty 497.67 per Bank BPH share (it being understood that the consideration offered must comply with applicable Polish minimum price rules). Under the terms of the Business Combination Agreement HVB shall use its best efforts, within the limits of and subject to applicable law, to ensure that Bank Austria Creditanstalt does not tender its Bank BPH shares in the BPH Offer. The Bank undertook to list its ordinary shares on the Warsaw Stock Exchange simultaneously with the completion of the BPH Offer. Should the HVB Offer not be successful by year end 2005, the Bank and HVB shall negotiate in good faith the terms of a mutually acceptable and fair commercial transaction that will have the effect of unwinding the acquisition by the Bank of Bank BPH shares in the BPH Offer.

### **Timetable**

The HVB Offer and the Bank Austria Offer were both launched on August 26, 2005, and, unless extended in accordance with the applicable laws, the acceptance period for the HVB Offer will end on October 24, 2005, and that for the Bank Austria Offer will end on October 31, 2005. The BPH Offer is expected to be launched following approval of all relevant Polish authorities. However, given the uncertainties related to the timing of such approvals, the BPH Offer will probably follow a different timeline than that envisaged for the HVB Offer and the Bank Austria Offer.

The launch of the Offers requires the approval by the Bank's shareholders to increase the Bank's share capital, which has been granted by the Bank's extraordinary shareholders' meeting on July 29, 2005. Consummation of the Exchange Offers and delivery of the New UniCredit Ordinary Shares to the shareholders of HVB, Bank Austria Creditanstalt and/or Bank BPH having accepted the Exchange Offers are expected to occur after receipt of regulatory approvals (antitrust and banking supervisory approvals). Further, the HVB Offer will be subject to a minimum acceptance level of 65% of the share capital, and the Bank Austria Offer will be subject to the completion of the HVB Offer.

Under the Business Combination Agreement, the Bank has agreed, subject to successful completion of the HVB Offer and the BPH Offer, respectively, as described above, to apply for listing of all UniCredit Ordinary Shares on the official market (*Amtlicher Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), to the extent legally possible, and on the Warsaw Stock Exchange (*Giełda Papierów Wartościowych w Warszawie SA*). The listings are expected to occur on or around the respective dates of settlement of the HVB Offer and the BPH Offer.

## **ORGANIZATIONAL STRUCTURE AND GOVERNANCE OF THE COMBINED GROUP**

From an organizational point of view, the Combined Group shall include a holding company (the "Holding Company") that performs guidance and controlling functions for the Combined Group, such Holding Company being the Bank. The Combined Group's business divisions (namely Retail Banking Division, Corporate/SMEs Division, Multinationals/Investment Banking Division, Private Banking and Asset Management Division) shall also comprise specialized "product factories" dedicated to the product development of specific products related to specific divisions ("Product Factories"). From a geographical point of view, there shall be one or more regional entities for the areas in Germany, Austria, Italy and CEE and the organizational structure of the regional entities shall mirror, to the extent legally possible, the divisionalized structure of the Combined Group. Furthermore, a management committee will be established.

### **Holding Company**

The governance structure of the Holding Company will, in compliance with Italian corporate law, be based on a one-tier board system. In addition to its board of directors, the Holding Company will have a management committee, as described below.

### **Board of Directors**

Under the Articles of Association, the board of directors of the Bank (for purposes of this section "The Combined Group" only, the "Board of Directors") consists of nine to 24 members following the resolution passed by the Bank's extraordinary shareholders' meeting held on July 29, 2005 to amend the Articles of Association and to increase the maximum number of directors from 20 to 24.

Under the terms of the Business Combination Agreement, the Board of Directors shall consist of 24 members and as soon as practicably possible after the completion of the HVB Offer, eight HVB representatives shall become members of the Board of Directors. To this effect, as soon as the Board of Directors can determine the date of the completion of the HVB Offer, it shall call the ordinary general meeting of the Bank's shareholders to be held on a date which is as soon as practicably possible and in any event no later than 35 days after the completion of the HVB Offer ("Post-Completion Ordinary General Meeting"). By approving the Business Combination Agreement, all members of the Board of Directors are, under the terms of the Business Combination Agreement, deemed to have expressed their intention to resign from office at the Bank's extraordinary shareholders' meeting on July 29, 2005. The Bank shall use its best efforts so that all members of the Board of Directors will so resign at such shareholders' meeting, conditional upon and with effect as of, the completion of the HVB Offer. The Bank shall use its best efforts that at the Post-Completion Ordinary General Meeting 24 new directors proposed by the Board of Directors, including eight HVB Nominees shall be elected for a term of office of three years.



The Bank has agreed to use its best efforts to cause the Board of Directors immediately following the Post-Completion Ordinary General Meeting to elect Dieter Rampl as its non-executive Chairman. He shall be entitled to propose to the Board of Directors of the Bank a HVB nominee for appointment as director-in-charge who shall be authorized to take any actions in lieu of the Chairman in case that the Chairman at any point in time when the Chairman is responsible for taking any action under the Business Combination Agreement should temporarily be unavailable to take such action or, in case of termination of his office, not be succeeded by a Chairman who is also a HVB nominee. Should the size of the Board of Directors of the Bank be changed, the aggregate number of HVB nominees (including the Chairman) shall represent always at least one third of the members of the Board of Directors of the Bank.

On June 22, 2005, in accordance with the Business Combination Agreement, the Board of Directors of the Bank has adopted rules of procedure (*Regolamento*) to the effect that, conditional upon and with effect as of the completion of the HVB Offer, (i) the following matters require the consent of the Board of Directors and (ii) the necessary resolutions of the Board of Directors require the consent of 19 (out of 24) members of the Board of Directors (or, should the size of the Board of Directors be changed, 79% of the total number of directors):

- Any actions of the Bank that are contrary to the following features of the governance and the future structure of, and the responsibilities within, the Combined Group:
  - Eight (out of 24) members of the Board of Directors (or one third, in case that the size of the Board of Directors has changed, of the total number of directors) shall be HVB nominees.
  - One third of the total number of members of the executive committee and any other appropriate subcommittee of the Board of Directors shall be HVB nominees.
  - The director-in-charge shall assume all responsibilities of the Chairman under the Business Combination Agreement if and to the extent that the Chairman is no longer an HVB nominee or is otherwise not available to discharge his responsibilities.
  - The Chairman or the director-in-charge, as the case may be, shall have the right to make a proposal for a replacement of any HVB nominee on the Board of Directors, should the term of office of a HVB nominee expire or be terminated.
  - During a period of three years after the completion of the HVB Offer, the consent of the Chairman or the director-in-charge, as the case may be, shall be required with respect to any proposal of the CEO to terminate the office of a member of the management committee or the group management team, unless the Combined Group has not achieved the industrial plan (see “– Industrial Plan”) with respect to the most recent relevant period, in which case only consultation with the Chairman shall be required.
  - During a period of three years after the completion of the HVB Offer, the consent of the Chairman or the director-in-charge, as the case may be, shall be required with respect to any proposal of the CEO to appoint a replacement for any member of the management committee or the group management team whose office has been terminated (due to resignation, dismissal or for other reasons).
  - During a period of three years after the completion of the HVB Offer an agreement between the CEO and the Chairman or the director-in-charge, as the case may be, shall be required for any changes to (i) the composition of the management committee in terms of number of members and functions represented therein or (ii) the composition of the group management team in terms of number of members and functions represented therein.
  - HVB and Bank Austria Creditanstalt shall continue to exist as a fully operative German commercial bank or Austrian commercial bank, respectively, in each case in the legal form of an *Aktiengesellschaft*, except for a reorganization of the existing business activities of HVB and Bank Austria Creditanstalt into up to five separate legal entities that reflect the four business lines and the banking services lines, if any, for overreaching business needs of the Combined Group.



- The Bank shall not cause the sale, transfer or other disposal of (i) any of HVB's shares acquired through or in relation to the proposed Business Combination to a third party that does not belong to the Combined Group, (ii) any of HVB's business lines, or (iii) one or more assets or subsidiaries owned or held directly or indirectly by HVB that are of essential importance for any of the business lines of HVB Group in Germany or Austria, provided that (A) sub-clause (iii) shall not apply to a reorganization of the existing business activities of HVB into up to five separate legal entities that reflect the four business lines and the banking services line, if any, for overreaching business needs of the Combined Group and (B) sub clauses (ii) and (iii) shall not apply to (x) general reorganizations of the entire UniCredit Group involving the sale of certain business lines not only of the regional entities in Germany and/or Austria, but also of the other regional entities throughout the entire UniCredit Group and (y) disposals of non-performing or sub-performing loan portfolios; an asset or subsidiary shall be of "essential importance" within the meaning of sub-clause (iii) if its disposal would require the publication of an ad-hoc notice by HVB or Bank Austria Creditanstalt, as the case may be, within the meaning of Section 15 of the German Securities Trading Act (*Wertpapierhandelsgesetz*) or Section 48d of the Austrian Exchange Act (*Börsengesetz*), respectively.
- The Combined Group shall continue to use the current Bank, HVB and Bank Austria Creditanstalt brand names (including the current font types and colors), in the case of the HVB and Bank Austria Creditanstalt brand names, accompanied by the Bank logo and the addition "Member of UniCredit Group".
  - Relocation of the –
    - Corporates/SMEs Division (including related Product Factories) from Munich;
    - Multinationals/Investment Banking Division (including related Product Factories) from Munich; and
    - CEE Division from Vienna.
  - Any proposal to the Bank shareholders' meeting to eliminate, or change the functions of, the Management Committee (as defined below).

### Management Committee

Under the terms of the Business Combination Agreement, the Holding Company shall establish a management committee ("Management Committee") that advises the CEO and executes the management decisions made by the CEO in consultation with the Management Committee. On July 29, 2005, the extraordinary shareholders' meeting of the Bank resolved an amendment to the Articles of Association providing for, among other things, the establishment of the Management Committee and its function subject to completion of the Transaction. The CEO shall be the head of the Management Committee and shall be responsible for the management of the Combined Group by the Management Committee in accordance with the objectives and guidelines established by the Board of Directors. The members of the Management Committee shall be appointed by the Board of Directors. Their term of office may be terminated by the Board of Directors upon proposal by the CEO. The Management Committee shall be composed of the following members, with the initial members proposed, or as the case may be, to be proposed by HVB and/or the Bank as indicated below:

- CEO: Alessandro Profumo;
- CFO: Ranieri de Marchis;
- CRO: Dr. Michael Kemmer;
- Head of Retail Division: Roberto Nicastro;
- Head of Private Banking and Asset Management Division: Dario Frigerio;
- Head of Corporates/SMEs Division (to be jointly proposed by future Chairman and CEO);
- Head of Multinationals/Investment Banking Division: Dr. Stefan Jentzsch;

- Head of CEE Division: Dr. Erich Hampel;
- Head of Global Banking Services Division: Paolo Fiorentino;
- Integration Officer: Andrea Moneta; and
- Deputy Integration Officer: Franz J. Herrlein.

Under the Business Combination Agreement, the composition of the Management Committee in terms of number of members and functions represented therein shall be as set forth above for a period of three years after the completion of the HVB Offer, unless the CEO and the chairman or, as the case may be, the director-in-charge agree to propose changes thereto to the Board of Directors.

### Divisions

Under the terms of the Business Combination Agreement, the Combined Group shall comprise the following four business divisions: Retail Division; Corporates/SMEs Division; Private Banking and Asset Management Division; Multinationals/Investment Banking Division, and two organizational divisions: CEE Division and Global Banking Services Division.

Under the Business Combination Agreement, division heads (the “Division Heads”) shall head the four business divisions (Retail Division, Corporates/SMEs Division, Multinational/Investment Banking Division and Private Banking and Asset Management Division), the CEE Division and the Global Banking Services Division of the Combined Group. The Division Heads shall be fully responsible for the overall net results of their respective business divisions and shall report directly to the CEO of the Holding Company. Each Division Head shall be provided with the necessary and reasonable infrastructure (including personnel) which shall belong to the Holding Company from an organizational point of view, shall be based at the place where the principal functions of the relevant business division are located, but shall in any event be separate from the regional entity at such place.

### Regional entities

The regional entities represent the Combined Group in the various countries in which it operates. The main objectives of the management of each regional entity will be to:

- assume full responsibility for the overall net result of the relevant regional entity;
- support the relevant regional entity’s interests and achievement of its economic objectives and act as representative of the Combined Group vis-à-vis local authorities and key stakeholders;
- ensure compliance with local laws and regulations;
- adopt business models able to foster development and consolidation of significant competences and skills;
- develop and manage distribution structures able to allow an appropriate coverage of the local market and the creation of stable competitive advantages;
- maintain relationships with local authorities and key stakeholders;
- monitor local market developments and trends and share potential findings with business division heads;
- participate in management team meetings of the Combined Group;
- provide highly effective cost/income ratio and minimize the cost of risk and capital absorption; and
- provide strategic input with respect to external growth opportunities within the relevant geographic area.

### Group Management Team

The Business Combination Agreement provides also for the creation of a “Group Management Team”, whose features and functions must be set out in the Bank’s internal rules. The Group Management Team shall comprise the members of the Management Committee as well as the heads of the four business lines in Italy (upon proposal by the Bank), Germany (upon proposal by HVB), Austria (upon proposal by HVB) and Central Eastern Europe (HVB proposal in case of a CEE holding company; in the absence of a CEE holding

company, joint proposal of the head of the CEE Division and the relevant Business Division head), the heads of the Internal Audit, Legal, Corporate Identity and Strategic Human Resources departments of UniCredit (all these upon joint proposal of the Bank and HVB). The rules governing appointments and replacements, as well as those on changes to the composition and function of the Group Management Team, are similar to the rules adopted for the Management Committee illustrated above. More specifically, as regards the function of the Group Management Team, its members shall be responsible for certain guidance and controlling function with respect to the Combined Group, including relating to planning and financial matters, risk management, legal affairs, communication and brand management and human resources. The members of the Group Management Team shall also give guidance on these matters to the management of each regional entity.

#### **Product Factories**

In the Business Combination Agreement, the Bank and HVB have agreed that the product development for the Combined Group will be performed in Product Factories for each division.

The allocation of the Product Factories to the Combined Group's divisions contemplated under the Business Combination Agreement is as follows:

<b>Division</b>	<b>Allocated Product Factory</b>
Retail Division .....	— Residential Home Financing
	— Cards / Consumer Finance
Corporates/SMEs Division .....	— Commercial Real Estate
	— Leasing
Multinationals/ Investment Banking Division .....	— Investment Banking
Private Banking and Asset Management Division .....	— Asset Management
Global Banking Services Division .....	— Custody
	— Securities Settlement
	— Transaction Services
	— IT
	— Procurement and Purchasing
	— Property Management

Each Product Factory shall be allocated and shall report to a designated business division on the basis of its relevance for such business division's target customer base.

#### **Industrial Plan**

Further, the Bank and HVB have agreed on an industrial plan (the "Industrial Plan") for the Combined Group for the financial years 2006 and 2007, which defines specific goals. In case that the Combined Group has not achieved the Industrial Plan with respect to the most recent relevant period, the CEO may suggest to the Board of Directors to terminate the office of any member of the Management Committee and/or the Group Management Team without the consent of, but after consultation with, the Chairman. The requirement that the Chairman consent to any proposal of the CEO for a replacement for any member of the Management Committee or the Group Management Team whose office has been terminated (due to resignation, dismissal or for other reasons) shall remain unaffected.

#### **Target Structure and Responsibilities**

##### **Changes to the Structure of the Combined Group**

In the Business Combination Agreement the Bank and HVB have agreed that following the completion of the HVB Offer, the subsequent optimization steps to be decided upon may in particular include the:

- acquisition by the Bank of the Bank Austria Creditanstalt shares held by HVB as a result of which Bank Austria Creditanstalt will then be held directly by the Bank;
- acquisition by the Bank of the Bank BPH shares held by Bank Austria Creditanstalt as a result of which Bank BPH will then be held directly by the Bank;
- establishment by the Bank of a Central and Eastern European holding company, provided that it is efficient from a tax and capital point of view;
- acquisition by the CEE holding company, if any, of the Central and Eastern European companies held by Bank Austria Creditanstalt;

- contribution by the Bank of its Central and Eastern European entities to the CEE Holding Company, if any;
- merger of the former HVB and the Bank's Central and Eastern European entities in each Central and Eastern European country, where appropriate (before or after contribution to the Central and Eastern European Holding Company); and
- decision whether the current HVB asset management companies shall in the future also be held directly by the Bank's asset management sub-holding PGAM.

### HypoVereinsbank Legal Form; Listing; Status

In the Business Combination Agreement it has been agreed that HVB shall continue to exist as a fully operative German commercial bank in the legal form of an *Aktiengesellschaft*, unless the Bank decides that overreaching business needs of the Combined Group call for a reorganization of the existing business activities of HVB into up to five separate legal entities, each in the form of an *Aktiengesellschaft* that reflects the four business lines and banking services line, if any, to be established at the level of HVB after the completion of the HVB Offer. Further, for so long as the Bank holds less than 95% of the stated share capital of HVB, the HVB shares shall continue to be listed on the Frankfurt stock exchange. During the term of the Business Combination Agreement, the Bank shall not conclude a domination agreement within the meaning of section 291 of the German Stock Corporation Act or any similar provision under applicable local law with HVB or any other entity controlled by HVB.

Under the Business Combination Agreement, HVB shall be responsible for the Corporate/SMEs division which shall be based in Munich and the Multinationals/Investment Banking Division which shall also be based in Munich. The CEE Division, for which HVB shall also be responsible, shall be based in Vienna.

### Bank Austria Creditanstalt Legal Form

Under the Business Combination Agreement, Bank Austria Creditanstalt shall continue to exist as a fully operative Austrian commercial bank in the legal form of an *Aktiengesellschaft*, unless the Bank decides that overreaching business needs of the Combined Group call for a reorganization of the existing business activities of Bank Austria Creditanstalt into up to five separate legal entities, each in the form of an *Aktiengesellschaft* that reflects the four business lines and the Banking Services Line, if any, to be established at the level of Bank Austria Creditanstalt after the completion of the BA-CA Offer.

### HVB as Member of the UniCredit Group

Following completion of the HVB Offer, HVB and its subsidiaries will become members of the UniCredit banking group, with the Bank as lead bank (*Banca Capogruppo*) and Banca d'Italia as competent regulator responsible for the consolidated supervision of the Combined Group. Under the Business Combination Agreement HVB acknowledged, and undertook to use its best efforts to ensure that each of its subsidiaries acknowledges, that as a subsidiary of the Bank it will have to provide all information and reasonable assistance, within the limits of applicable laws, that are necessary to enable the Bank to comply with its regulatory obligations as Holding Company of the Combined Group and to facilitate Banca d'Italia's consolidated supervision of the Combined Group. As early as practicably possible, but in any event not later than the next ordinary general meeting of HVB's shareholders after completion of the HVB Offer, the management board of HVB shall propose an amendment to the articles of association of HVB, in compliance with article 61 para. 4 of the Italian Banking Law and the relevant implementing instructions of Banca d'Italia, stating that HVB belongs to the UniCredit banking group and it is subject to the consolidated supervision of Banca d'Italia. HVB undertakes to use its best efforts to ensure that each of its subsidiaries does the same.

### Composition of Supervisory Boards of HVB and Bank Austria Creditanstalt

Under the Business Combination Agreement, following completion of the HVB Offer, the Chairmen of, and the majority of the shareholder representatives on, the supervisory boards of HVB and Bank Austria Creditanstalt shall be representatives of the Bank. To this effect HVB shall use its best efforts to ensure that a majority of the shareholder representatives on the supervisory boards of HVB and Bank Austria Creditanstalt resign from their office with effect as of the completion of the HVB Offer and that the candidates to be nominated by the Bank are court-appointed or, in the case of Bank Austria Creditanstalt, elected by the shareholders' meeting, in their stead.

### Integration Unit

Under the Business Combination Agreement, an integration unit (“Integration Unit”) shall be established immediately after completion of the HVB Offer and shall consist of an integration officer, a deputy integration officer and the integration team. The integration team shall be composed of a limited number of employees of the relevant entities of the Combined Group who have in-depth knowledge of the business and of the organization of the Combined Group. The Integration Unit shall adopt strategies and pursue processes in order to implement such integration principles and conduct and monitor corporate and restructuring activities in agreement with such integration principles.

### Branding

Under the Business Combination Agreement, the Combined Group shall continue to use the current Bank, HVB and Bank Austria Creditanstalt brand names (including the current font types and colours). The use of the HVB and Bank Austria Creditanstalt brand names, as well as all other local brand names of companies of the HVB Group, will be accompanied by the Bank logo and the addition “Member of the UniCredit Group”.

### Conduct of Business

In the Business Combination Agreement the Bank and HVB agreed to conduct their business from the signing of the Business Combination Agreement until the completion of the HVB Offer in a manner that does not have a material adverse impact on the value of the respective groups. Under the terms of the Business Combination Agreement, until completion of the HVB Offer, HVB shall not, and shall use its best efforts to ensure that Bank Austria Creditanstalt, Bank BPH and DAB bank AG, Munich (together the “Material Subsidiaries”) shall not, unless agreed by the Bank, undertake the following:

- issue new shares, share options, participation rights, convertible or other securities or participations, except for such shares, options, securities or participations which HVB or any of its Material Subsidiaries is or will become obligated to issue by virtue of law or based on an agreement or other arrangement that existed as of the date of the Business Combination Agreement, in particular any existing employee or executive share ownership program of HVB or any of its subsidiaries;
- effect amendments to its articles of association, except for amendments that have been resolved by the shareholders’ meeting of HVB or any of its Material Subsidiaries or will be resolved by such shareholders’ meeting, which was called prior to the date of the Business Combination Agreement or will be called after the date of the Business Combination Agreement by minority shareholders of HVB (it being agreed that, should such a shareholders’ meeting of HVB be called after the date of the Business Combination Agreement, the members of the management board of HVB will, subject to their fiduciary duties, and will use their best efforts that the supervisory board will, subject to its fiduciary duties, disrecommend such amendment) or a Material Subsidiary outside the control of HVB (it being agreed that, should such a shareholder meeting of a Material Subsidiary be called after the date of the Business Combination Agreement, HVB will use its voting rights to reject such amendment);
- conclude substantial merger, enterprise or similar agreements or pass resolutions for approval of such agreements, except for such agreements (i) for which approval has been granted by the shareholders’ meeting of HVB or any of its Material Subsidiaries prior to the date of the Business Combination Agreement, or will be granted by such shareholders’ meeting that was called prior to the date of the Business Combination Agreement, or (ii) the proposed conclusion that was disclosed in the data room;
- acquire own shares, except for the acquisition of own shares for the following purposes: (i) securities trading in accordance with section 71(1) no. 7 of the German Stock Corporation Act or any similar provisions applicable to any of its Material Subsidiaries (including in the context of securities lending and asset management transactions), (ii) intra-group transactions, and (iii) the delivery of shares under any existing employee or executive share ownership program of HVB or any of its subsidiaries, it being agreed that exceptions (i) and (ii) shall only apply if and to the extent that the acquisition of own shares does not have a material adverse effect on the proposed Business Combination;
- divest substantial parts of their assets or otherwise dispose of them, except for the disposal of assets allocated to HVB Group’s real estate restructuring segment; and
- take any action that would have a material adverse impact on the proposed Business Combination projected by the Business Combination Agreement.



### **Bank of Regions Agreements**

In 2000, HVB and Bank Austria entered into the so-called “Bank of Regions Agreements”. Under these agreements, HVB and Bank Austria Creditanstalt have agreed on certain principles with regard to the appointment of the eleven shareholder representatives on the supervisory board of Bank Austria Creditanstalt (with the remaining six supervisory board members being elected by the employees). Further, the shareholders’ meeting of Bank Austria can resolve on a number of matters, including changes in corporate form, mergers and de-mergers, as well as two-thirds quorum requirements for resolutions on the sale of certain subsidiaries, only if AVZ-Stiftung (*Anteilsverwaltung-Zentralsparkasse*), a foundation affiliated with the City of Vienna (“AVZ-Stiftung”), and the Works Council Fund (*Betriebsratsfonds des Betriebsrates der Angestellten der Bank Austria*) (“WCF”), each of which hold registered preference shares of Bank Austria, are present at the shareholders’ meeting. Hence, AVZ-Stiftung and WCF can effectively block the adoption of these resolutions by not attending a shareholders’ meeting at which such resolutions are presented for approval.

### **Bank Austria Creditanstalt Authorized Capital**

On May 19, 2005, the shareholders’ meeting of Bank Austria Creditanstalt authorized the management board of Bank Austria Creditanstalt to increase the share capital by up to 50% against contributions in cash or kind; shareholder subscription rights may be excluded (the “Authorized Capital”). The Bank has been advised that under Austrian takeover law, the exercise of the Authorized Capital prior to completion of the BA-CA Offer would likely violate the neutrality obligation of Bank Austria Creditanstalt as the target of a public takeover offer. HVB has undertaken to use its best efforts to ensure that the Authorized Capital shall, conditional upon and with effect as of, the completion of the HVB Offer be used only in agreement with the Bank. See “–Termination Rights” below.

### **Termination Rights**

Prior to completion of the HVB Offer, the Business Combination Agreement may be terminated (i) by mutual written consent of the Bank and HVB, (ii) by either the Bank or HVB, if either the management board or the supervisory board of HVB has issued a support statement in favour of a competing bid, (iii) by either the Bank or HVB, if completion of the HVB Offer has not occurred by March 31, 2006 (however, a written agreement has been reached that HVB and the Bank shall not exercise this termination right if the consummation of the HVB Offer has not occurred by March 31, 2006 solely because the required regulatory approvals or non-objections or antitrust clearance have not been received; in this case the termination right may however be exercised if the consummation of the HVB Offer has not occurred by May 15, 2006), and (iv) by the Bank, if the management board of HVB has not recommended to its shareholders to accept the HVB Offer as part of the management board’s statement pursuant to section 27 of the German Securities Acquisition Act.

Following completion of the HVB Offer, the Business Combination Agreement will automatically terminate with effect as of the fifth anniversary of the completion of the HVB Offer, unless renewed by the Bank. Any renewal shall be for a period of one year, notified to HVB six months prior to the beginning of the relevant renewal period. The Business Combination Agreement may also be terminated by the Bank giving two weeks notice at the end of a month if HVB has not complied with its obligation (a) to use its best efforts to ensure that the Authorized Capital shall, conditional upon and with effect as of, the completion of the HVB Offer be used only in agreement with the Bank and to that effect, within the limits of, and subject to, applicable law, suggest to the management board of Bank Austria Creditanstalt to adopt a resolution that it will not resolve, or take any other steps, to use the Authorized Capital, except as agreed with the Bank, and should the management board of Bank Austria Creditanstalt not adopt such resolution, to call an extraordinary general meeting of Bank Austria Creditanstalt’s shareholders for a date which is not later than the completion of the HVB Offer and procure – by proposing the respective shareholder resolution and voting its shares accordingly – that the Authorized Capital be cancelled and, to the extent that the Authorized Capital has been entered into the commercial register and Bank Austria Creditanstalt’s articles of association have been amended accordingly, to amend the articles of association to reflect, subject to the deletion of the Authorized Capital in the commercial register, the cancellation of the Authorized Capital, (b) not to tender its Bank Austria Creditanstalt shares in the BA-CA Offer and (c) from the signing of the Business Combination Agreement until the completion of the HVB Offer to conduct its business, and to use its best efforts to ensure that its subsidiaries conduct their business, in a manner that does not have a material adverse impact on the value of the HVB Group and not to carry out, and to use its best efforts to ensure that its Material Subsidiaries will not carry out actions in violation of the proposed governance structure of the Combined Group, all as described under “– Conduct of Business” above.



*The following sections on the Combined Group contain forward-looking statements that involve a number of risks and uncertainties. Actual results could differ materially from those projected in these forward-looking statements. In particular, investors should note that the impact of the proposed Business Combination on the regulatory capital of the Combined Group and the expected synergies and integration costs, were all derived in a modeling process based on a number of underlying assumptions which may prove to be incorrect and are – in their entirety – subject to the uncertainties outlined in more detail below. In particular, investors should read “Forward-Looking Statements” for further information on the risks and uncertainties involved with forward-looking information and should carefully consider the risks described under “Risk Factors” to learn more about those factors (some of which are outside the control of the Combined Group) which may influence future events and results to deviate from those described below.*

#### **Expected Synergies and Integration Costs**

*Expected Synergies:* Following the incurrence of initial integration costs, the Bank expects the proposed Business Combination to generate significant cost and revenue synergies. Specifically, the Bank expects these synergies to amount to approximately €985 million (before tax) per annum and €745 million (after tax) per annum reaching the full amount in the fiscal year 2008. Prior thereto, the Bank expects the Combined Group to generate approximately 40% of synergies in the fiscal year 2006 and approximately 80% in the fiscal year 2007. Both the full achievement of the synergies and the aggregate amount of restructuring charges are based on the assumption that the Combined Group is in a position to fully implement its strategy. Hence, as there can be no assurance that the Combined Group will be successful in implementing its strategy (see “Risk Factors – Risks Related to the Business of the UniCredit Group, the HVB Group and the Combined Group – A Failure of the Combined Group to fully implement its strategy may have a material adverse effect on the Combined Group’s financial condition and results of operations”) and given that the Combined Group will face numerous integration risks (see “Risk Factors – Risks Associated with the Business Combination of the UniCredit Group and the HVB Group – Unforeseen difficulties in connection with the proposed Business Combination of the UniCredit Group and the HVB Group may have a material adverse effect on the Combined Group’s financial condition and results of operations”), there is neither certainty that the Combined Group will be successful in achieving these synergies, nor is there certainty that the restructuring charge will be sufficient to cover all costs of the integration.

The Bank expects that by the end of fiscal year 2008, it will be able to generate the synergies in the following areas:

- *Private Banking and Asset Management:* Through the exploitation of economies of scale by creating a single investment and risk management platform the Bank expects to realize cost synergies of approximately €70 million (before tax) per annum and €35 million of revenue synergies (before taxes) on the basis of pricing realignment versus the industry average, mainly driven by Pioneer brand recognition and a wider range of products.
- *CEE:* The Bank expects the elimination of overlapping areas existing in the central management functions of the local banks of the UniCredit and HVB Groups in the various CEE countries to generate cost synergies (before tax) of approximately €170 million per annum. As a matter of prudence, the Bank has not taken into account benefits arising from the possible rationalization of the distribution networks.
- *Multinationals/Investment Banking:* The Bank expects the integration of investment banking activities to generate cost synergies (before tax) of approximately €140 million per annum. The Bank plans to achieve this goal by maintaining an organizational structure with its head office in Munich, with the possibility of developing pan-European “centers of excellence” with a focus on selected product areas.
- *Retail:* The Combined Group’s strategy in its retail activities will build on the expertise of the UniCredit Group in the management of retail business in its Italian home market to maximize performance in Germany and Austria. On this basis, the Bank expects to increase efficiency and thus enable the Combined Group to benefit from cost synergies (before tax) of approximately €160 million per annum. The Bank expects these synergies to generate additional benefits over the efficiency-boosting PRO (Process Redesign and Optimization) program announced by HVB in February 2005 which primarily relates to the optimization of central management and back-office functions of the HVB Group.
- *Corporates/SMEs:* With regard to corporate banking activities, the Combined Group’s strategy aims to achieve synergies by broadening the product range dedicated to small and medium enterprises in

Germany and Austria, through the marketing of derivative products, and by creating common product factory platforms, thus rationalizing overlapping business areas and functions. The Bank expects the revenue synergies (before tax) stemming therefrom to amount to approximately €56 million per annum and the cost synergies (before tax) to amount to approximately €29 million.

- *IT*: The Bank expects the migration of the IT-infrastructures of the HVB Group to the systems of UniCredit Group to allow significant reductions in internal and out-sourced software development costs while also enhancing productivity in IT operations. As a result, the Bank expects cost synergies (before tax) of approximately €195 million per annum.
- *Cross-border Payment Services and Custody*: The Bank expects the development of a common cross-border payment services and custody platform for the Combined Group based on the current payment services and custody platform of the HVB Group to generate cost synergies (before taxes) of approximately €65 million per annum.
- *Back-office*: The Bank expects the development of a common operational platform for back-office functions and a further increase in efficiency of the systems to result in an overall reduction of manual processes achieving cost synergies (before tax) of approximately €20 million per year.
- *International Banking*: The UniCredit and HVB Groups have some overlap areas in their respective foreign network of branches and representative offices and the Bank expects the Combined Group to be able to generate cost synergies (before tax) in this area of approximately €29 million per annum.
- *Leasing*: The Bank expects the creation of a common leasing services platform to generate cost synergies (before tax) for the Combined Group of approximately €7 million per annum.
- *Consumer Finance/Credit Cards*: The Bank expects the development of common operational platforms in selected areas of consumer finance and credit card services and the sharing of 'best practices' in these areas to generate cost synergies (before tax) for the Combined Group of approximately €10 million per year.
- *Corporate Center*: The Bank expects the synergies from the elimination of overlap in certain areas in central functions to be counterbalanced by the creation of new functions necessary to manage the Combined Group. Hence, out of prudence, no synergies have been accounted for in this area.

Even though there can be no assurance in this regard (see "Risk Factors–Risks Associated with the Business Combination of the UniCredit Group and the HVB Group–Unforeseen difficulties in connection with the proposed Business Combination may have a material adverse effect on the Combined Group's financial condition and results of operations"), in addition to the potential synergies outlined above, the Bank expects the Combined Group to be able to benefit from tax benefits in Germany stemming from prior years' losses of HVB. As a result thereof and certain other factors, the Bank expects the average tax rate of the Combined Group to be around 30% during the first years after the proposed Business Combination.

Of the overall synergies which the Bank expects to be generated from the proposed Business Combination from 2008 onwards, cost synergies represent approximately 90%, with the majority thereof being related to the right-sizing of the Combined Group's personnel (about 7% of the total workforce of the Combined Group, 9% of the total workforce based in CEE, 7% of the total workforce based in Germany, 7% of the total workforce based in Austria, 2% of the total workforce based in Italy, and 33% of the total workforce based in the international network). The Bank has conservatively restricted its estimate of revenue synergies to specific areas and, in analyzing and estimating the potential synergies, it did not take into account the growth potential in the retail and private banking segments, where the proposed Business Combination offers significant opportunities for profitable growth.

*Integration Costs*: The Bank expects the integration and restructuring costs necessary in order to achieve the potential synergies outlined above to amount to €1,350 million before taxes. These will, to the extent not expensed, be recorded as a provision upon closing of the Transaction. The Bank expects that these provisions are attributable mainly to the costs relating to redundancies (estimated at approximately 9,000 employees) and to the write-off of IT investments capitalized in HVB financial statements. As the restructuring provision would be recorded in 2005, but will not be tax-deductible when being set-up, the Bank expects the tax effects to only occur in following years (when the actual costs are incurred).

### **Regulatory Capital of the Combined Group**

In the Business Combination Agreement the Bank and HVB have agreed a long-term target core Tier I ratio (BIS) for the Combined Group of 6.8%. The Bank acknowledged that it has a responsibility to take appropriate steps if following the completion of the HVB Offer the CEO, after consultation with the HVB management board, determines that without such steps a core Tier I ratio (BIS) of 6.0% for the Combined Group cannot be reached by year-end 2006. HVB undertook to cooperate in reaching such 2006 year-end target core Tier I ratio and also to take appropriate steps where necessary in accordance with the terms of the Business Combination Agreement. It has been agreed in the Business Combination Agreement that such steps shall be discussed between the CEO and the management board of HVB and it is expected that such discussion will result in an agreement on the steps, if any, to be taken by HVB.

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## Regulation and Supervision

### REGULATION AND SUPERVISION OF BANKS IN ITALY

Italy's banking industry was regulated for over 50 years by the Banking Act of 1936, a law that set out the structure of the banking industry and regulated specialized banking institutions. The application of the Banking Act of 1936 led to fragmentation and shielded the Italian banking system from competition. Starting in the early 1990s, the Italian banking industry was transformed by a reorganization and consolidation process set off by changes in the regulatory framework and a more competitive environment resulting from the liberalization of European financial markets and the introduction of the euro. This reorganization led to growth in the average size of banks and in the number of their branches, while reducing the total number of banks. The key phases in this process are set out below.

#### Privatization

- The enactment of Law No. 218 of July 30, 1990 ("Amato Law"), which encouraged banks controlled by public law entities to consolidate their banking activities into separate corporations through various types of corporate transactions including transformations, mergers and asset transfers. The original public law entities became banking foundations with the purpose of holding their ownership stakes in banks and pursuing charitable activities. The Amato Law also provided for a recapitalization of these newly formed bank corporations. The Amato Law aimed to transition from state ownership to private, business-oriented management of banks, thereby inducing the banking system to become structured as a business activity rather than as a public function, with a view to privatization;
- the implementation of Law No. 474 of July 30, 1994 (the "Privatization Law") and the decree of the Treasury Ministry (now the Ministry of Economy and Finance) dated November 18, 1994 (the "Dini Directive"), which permitted and promoted the sale of majority holdings of banks owned by the Ministry of Economy and Finance and by Italian banking foundations (considered public law entities) to the private sector. Certain fiscal incentives were provided for Italian banking foundations to reduce their stakes in a bank that converted into a joint-stock company under the Amato Law to below 50%. If such requirements were met by the end of 1999, all capital gains arising from the public offerings or sales would be tax-free; and
- the implementation of Law No. 461 of December 23, 1998 ("Law No. 146"), which introduced incentives to further the reorganization of the Italian banking foundations. Those incentives were reviewed by the European Commission, which decided on August 22, 2002 that fiscal measures introduced in 1998 and 1999 in favour of banking foundations were not subject to the European Union's state aid rules. Pursuant to Law No. 146, banking foundations that modify their by-laws and progressively divest their stakes in banks, only maintaining controlling interests in entities dealing with charitable purposes, are considered as private not-for-profit organizations operating for the benefit of the community. The Ministry of Economy and Finance is in charge of authorizing the sales of holdings in banks owned by foundations in compliance with criteria of transparency and non-discrimination. The deadline for the banking foundations to dispose of their control of banking institutions is December 31, 2005. The banking foundations must entrust their stakes in banking institutions to asset management companies (*società di gestione del risparmio*), which must be selected pursuant to certain criteria and must manage the holdings in a professional manner and independently of the foundations.

#### The Implementation of the European Union Second Banking Directive

Legislative Decree No. 481 of December 14, 1992, implementing the European Union's Second Banking Directive, abolished the traditional distinction between "ordinary credit institutions" and "special credit institutions". As a result, only one category of credit institutions ("banks") now exists in Italy, and these institutions be either (a) banks incorporated as joint-stock companies (*società per azioni*) owned directly or indirectly by the private sector or by banking foundations; or (b) co-operative banks (*banche popolari and banche di credito cooperativo*). Banks can conduct all types of banking activities (without distinction between short- and medium- or long-term deposit taking and lending). In addition to the banking business, and subject to their by-laws and to financial services regulation, banks may engage in all the business activities that are subject to mutual recognition under the European Union Second Banking Directive, and in certain other financial activities not listed therein.

Furthermore, European Union banks that are subject to the supervision of local regulators may freely conduct banking activities in Italy, as well as the other financial activities benefiting from mutual recognition under European Union legislation, to the extent permissible under their home country jurisdiction, in each case subject to Bank of Italy notification. The home-country regulatory authorities retain control over these European Union credit institutions (the “home-country control” rule).

The current Italian banking regulations largely reflect the European Union Second Banking Directive. The regulatory changes and Europe-wide liberalization has resulted in a significant increase in competition and consolidation in the Italian banking industry.

### **Consolidated Banking Act**

Effective January 1, 1994, Legislative Decree No. 385 of September 1, 1993 (the “Consolidated Banking Act”), which repealed and replaced previous regulations, has defined the role of the supervisory authorities and regulated the definition of banking and related activities; the authorization of banking activities; the acquisition of equity participation in banks; banking supervision (on a non-consolidated and consolidated basis); special bankruptcy procedures for banks, and the supervision of financial companies. The resulting regulatory framework of the Italian banking system is described below.

### **Italian Supervisory Authorities**

Under the Consolidated Banking Act, the supervision and regulation of Italian banks is exercised by:

- the *Comitato Interministeriale per il Credito e il Risparmio* or *CICR* (Interministerial Committee for Credit and Savings), consisting of the Ministry of Economy and Finance and other ministers having responsibility for economic matters, which acts upon proposals of Bank of Italy with respect to policy concerning banks and has wide-ranging policy-making and guidance powers and responsibilities;
- the Ministry of Economy and Finance, which has broad powers in relation to banking and other financial activities, including the power to authorize the establishment in Italy of the first branch of non-European Union banks and the power to set specific eligibility criteria for prospective holders of ownership stakes in banks and qualification standards required of prospective directors and executives of banks and other financial intermediaries. In case of violations of existing banking laws and regulations, the Ministry of Economy and Finance also has power to issue fines to banks and their managers and, in case of serious violations or insolvency, to start extraordinary management (*amministrazione straordinaria*) or liquidation (*liquidazione coatta amministrativa*) procedures; and
- the Bank of Italy, Italy’s central bank. The Bank of Italy is responsible for implementing the policies set forth by the CICR by adopting regulations and instructions concerning the following four main areas: (i) capital requirements; (ii) risk containment; (iii) acquisition and holding of equity participations; and (iv) administrative and accounting organization and internal audit.

The Bank of Italy is responsible for granting the initial authorization for the practice of banking and other financial activities, conducts preliminary reviews of banks’ by-laws, including any significant amendments thereto, and requires all banks to submit interim balance sheets and statistical data on a monthly basis. Bank of Italy also conducts inspections of credit institutions through its supervisory staff of auditors to verify the accuracy of reported data, compliance with banking regulations, including compliance with exposure limits, reserve requirements, capital ratios and other prudential limits.

The Bank of Italy also cooperates with governmental entities in preventing and repressing usury. To this end, the Bank of Italy, the *Ufficio Italiano Cambi*, and the Ministry of Economy and Finance conduct quarterly surveys to measure the “average overall effective interest rate” charged by banks and financial intermediaries for different types of transactions. Collected data is published in the Official Gazette and used as the basis for the calculation of thresholds beyond which rates are considered usurious.

As a consequence of the Cirio and Parmalat defaults, there has been an intense debate on the regulatory framework applicable to the financial markets, the capital markets and banks. See “Business of the UniCredit Group—Legal Proceedings”. In this context, draft bills for a reform, among other things, of the Italian financial supervisory authorities are under examination by the Italian Parliament. If approved, the new law will review, among other things, the authority and powers of the supervisory authorities.



### Deposit Insurance

In 1987, the main Italian banks at that time established the Interbank Deposit Guarantee Fund (*Fondo Interbancario di Tutela dei Depositi*) (the “Guarantee Fund”) to protect depositors against the risk of insolvency of a bank and the loss of their funds. Pursuant to the Consolidated Banking Act, membership in the Guarantee Fund is now compulsory for all banks, and provides for a maximum coverage of approximately €103,000 per depositor.

Deposits covered by the Guarantee Fund are mainly those of ordinary customers, namely repayable funds in the form of deposits, bank drafts and other similar instruments. Among other items, bearer deposits, bonds and deposits placed by other credit institutions for their own account are not covered. Furthermore, the guarantee scheme does not cover deposits from companies belonging to the same group and deposits of government and local authorities, certain financial services companies, insurance companies and mutual funds.

### Participation in the Share Capital of Banks

Pursuant to section 19 of the Consolidated Banking Act, the acquisition of (including the irrevocable commitment to acquire) stakes representing, when added to those already held, 5% or more of the voting rights of an Italian bank is subject to prior authorization by the Bank of Italy. Prior authorization by the Bank of Italy is also required for the acquisition of 10%, 15%, 20%, 33% and 50% of the voting rights of an Italian bank or its control, regardless of the size of the stake. If the relevant transaction could lead to the acquisition of a controlling interest in a bank, the request for authorization must also be preceded (by not more than 30 days) by a preliminary notification to the Bank of Italy setting forth the main elements of the transaction (e.g. timetable, methods and sources of financing).

The Bank of Italy may grant its authorization subject to conditions aimed at ensuring the sound and prudent management of the bank. Persons who directly or indirectly engage in significant business activity in economic sectors other than banking and finance may not be authorized to acquire shares of a bank which, when added to those already held, would represent more than 15% of the voting rights or control of the bank.

The Bank of Italy (and, if the bank is listed, CONSOB) must be notified of any agreement, however concluded, that regulates or that could lead to the joint exercise of voting rights in a bank or in the parent company of such bank.

### Capital Adequacy Requirements

*Solvency Ratios.* Capital adequacy requirements are regulated, among other things, by the Basel Committee’s risk-based capital guidelines, the European Union’s “Second Banking Directive”, “Own Funds Directive” and “Directive on Solvency Ratios” and by regulations issued by the Bank of Italy. Under these risk-based capital guidelines, a bank’s capital adequacy is assessed on the basis of the ratio of its total capital to the risk-adjusted value of its assets and off-balance sheet exposures.

A bank’s capital is composed of primary capital (Tier I capital, “*patrimonio di base*”) and supplementary capital (Tier II capital, “*patrimonio supplementare*”). Under these regulations, Italian banks are required to maintain a ratio of regulatory capital (Tier I plus Tier II) to risk-weighted assets of at least 8% on a non-consolidated basis, and Italian banks belonging to a banking group are required to maintain a ratio of at least 7% on an non-consolidated basis.

Tier I capital consists of the aggregate of paid-in equity capital, capital reserves, retained earnings, funds for general banking risks, and innovative capital instruments (such as preference shares), minus treasury stock, intangible assets and losses for the preceding and current financial years. Innovative capital instruments can be included in Tier I capital only up to 15% of the capital, including such instruments. Any amount in excess of that level can be included in Tier II capital as hybrid capital instruments, subject to certain restrictions.

Tier II capital consists of the aggregate of asset revaluation reserves, general loan loss reserves, hybrid capital instruments and subordinated loans, plus/minus net gains/losses from investments in securities and other items. Tier II capital cannot exceed Tier I capital. There are also limitations on the maximum amount of certain items of Tier II capital, such as subordinated debt, which may not exceed 50% of Tier I capital.



To calculate risk-weighted assets, banks must weigh their assets and off-balance sheet exposures in relation to the nature of debtors, country risk and the guarantees and collateral received. The various categories of assets are assigned one of five risk weightings: 0%, 20%, 50%, 100% and 200%.

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

See also “Management’s Discussion and Analysis of Financial Condition and Results of Operations of the UniCredit Group – Financial Condition – Capital Adequacy”.

*Basel II.* Starting from June 1999, and subsequently in January 2001 and April 2003, the Basel Committee published proposals for a reform of the existing international capital adequacy standards and in June 2004 it adopted a new capital adequacy framework.

The fundamental objective of the new framework is to further strengthen the soundness and stability of the international banking system while maintaining sufficient consistency so that capital adequacy regulation will not be a significant source of competitive inequality among internationally active banks. It is expected that the revised framework will promote the adoption of stronger risk management practices by the banking industry.

The new framework is based on three “pillars”:

- minimum capital requirements, improved to result in a more risk-sensitive response to changes in banking and risk management practices while at the same time preserving the benefits of a structure that can be applied as uniformly as possible at the national level. To that end, the revised framework provides a range of options for determining the capital requirements for credit risk and operational risk to allow banks and supervisors to select approaches that are most appropriate for their operations and their financial market infrastructure. A significant innovation of the revised framework is the greater use of assessments of risk provided by banks’ internal systems as inputs to capital calculations. In order to ensure the integrity of these internal risk assessments, the framework also puts forward a detailed set of minimum requirements;
- a supervisory review process that should accompany the implementation of the new capital requirements, including thorough efforts by banks to assess their capital adequacy and by supervisors to review such assessments; and
- market discipline, which, through new and improved disclosure requirements in relation to capital adequacy, is expected to function as an effective complement to the other two pillars.

During 2003, the UniCredit Group launched Project Basel II, with the objective of preparing for adoption of the new framework. (See “Capital Allocation and Risk Management of the UniCredit Group – Project Basel II”).

### **Market Risk Capital Requirements.**

In March 1997, on the basis of the European Union’s “Capital Adequacy Directive” (6/93/EEC) and in response to the increased activity of Italian banks in securities intermediation, the Bank of Italy requested that, as a prerequisite for conducting securities intermediation activities, banks meet certain specific capital requirements. These requirements relate to the various classes of risk involved and apply to trading book positions.

Currently, the risks covered by the capital requirements are as follows:

- position risk: the risk deriving from fluctuations in the price of the securities due to market trends and the status of the issuer;
- settlement risk: the risk that arises in securities trading transactions when, after the contract has matured, the counterpart does not comply with its obligation to deliver the securities or amounts due;
- counterpart risk: the risk that the counterpart will not perform its contractual obligations upon maturity;

- concentration risk: refers to exceeding, as the result of risk positions in the trading book, the individual credit limit established with regard to large exposures;
- commodities positions: refers to the risk of potential losses in commodities positions;
- foreign exchange risk on trading and banking book positions: the risk of incurring losses due to adverse changes in foreign exchange rates.

In February 2000, the Bank of Italy, pursuant to European Union directive 98/31 (amending the European Union's "Capital Adequacy Directive"), introduced the possibility (subject to prior authorization) for banks to use their own internal models to calculate capital requirements to cover market risks. The models may use commodity position risk and total portfolio exchange rate risk.

In 2000, certain other modifications to the regulatory framework on market risk concerning the calculation of commodity position risk and new methods of valuing options became effective.

### Lending Limits

In October 1993, the Bank of Italy issued certain regulations in respect of the European Union directive on "Large Exposures." From November 1993 until the end of 1998, all loans made by a bank to a single borrower or group of affiliated borrowers (together with all other exposures as defined by the European Union directive on Large Exposures) could not exceed 40% of a bank's individual regulatory capital (as defined pursuant to the European Union directive on Own Funds and reflecting the definition of capital contained in the Basel Committee guidelines). Since January 1999, this limit has been lowered to 25% of a bank's individual regulatory capital (40% if the bank is part of a banking group).

Specific limits apply to loans extended to companies that are affiliated with the lending bank (i.e., companies in which the lending bank holds a stake of 20% or more, other than companies included in the banking group) and to loans extended to shareholders holding a stake of 15% or more in a bank. These exposures cannot exceed 20% of the bank's regulatory capital. Positions included in the trading book of a bank may be held in excess of the above-mentioned thresholds.

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

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

As of December 31, 2004, the UniCredit Group had large exposures to only one group of related borrowers. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of the UniCredit Group – Selected Statistical Information."

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

Under the current bank regulatory system, as set forth in the Consolidated Banking Act and implemented by the Bank of Italy regulations, banks may provide, without restrictions, medium- and long-term credit to non-business borrowers. With respect to business borrowers, the granting of medium- and long-term credit is permitted without limits for banks having regulatory capital in excess of €1 billion (either on a non-consolidated or, under certain circumstances, on a consolidated basis) and whose liability structure is principally based on funding raised in the medium- and long-term markets.

Other banks may extend medium- and long-term credit to corporate borrowers within the limit of 30% of deposits and savings accounts. Impaired loans must be taken into account towards this threshold. The regulatory system provides for the possibility of other banks being authorized by the Bank of Italy to extend medium- and long-term credit beyond the 30% limit, for instance banks having regulatory capital in excess of

€25 million and banks that lend more than 10% of their total lending to companies for two consecutive years. Furthermore, the regulations provide for maturities matching control as well as for methods that allow the Bank of Italy to identify banks that are most exposed to interest-rate risk.

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

### Equity Investments by Banks

Banks are permitted to make equity investments in all types of companies, subject to the Bank of Italy regulations. Generally, equity participations by a bank in all types of companies may not in the aggregate exceed, together with real estate investments, the bank's consolidated regulatory capital. In addition, equity investments exceeding 10% of the individual regulatory capital of the acquiring bank or 10% or 20% of the capital stock (or otherwise entailing the acquisition of control) of the acquired bank, financial or insurance company require prior the Bank of Italy authorization. Investments in insurance companies may not exceed, in the aggregate, 40% of the bank's consolidated regulatory capital and 60% of the regulatory capital of a bank belonging to a banking group.

Acquisitions of participations in SICAV's, *società di investimento a capitale variabile*, open-ended investment companies) are not subject to prior authorization of the Bank of Italy, regardless of the amount of the participation to be purchased.

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

Higher limits may be authorized by the Bank of Italy for banks with at least €1 billion in regulatory capital and which meet the applicable solvency ratios (eligible banks or "*banche abilitate*"), and for banks that primarily raise medium- and long-term funds, have regulatory capital in excess of €1 billion and meet the applicable solvency ratios (specialized banks or "*banche specializzate*"). The Bank of Italy has recognized the UniCredit Group as an eligible bank. Therefore, the UniCredit Group is permitted to purchase over 15% of the capital stock of a non-financial company as long as the value of the equity investment and the sum of all portions of all shareholdings owned by the bank exceeding the 15% limit do not exceed 2% of the UniCredit Group's consolidated regulatory capital. However, the aggregate of the UniCredit Group's equity investments in non-financial companies cannot exceed 50% of the UniCredit Group's consolidated regulatory capital; investments in a single non-financial company or group of companies may not exceed 6% of the UniCredit Group's consolidated regulatory capital.

### Mandatory Reserves

The European Central Bank (the "ECB") and the Bank of Italy require that banks based in Italy maintain mandatory minimum cash reserves, directly or indirectly through an intermediary bank, with the Bank of Italy.

The amount of these reserves is calculated on a monthly basis and is set at the rate of 2% of the aggregate of liabilities from customers' deposits, money market paper and debt securities having a maturity of up to two years, excluding liabilities due to other banks, to the ECB and to other national central banks. Deposits and debt securities having a maturity of more than two years or repayable with notice of more than two years and repurchase agreements are not subject to the reserve requirements.

Banks can modify the amount of the reserves kept each day during a particular month as long as the average amount of the daily balances is not less than the required reserves. The Bank of Italy pays interest on the amounts deposited as reserves at the average refinancing rates set by the ECB for that month. Interest is not paid on amounts in excess of the required reserves. In the event of a violation of the mandatory reserve requirements, the ECB may impose proportional fines on the bank (or the intermediary bank).

### **Administrative and Accounting Organization and Internal Audit**

The Bank of Italy, taking into account the risk management principles applicable to the banking sector that have been elaborated by international organizations, issues guidelines setting forth minimum organizational requirements with regard to (i) internal controls (with the aim of ensuring that banks establish units responsible for internal control, auditing and administrative and accounting checks that operate efficiently and effectively, thereby contributing to the proper management of the bank); (ii) selection, monitoring and management of credit risks (including procedures designed to address conflicts of interest arising from financing extended to individuals connected with the bank); (iii) management, control and measurement of market risks (taking into account the increased involvement of banks in intermediation in securities and foreign currencies); (iv) activities in highly complex and innovative sectors (including minimum organizational requirements that are a pre-condition to operate in such sectors and evaluation of risks); (v) operations of foreign branches (with particular reference to the branches' strategic goals and to types and frequency of controls); and (vi) issuing and administering means of payments (including e-money).

The Bank of Italy issues guidelines to the holding companies of banking groups aimed at ensuring that the organizational requirements mentioned above are complied with by the banking group as a whole and by each entity within the group. The Bank of Italy may determine minimum organizational requirements aimed at preserving fair and transparent behaviour in dealings with clients. Additional organizational requirements may be imposed in connection with prudential supervision or with the exercise of the Bank of Italy's supervisory powers.

The Bank of Italy has defined the regulatory framework for bank internal control systems (*Istruzioni di Vigilanza per le Banche – Titolo IV capitolo 11*). Banks are required to balance long-term profitability and risks, and risks must be consistent with their economic circumstances. For this purpose, banks must adopt adequate systems to identify, measure and control all types of risks, in accordance with the complexity and size of their activities.

The internal control system consists of rules, procedures and organizational structures designed to ensure the efficiency and effectiveness of company processes, the safeguard of company assets, the reliability and integrity of managerial and accounting information, and the compliance of company operations with external regulations and internal procedures. Internal controls involve, with different responsibilities, the board of directors, the statutory auditors, management and the entire staff. Internal audit activity must be performed by independent internal auditors charged with the duty to verify (including by visits to physical sites) the regular course of operations, risk evolution and the general adequacy of the internal control system. The internal audit committee must be adequately staffed and have access to all the bank data, information and documents, and the head of the internal audit committee must regularly report on the results of the committee's activity to the board of directors, the statutory auditors and top management.

In addition, the internal control system must be reviewed periodically in relation to the company and development of the environment in which the company operates.

### **FINANCIAL INTERMEDIARIES**

The Consolidated Banking Act also governs certain financial activities performed by non-banking entities, which, in order to be allowed to offer their products and services directly to the public, must be enrolled in a general register kept by the *Ufficio Italiano Cambi*. Such regulated financial activities include acquiring equity investments, granting loans in any form (including leasing activities) and performing payment or brokerage services in foreign currency. Pursuant to Law 130 of April 30, 1999 relating to securitizations, special purpose vehicles incorporated for the purpose of carrying out a securitization transaction are required to register as financial intermediaries.

These firms are required to observe the rules on transparency of contractual conditions set forth in the Consolidated Banking Act as described above. Further provisions set forth qualification standards applicable to shareholders, directors and officers of financial services firms.

The Consolidated Banking Act also provides that, where certain objective criteria defined by the Ministry of Economy and Finance relating to their activity, size, debt to equity ratio and internal control system and organization are met, financial services firms must also enroll in a special register provided for in section 107 of the Consolidated Banking Act and administered by the Bank of Italy, and become subject to the Bank of Italy supervision. The Bank of Italy has issued specific regulations concerning various aspects of the

capital requirements and risk management systems for these firms. Subject to specific authorization, financial intermediaries enrolled in the special register provided for in section 107 of the Consolidated Banking Act may engage in derivatives trading activities for their own account and placement of financial instruments.

Financial intermediaries must also comply with the rules governing the consolidated and non-consolidated annual financial statements applicable to banks.

### **SECURITIES MARKETS CONTROL AND LEGISLATION**

Legislative Decree no. 415 of 1996 (the “Eurosime Law”) implementing the European Union Directives on investment services (No. 93/22/EEC of May 10, 1993) and market risk capital requirements (No. 93/6/EEC of March 15, 1993), allowed Italian banks to operate directly in the regulated securities markets. Restrictions on access by foreign banks and investment firms to the Italian investment services market were also removed.

In 1998, the regulations introduced by the Eurosime Law were included within the framework of Legislative Decree No. 58 of February 24, 1998 (the “Consolidated Financial Act”), which contains, among other things, rules concerning the supervision of intermediaries that provide investment services (including the requirement to use guarantee systems as protection for investors from an intermediary’s insolvency) and of intermediaries that offer collective investment management services (mutual funds and open-end investments companies). Other sections of the Consolidated Financial Act provide for minimum standards for organization and management of financial markets, centralized management of financial instruments (“dematerialization”), methods for soliciting investments and corporate governance of companies with listed securities.

### **INTERMEDIARIES PROVIDING INVESTMENT SERVICES**

Securities market intermediaries in Italy include, among others, investment firms, financial intermediaries and banks. These intermediaries are regulated by CONSOB and the Bank of Italy, and have to observe prudential regulations governing the professional brokerage of and dealing in securities, underwriting, placement of securities and advisory services regarding investments in securities. In performing investment activities, authorized intermediaries must (i) act diligently, correctly and transparently in the interests of customers and the integrity of the market; (ii) acquire the necessary information from customers and operate in such a way that they are always adequately informed; (iii) be organized in such a way as to minimize the risk of conflicts of interest and, where such conflicts arise, act in such a way as to ensure transparency and the fair treatment of customers; (iv) have established procedures and resources, including internal control mechanisms, to ensure the efficient provision of services; (v) conduct an independent, sound and prudent management and make appropriate arrangements for safeguarding the rights of customers in respect of the assets entrusted to them.

In case of violations of investment services rules for which administrative sanctions are set forth in the Consolidated Financial Act, such sanctions shall be imposed by the Bank of Italy or by CONSOB, within the scope of their respective authority, with a decree stating the grounds for the decision, after notifying the charges to the interested parties and evaluating the submissions they present within thirty days.

### **INTERMEDIARIES OFFERING COLLECTIVE INVESTMENT MANAGEMENT SERVICES**

The marketing, promotion, organization and ownership of mutual funds and the management of SICAVs (*Società di Investimento a Capitale Variabile*) (even if established by third parties) are reserved for a specific category of authorized intermediaries, SGRs (*Società di Gestione del Risparmio*) and SICAVs. All mutual funds and SICAVs are supervised by the Bank of Italy and CONSOB, which review funds’ compliance with investment limits, financial stability and risk management policies. In addition, periodic reports including a review of fund performance and any material events affecting the fund, are required to be delivered to investors and filed with CONSOB. In performing collective investment management services, SGRs and SICAVs must (i) operate diligently, correctly and transparently in the interests of the unit-holders and the integrity of the market; (ii) be organized in such a way as to minimize the risk of conflicts of interest, including conflicts between the pools of assets under management and, where a conflict of interest exists, act in such a way as to ensure the fair treatment of the collective investment undertakings; and (iii) adopt measures to protect the rights of the unit-holders and have sufficient resources and suitable procedures for the efficient provision of services.

Custody of the financial instruments and cash of mutual funds is entrusted to a bank, called a “depository bank”. In performing its functions, a depository bank shall (i) verify the legitimacy of the operations of



issuing and redeeming units and the application of fund income; (ii) verify the correctness of the calculation of the value of the fund's units or, if appointed to do so by the SGR, make the calculation itself; (iii) verify that in transactions involving a mutual fund's assets any consideration is remitted to it within the customary time limits; and (iv) carry out the instructions of the SGR unless they conflict with the law, the fund rules or the prescriptions of the supervisory authorities. The depositary bank shall be liable to the SGR and unit-holders for any loss suffered by them as a result of its failure to perform its obligations.

In case of violations of investment services rules for which administrative sanctions are set forth in the Consolidated Financial Act, such sanctions shall be imposed by the Bank of Italy or by CONSOB, within the scope of their respective authority, with a decree stating the grounds for the decision, after notifying the charges to the interested parties and evaluating the submissions they present within thirty days.

### THE FINANCIAL CONGLOMERATE DIRECTIVE

On May 30, 2005, with Legislative Decree No. 142 ("Decree No. 142"), Italy implemented EC Directive 2002/87/EC on the supplementary supervision on credit institutions, insurance undertakings and investment firms in a financial conglomerate. Decree No. 142 aims to safeguard the stability of financial conglomerates, and requires the supplementary supervision of companies that belong to a financial conglomerate. In accordance with Decree No. 142, a company belongs to a financial conglomerate when (i) it belongs to a group where any group company is subject to regulation; (ii) the group conducts its business mainly in the financial industry; (iii) at least one group company operates in the insurance industry and at least one group company operates in the banking industry or in the investment industry; and (iv) from a consolidated prospective, the activities in the insurance sector and the activities in the banking and investment industry are significant. Decree No. 142 identifies the relevant authorities, as the home state authority and those that authorized any of the regulated group companies, and requires that the relevant authorities assist each other to identify groups that may be considered financial conglomerates. Decree No. 142 also identifies which of the relevant authorities is to be the managing authority (in such role, the "Coordinator") with the duty to perform the supplementary supervision, and to coordinate the other relevant authorities. The Coordinator and the other relevant authorities are to cooperate with each other, share relevant data and provide all requested information. At least once a year, companies subject to supplementary supervision shall provide the Coordinator with all relevant information concerning concentration risks and operations entered into with other group companies, at the financial conglomerate's level. Companies are also required to organize, at the financial conglomerate's level, appropriate internal procedures for risk monitoring and risk management. The provisions of Decree No. 142 will affect financial statements for fiscal year 2005.

### REGULATED MARKETS

Intermediaries performing investment services (where authorized to deal in securities) and intermediaries performing collective investment management services (where acting through an intermediary authorized to deal in securities) can have access to regulated markets.

Italian regulated markets are organized and managed by special purpose corporations. All the Italian regulated markets are registered with CONSOB, which exercises supervisory control over and conducts relevant inspections of listed companies, intermediaries and the regulated markets. CONSOB also reviews and monitors prospectuses and other investment solicitation documents and has broad investigatory powers with respect to legislation on market abuse, being required to report infringements to the public prosecutor. UniCredit's shares are listed on the Electronic Equity Market (*Mercato Telematico Azionario* – the "MTA"), managed by Borsa Italiana S.p.A.

### CORPORATE GOVERNANCE

In 1999, a committee coordinated by the Chairman of Borsa Italiana S.p.A. and composed of representatives of Italian banks, industries, insurance companies and associations of issuers and investors (the "Committee") prepared a code of self-regulation (the "Code"), a model of corporate governance that emphasizes the role and the responsibilities of the board of directors, ensures a balanced division of power among the executive and non-executive members of the board of directors, and sets out guidelines with respect to the auditing functions and relations with shareholders.

The importance of the Code, which is not binding, was immediately appreciated by the market and the board of directors of the Bank adopted the Code in 2001. Borsa Italiana, S.p.A. currently requires all companies



applying for listing on the MTA to submit a statement comparing their corporate governance model to the Code.

In January 2003, the Italian Government approved a reform of Italian corporate law, relating to limited liability and joint-stock companies and co-operatives, which came into force in 2004.

The main innovations introduced by the reform with regard to companies relate to their governance. Companies can adopt one of the three forms of corporate governance described below and the Bank has chosen the “traditional system”.

- *The dual system.* The dual system provides for the creation of a management board and a supervisory board. The management board has exclusive responsibility for the management of the company’s business. The management board consists of at least two members who need not be shareholders and who are appointed by the supervisory board. The supervisory board comprises at least three members, one of whom must be a member of the company’s statutory board of auditors, who are appointed by the shareholders. The supervisory board is responsible for supervising the board of statutory auditors and carries out many of the functions traditionally left to the shareholders’ meeting, including appointment and remuneration of members of the management board, approval of the annual financial statements and bringing actions against members of the management board.
- *The single system.* The single system provides for a management structure substantially in line with the traditional company structure, with the following exceptions: a sole director may not be appointed to manage the company; and, rather than a statutory board of auditors, the company has a management supervision committee appointed by the board of directors from among its members who do not hold management positions in the company.
- *The traditional system.* The traditional system provides for a board of directors or sole director and a board of statutory auditors. Unless the by-laws of a company express otherwise, the traditional corporate governance structure will apply.

The financial statements of unlisted companies adopting either the single or dual system, or remaining with the traditional system, must be audited by an individual auditor or auditing firm. The financial statements of listed companies adopting any of the above-mentioned systems must be audited by an auditing firm.

### REGULATION AND SUPERVISION IN OTHER JURISDICTIONS

The Bank’s operations elsewhere in the world are subject to regulation and control by local supervisory authorities, including local central banks and monetary authorities supplementing the home country supervision in Italy.

As publicly regulated institutions in many jurisdictions, the Bank and its direct and indirect subsidiaries are subject to licensing, approval and other requirements both within and outside the European Economic Area.

### POLITICAL POLICIES OR FACTORS AFFECTING THE BANK’S OPERATIONS

The following governmental, economic, fiscal, monetary or political policies or factors have materially affected, or could materially affect, directly or indirectly, the issuer’s operations.

- *Italian Bill of Law no. S 3328 on savings protection.* This bill essentially addresses corporate and finance law with a view to strengthening the protection of retail investors. It should be noted that the bill has been under discussion at the Italian Parliament since early 2004 and it is difficult to predict its final form when it is enacted (which is uncertain, at present). The bill contains some rules which might impact the Bank as Guarantor of the Trust Preferred Securities (in particular, provisions setting out limitations to sales of financial instruments from professional investors to retail investors and provisions on conflicts of interest).
- *Law no. 80 of May 14, 2005.* This law embodies a framework for issues of covered bonds by Italian entities in Italy.

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## UniCredito Italiano Capital Trust IV

UniCredito Italiano Capital Trust IV is a statutory trust formed on October 14, 2005 under the Delaware Statutory 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 registration number of the Trust is 4045574. The Trust Agreement will be amended and restated in its entirety on or about October 27, 2005.

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

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

- issuing the Trust Securities representing undivided beneficial ownership interests in the assets of the Trust;
- investing the proceeds of the Trust Preferred Securities in, and holding, the LLC Preferred Securities;
- performing all of its obligations and enforcing all of its rights pursuant to the Trust Preferred Securities and the Trust Agreement; and
- engaging in only those other activities necessary or incidental thereto.

Pursuant to the Trust Agreement, there will initially be 5 trustees (the “Trustees”) for the Trust. Three of the Trustees will be individuals (the “Regular Trustees”). A majority of the Trustees will be residents of the United States. The Bank of New York, the property trustee, will be a financial institution that is unaffiliated with the Bank (the “Property Trustee”). The Bank of New York (Delaware), the Delaware trustee, will be an entity that maintains its principal place of business in the State of Delaware (the “Delaware Trustee”).

The initial Regular Trustees will be Maurizio Brentegani, Luciano Cenedese and Guiseppe Morisi, each of whom is 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 Preferred Securities. The Property Trustee will have the power to exercise all rights, powers and privileges with respect to the LLC Preferred Securities under the LLC Agreement as the holder of the LLC Preferred Securities as directed by the holders of a majority of the outstanding Trust Preferred Securities. In addition, the Property Trustee will maintain exclusive control of the property account to hold all payments received in respect of the LLC Preferred Securities for the benefit of the holders of the Trust Preferred Securities. The Property Trustee will hold the Trust Subordinated Guarantee for the benefit of the holders of the Trust Preferred Securities.

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

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

- that 100% of the Trust Common Securities will be held by the LLC, or, with the prior approval of the Bank of Italy, if then required, any subsidiary of the Bank which is deemed to be a “company controlled by the parent company” within the meaning of Rule 3a-5 of the 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 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; or (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 that is deemed to be a “company controlled by the parent company” within the meaning of Rule 3a-5 of the 1940 Act, provided that, prior to such transfer it has received an opinion of an independent nationally recognized 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.”

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 Regular Trustees is 430 Park Avenue, 9<sup>th</sup> Floor, New York, New York 10022 - 3258, United States, and its telephone number is +1 212 546 9600.

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## UniCredito Italiano Funding LLC IV

UniCredito Italiano Funding LLC IV is a limited liability company that was formed on October 14, 2005 under the Delaware Limited Liability Company Act, as amended (the “LLC Act”), pursuant to an initial limited liability company agreement dated October 14, 2005 and a certificate of formation filed with the Secretary of State of the State of Delaware, which will be amended and restated in its entirety on or about October 27, 2005 in order to reflect, among other things, the issuance by the LLC of the LLC Securities.

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

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

The LLC exists exclusively for the purposes of:

- issuing the LLC Securities and entering into the Initial Derivative Contract with the Bank and any other Derivative Contract entered into as a renewal or replacement of a preceding Derivative Contract between the LLC and the Bank;
- acting as the initial holder of the Trust Common Securities;
- 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 including Subordinated Deposits issued by any Eligible Borrower subject to certain conditions;
- performing all of its obligations and enforcing all of its rights pursuant to the LLC Preferred Securities, the LLC Agreement and the Derivative Contract; 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% of the LLC Common Securities will be held directly or indirectly by the Bank, any other branch of the Bank or, with the consent of the Bank of Italy, if then required, one or more subsidiaries of the Bank, each of which is deemed to be a “company controlled by the parent company” within the meaning of Rule 3a-5 of the 1940 Act;
- to use its commercially reasonable efforts to cause the LLC to remain a limited liability company and not to voluntarily dissolve, wind up, liquidate or be terminated, except as permitted by the LLC Agreement; and
- to use its commercially reasonable efforts to ensure that the LLC will not be: (a) an investment company for purposes of the 1940 Act; or (b) an association or a publicly traded partnership taxable as a corporation for United States federal income tax purposes.

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

prior to such transfer, it has received an opinion of an independent nationally recognized 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 at any time.

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

The LLC’s business and affairs will be conducted by its Board, which will consist initially of five members. The initial Regular Independent Director will be Donald Puglisi. The other initial members of the Board include Maurizio Brentegani, Giuseppe Morisi, Nicola Cenedese and Nicola Longo Dente, each of whom is an employee of the UniCredit Group. The majority of the members of the Board will not be residents of Italy.

The LLC Agreement will provide, however, that for so long as any LLC Preferred Securities are outstanding, certain amendments of the LLC Agreement, including any provisions with respect to the enforcement of the LLC Subordinated Guarantee and the payment of Dividends, require the unanimous approval of all of the holders of the LLC Preferred Securities, and certain other amendments of the LLC Agreement require the approval by the affirmative vote of the holders of such percentage of the outstanding LLC Preferred Securities as may be provided for in the LLC Agreement, excluding any LLC Preferred Securities held by the Bank or any of its affiliates. If, for any Dividend Period, Mandatory Dividends, and any LLC Additional Amounts in respect of such Mandatory Dividends, have not been paid in full on the LLC Preferred Securities by the LLC or by the Bank under the LLC Subordinated Guarantee, holders of LLC Preferred Securities will be entitled to appoint a Special Independent Director. 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 UniCredit Group.

The Bank will provide the LLC with the funds necessary for payment by the LLC of all of its fees and expenses that are not covered by the income from the Eligible Investments, including any taxes, duties, assessments or governmental charges of whatever nature (other than withholding taxes) imposed by the United States or any other domestic taxing authority upon the LLC, and all other obligations of the LLC (other than with respect to the LLC Securities).

The location of the registered office of the LLC is 430 Park Avenue, 9<sup>th</sup> Floor, New York, New York 10022 - 3258, United States.

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

On or before the Issue Date, the Property Trustee, on behalf of the Trust, will enter into an agency agreement (the “Agency Agreement”) with The Bank of New York, as the principal paying agent for the Trust Preferred Securities (the “Principal Paying Agent”), AIB/BNY Fund Management (Ireland) Limited, as the Irish paying agent for the Trust Preferred Securities (the “Irish Paying Agent” and, together with the Principal Paying Agent, the “Paying Agents”) and The Bank of New York, as registrar (the “Registrar”).

### DIVIDENDS

Periodic 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 with respect to the relevant Dividend Period. Amounts paid to holders of the Trust Preferred Securities in respect of Dividends and other distributions will be limited to payments received by the Trust from the LLC in accordance with the terms and conditions of the LLC Preferred Securities or from the Bank under the LLC Subordinated Guarantee with respect to the LLC Preferred Securities and amounts received from the Bank under the Trust Subordinated Guarantee.

Dividends on the Trust Preferred Securities, only if and to the extent the Trust has funds legally available for payment of such Dividends in the Trust’s property account, will accrue and be payable from and including October 27, 2005 on a non-cumulative basis as follows: (i) Dividends will accrue at the Fixed Dividend Rate of 5.396% of the relevant Trust Liquidation Preference per Trust Preferred Security during each Dividend Period until the Dividend Period that begins on October 27, 2015; and will be payable annually in arrear on October 27, commencing October 27, 2006; and (ii) during each Dividend Period after October 27, 2015 (the “Dividend Reset Date”), Dividends will accrue at the Floating Dividend Rate of 1.76% above STERLING LIBOR and will be payable quarterly in arrear on each January 27, April 27, July 27 and October 27 commencing on January 27, 2016 (each, a “Dividend Payment Date”).

Prior to the Dividend Period that begins on October 27, 2015, 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 will be calculated on the relevant Trust Liquidation Preference 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 the Issue Date), 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 October 27, 2015 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 other than a Saturday, Sunday or a day on which banking institutions in London, New York and Milan are authorized or required by law or executive order to remain closed.



With respect to each Dividend Period commencing with the Dividend Period that begins on October 27, 2015, Dividends payable on each Dividend Payment Date will be calculated on a quarterly basis for each such Dividend Period, from and including the STERLING LIBOR Reset Date (as defined below) falling in such quarter to but excluding the STERLING LIBOR Reset Date falling in the next succeeding Dividend Period at a Floating Dividend Rate determined on the related STERLING LIBOR Determination Date (as defined below) for such Dividend Period. The Dividend in respect of each Dividend Period will be calculated on the basis of a 360 day year and the actual number of days elapsed during such Dividend Period. Each Dividend Payment Date on or after October 27, 2015 will also be a STERLING LIBOR Reset Date. If any EURIBOR Reset Date, Dividend Payment Date or Redemption Date after October 27, 2015 falls on a day that is not a Business Day, such STERLING LIBOR 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.

STERLING LIBOR, with respect to a STERLING LIBOR Determination Date, means the rate (expressed as a percentage per annum) for deposits in sterling for a three-month period commencing on the STERLING LIBOR Reset Date that appears on Telerate Page 248 (as defined below) as of 11.00 a.m. (London time) on that STERLING LIBOR Determination Date. If such rate does not appear on Telerate Page 248, STERLING LIBOR will be determined by the Calculation Agent (as defined below) on the basis of the rates at which deposits in sterling for a three-month period commencing on the STERLING LIBOR 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 London interbank market at such time are offered in the London interbank market by four major banks in the London interbank market selected by the Calculation Agent, after consultation with the Bank, at approximately 11.00 a.m. (London time) on that LIBOR Determination Date.

The Calculation Agent will request the principal London 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, STERLING LIBOR in respect of that STERLING LIBOR Determination Date will be the arithmetic mean of such quotations. If fewer than two quotations are provided, STERLING LIBOR in respect of that STERLING LIBOR Determination Date will be the arithmetic mean of the rates quoted by three major lending banks in the London interbank market selected by the Calculation Agent at approximately 11.00 a.m. (London time) on that STERLING LIBOR Determination Date for loans in sterling to leading London banks for a three-month period commencing on the STERLING LIBOR 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, STERLING LIBOR for the applicable period will be the same as STERLING LIBOR determined on the previous STERLING LIBOR Determination Date.

“STERLING LIBOR Determination Date” for an Dividend Period commencing on or after October 27, 2015 means the applicable STERLING LIBOR Reset Date.

“STERLING LIBOR Reset Date” means the first day of any Dividend Period commencing on or after October 27, 2015.

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

“Telerate Page 248” means the display designated as “Page 248” on the Moneyline Telerate Screen (or such other page as may replace Page 248 on that service or such other service or services as may be nominated as the information vendor for the purposes of displaying STERLING LIBOR).

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

So long as the Trust Preferred Securities are listed on the Irish Stock Exchange and the rules of such exchange so require, the Calculation Agent will, on or prior to the first day of any Dividend Period, notify the Irish Stock Exchange of the Dividend Rate determined for such Dividend Period and will arrange for publication of such information in a leading daily newspaper having general circulation in the Republic of Ireland (which is expected to be *The Irish Times*).

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

#### **PAYMENT OF ADDITIONAL AMOUNTS**

All payments in respect of the Trust Securities will be made without withholding or deduction for or on account of any Relevant Tax, unless the withholding or deduction of such Relevant Tax is required by law. In that event, the Trust or, as the case may be the Bank, under the Trust Subordinated Guarantee, will pay such 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 the 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 or any other proof or documentation, if the Trust or the LLC or either of their agents has provided the beneficial owner of such Trust Securities or its nominee with at least 60 days' prior written notice of an opportunity to make such a declaration or claim.

#### **TRUST ENFORCEMENT EVENTS**

The occurrence, at any time, of: (1) non-payment of Dividends which have been declared or deemed declared on the Trust Securities for any Dividend Period; (2) a default by the Bank in respect of any of its obligations under the Trust Subordinated Guarantee; or (3) an LLC Enforcement Event (as defined below under “Description of the LLC Securities – LLC Preferred Securities – LLC Enforcement Events”) with respect to the LLC Preferred Securities will constitute an enforcement event under the Trust Agreement with respect to the Trust Securities (a “Trust Enforcement Event”); provided that, pursuant to the Trust Agreement, the holder of the Trust Common Securities will be deemed to have waived any Trust Enforcement Event with respect to the Trust Common Securities until all Trust Enforcement Events with respect to the Trust Preferred Securities have been cured, waived or otherwise eliminated. In the case of a Trust Enforcement Event set forth in clause (1) above, the Trust may cure such Trust Enforcement Event by making Dividend payments on the Trust Securities in full on each Dividend Payment Date for 12 consecutive months. Until every Trust Enforcement Event with respect to the Trust Preferred Securities has been so cured, waived or otherwise eliminated, the Property Trustee will be deemed to be acting solely on behalf of the holders of the Trust Preferred Securities and only the holders of the Trust Preferred Securities will have the right to direct the Property Trustee with respect to certain matters under the Trust Agreement and, in the case of non-payment of Mandatory Dividends on the LLC Preferred Securities for any Dividend Period, the election of one Special Independent Director to the Board. See “Description of the LLC Securities – LLC Preferred Securities – Voting Rights” and “Description of the LLC Securities – LLC Preferred Securities – Independent Directors Approval.” Upon the occurrence of a Trust Enforcement Event, the Trust will notify or cause the Irish Stock Exchange to be notified of such event. The Property Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Trust Agreement at the request or direction of any of the holders of the Trust Preferred Securities unless the holders of the Trust Preferred Securities shall have offered to the Property Trustee security or indemnity satisfactory to the Trustee against the cost, expenses and liabilities which might be incurred by it in compliance with such request or direction.

Upon the occurrence of a Trust Enforcement Event:

- (a) the Property Trustee, as the holder of the LLC Preferred Securities and at the direction of the holders of a majority of the outstanding Trust Preferred Securities, shall have the right to enforce the terms of the LLC Preferred Securities, including:
  - (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 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 on any Dividend Payment Date occurring on or after October 27, 2015, with the prior approval, if then required, of the Bank of Italy.

Upon the occurrence of an LLC Special Event (as defined below) (other than a Change in Law Tax Event and an Interpretation Tax Event), the LLC Preferred Securities may be redeemed by the LLC or the Guarantor, 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 October 27, 2015 (a "Regular Redemption Date"), or at the Special Redemption Price (as defined below) on any Dividend Payment Date if such redemption occurs prior to October 27, 2015 (the "Special Redemption Date" and, together with a Regular Redemption Date, a "Redemption Date"), in each case, with the prior approval, if then required, of the Bank of Italy. Upon the occurrence of a Change in Law Tax Event or a Tax Interpretation Event, the LLC Preferred Securities may be redeemed by the LLC, at its option, in whole but not in part, at the Regular 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.

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

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

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

"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 relevant LLC Liquidation Preference per LLC Preferred Security, together with the present values of the scheduled non-cumulative Dividend payments per LLC Preferred Security from the Special Redemption Date to the

Dividend Payment Date on October 27, 2015, 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 United Kingdom Reference Rate (as defined below) plus 0.50%.

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

“Comparable UK Treasury Stock Issue” means the United Kingdom government security selected by the Determination Agent as having a maturity comparable to October 27, 2015 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities having a maturity of October 27, 2015.

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

“Reference UK Treasury Stock Dealer” means any broker of gilts and/or gilt-edged market makers selected by the Determination Agent after consultation with the LLC and the Property Trustee.

“Reference UK Treasury Stock Dealer Quotations” means, with respect to each Reference UK Treasury Stock Dealer and the Special Redemption Date, the average, as determined by the Determination Agent, of the bid and asked prices for the Comparable UK Treasury Stock Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Determination Agent by such Reference UK Treasury Stock Dealer at 11.00 a.m. London time, on the third London Business Day immediately preceding the Special Redemption Date.

“Reference UK Treasury Stock Dealer Quotations” means, with respect to each Reference UK Treasury Stock Dealer and the Special Redemption Date, the average, as determined by the Determination Agent, of the bid and asked prices for the Comparable UK Treasury Stock Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Determination Agent by such Reference UK Treasury Stock Dealer at 11.00 a.m. London time, on the third London Business Day immediately preceding the Special Redemption Date.

“Determination Agent” means any international investment bank appointed by the Trust and acceptable to the Property Trustee.

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

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

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

An “Investment Company Event” means that the Bank shall have requested and received an opinion of a nationally recognized 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 recognized law firm or other tax advisers in the Relevant Jurisdiction, as appropriate, experienced in such matters, to the effect that, as a result of any amendment to, or other change (including any announced prospective change) in, the laws or treaties (or any regulations promulgated thereunder) of such Relevant Jurisdiction or any political subdivision or taxing authority thereof or therein affecting taxation, which amendment or other change is effective, or which change is announced, on or after the date of issue of the Trust Preferred Securities, the LLC Preferred Securities or the Derivative Contract, there is more than an insubstantial risk that: (A) the Trust or the LLC is or will be subject to more than a *de minimis* amount of taxes, duties or other governmental charges; (B) if a payment in respect of the Trust Preferred Securities or the LLC Preferred Securities were to be due (whether or not the same is in fact then due) on or before the next Dividend Payment Date, the Trust, the LLC or the Bank under the Subordinated Guarantees, as the case may be, would be unable to make such payment without having to pay Additional Amounts, LLC Additional Amounts or the Guarantor Additional Amounts, as the case may be; or (C) if a payment in respect of a Subordinated Deposit were to be due (whether or not the same is in fact then due) on or before the next interest payment date in respect of such Subordinated Deposit, the related Eligible Borrower would be unable to make such payment without having to pay Subordinated Deposit Additional Amounts; *provided, however*, that none of the foregoing events shall constitute a Change in Law Tax Event if such event or events may be avoided by the Bank, the related Eligible Borrower, the Trust or the LLC taking reasonable measures which: (x) do not require the Bank, 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 and provided further that the Bank, the Eligible Borrower, the LLC or the Trust shall not be required to take any measure which are not fully in compliance with the applicable provisions of law.

An “Interpretation Tax Event” means the receipt by the Bank of an opinion of a nationally recognized law firm or other tax advisers in the Relevant Jurisdiction, as appropriate, experienced in such matters, to the effect that, as a result of (1) a change in the official interpretation of the laws or treaties (or any regulations promulgated thereunder) of such Relevant Jurisdiction or any political subdivision or taxing authority thereof or therein affecting taxation; or (2) any judicial decision, official administrative pronouncement, published or private ruling, 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 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 hitherto generally accepted position, in each case, by any legislative body, court, governmental, administrative or regulatory authority or body, irrespective of the manner in which such clarification or change is made known, which Administrative Action, clarification or change is effective, or which notice or announcement is made, on or after the date of the initial issuance of the Trust Preferred Securities or the LLC Preferred Securities, there is more than an insubstantial risk that: (A) the Trust or the LLC is or will be subject to more than a *de minimis* amount of taxes, duties or other governmental charges; (B) if a payment in respect of the Trust Preferred Securities or the LLC Preferred Securities were to be due (whether or not the same is in fact then due) on or before the next Dividend Payment Date, the Trust, the LLC or the Bank under the Subordinated Guarantees, as the case may be, would be unable to make such payment without having to pay Additional Amounts, LLC Additional Amounts or Guarantor Additional Amounts, as the case may be; (C) if a payment in respect of a



Subordinated Deposit were to be due (whether or not the same is in fact then due) on or before the next interest payment date in respect of such Subordinated Deposit, the related Eligible Borrower would be unable to make such payment without having to pay Subordinated Deposit Additional Amounts; *provided, however*, that none of the foregoing events shall constitute an Interpretation Tax Event if such event or events may be avoided by the Bank, the related Eligible Borrower, the Trust or the LLC taking reasonable measures which: (x) do not require the Bank, 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 and provided further that the Bank, the Eligible Borrower, the LLC or the Trust shall not be required to take any measure which are not fully in compliance with the applicable provisions of law.

A "Tax Deductibility Event" means the receipt by the Bank of an opinion of a nationally recognized law firm or other tax advisers, as appropriate, in the Relevant Jurisdiction in which an Eligible Borrower under a Subordinated Deposit is located and experienced in such matters, to the effect that, as a result of: (1) any amendment to, or other change (including any announced prospective change) in, the laws or treaties (or any regulations promulgated thereunder) of such Relevant Jurisdiction or any political subdivision or taxing authority thereof or therein affecting taxation, which amendment or other change is effective, or which prospective change is announced, on or after the date of making of such Subordinated Deposit, or (2) a change in the official interpretation of the laws or treaties (or any regulations promulgated thereunder) of such Relevant Jurisdiction or any political subdivision or taxing authority thereof or therein affecting taxation, or (3) any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) (for purposes of this definition, an "Administrative Action"); or (4) any clarification of, or change in the official position or the interpretation or pronouncement of such Administrative Action or any interpretation or pronouncement that provides for a position with respect to such Administrative Action that differs from the hitherto generally accepted position, in each case, by any legislative body, court, governmental, administrative or regulatory authority or body, irrespective of the manner in which such clarification or change is made known, which Administrative Action, clarification or change is effective, or which notice or announcement is made, on or after the making of such Subordinated Deposit, there is more than an insubstantial risk that such an Eligible Borrower will be subject to more than a *de minimis* additional amount of national income taxes due to a change or modification of the deductibility of the interest payments on such Subordinated Deposit, *provided, however*, that none of the foregoing events shall constitute a Tax Deductibility Event if such event or events may be avoided by the related Eligible Borrower, the Trust or the LLC taking reasonable measures which (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 and provided further that the Bank, the Eligible Borrower, the LLC or the Trust shall not be required to take any measure which are not fully in compliance with the applicable provisions of law.

If the Trust gives a notice of redemption in respect of Trust Preferred Securities, then, by 10:00 a.m., London time, on the applicable Redemption Date, provided that the LLC has paid to the Property Trustee a sufficient amount of cash in connection with the related redemption of the LLC Preferred Securities, the Trust will irrevocably deposit with the Paying Agents funds sufficient to pay the applicable Redemption Price and will give the Paying Agents irrevocable instructions and authority to pay the applicable Redemption Price to the holders of the Trust Preferred Securities and will irrevocably deposit with the Property Trustee funds sufficient to pay such Redemption Price in respect of any Trust Preferred Securities in certificated form and will give the Paying Agents irrevocable instructions and authority to pay such amount to the holders thereof on surrender of their certificates. See "– Form, Denomination and Transfer." Payments of such funds will be made as described under "Payments" below. If notice of redemption shall have been given and funds deposited as required, then, immediately prior to the close of business on the date of such deposit, all rights of holders of such Trust Preferred Securities so called for redemption will cease, except the right of the holders of such Trust Preferred Securities to receive the applicable Redemption Price (but without interest on such Redemption Price). In the event that payment of the applicable Redemption Price in respect of Trust Preferred Securities is improperly withheld or refused and not paid either by the Trust, or by the Bank pursuant to the Trust Subordinated Guarantee, distributions on such Trust Preferred Securities will continue to accrue at the then applicable rate from the original Redemption Date to the date of payment, in which case the actual payment date will be considered the date fixed for redemption for purposes of calculating the applicable Redemption Price.



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

In accordance with, and subject to, the limitations set forth in the LLC Agreement, so long as any LLC Preferred Securities are outstanding, neither the Bank nor any 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, 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 a Dividend on the LLC Preferred Securities in full at the Dividend Rate for the then current Dividend Period and sufficient funds have been paid to the Paying Agents for payment of such Dividends. It is an obligation of the Bank to ensure that its affiliates observe the foregoing limitations.

If the LLC Preferred Securities are distributed to the holders of the Trust Preferred Securities following a Trust Liquidation (as defined below), the Bank and the LLC will notify such holders prior to such distribution in accordance with the provisions set forth in “General 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 Irish Stock Exchange or on such other international securities exchange or similar organization as the Trust Preferred Securities are then listed or quoted. The LLC Preferred Securities presently are not listed on the Irish Stock Exchange or any other securities exchange. See “Risk Factors – Risks relating to the Preferred Securities – Optional Redemption Upon the Occurrence of an LLC Special Event or 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 a Trust Liquidation (as defined below), holders of the Trust Preferred Securities will have a preference over holders of the Trust Common Securities as to payments of Dividends and other payments.

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

#### **LIQUIDATION DISTRIBUTION UPON DISSOLUTION**

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

Pursuant to the Trust Agreement, the Trust shall dissolve: (1) upon the bankruptcy, insolvency, liquidation or dissolution of the Bank or the LLC; (2) upon the filing of a certificate of cancellation with respect to the LLC; (3) the consent of at least a majority of the outstanding Trust Securities, voting together as a single class, to 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 pursuant to the terms thereof; 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 herein, under the Trust Act and under “Description of the Subordinated Guarantees – Amendment,” and as otherwise required by law and the Trust Agreement, the holders of the Trust Preferred Securities will have no voting rights.

Subject to the requirement of the Property Trustee obtaining a tax opinion as set forth 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 amount of the Trust Securities which is at least equal to the percentage of the aggregate liquidation amount of the LLC Preferred Securities required under the LLC Agreement may direct the Property Trustee to give such consent or take such action on behalf of the Trust; and (3) to direct the Independent Directors with respect to matters (including enforcement of the Subordinated Deposits) for which the Independent Directors act on behalf of the Property Trustee, as holder of the LLC Preferred Securities. See “Description of the LLC Securities – LLC Preferred Securities – Voting Rights.” Except with respect to directing the time, method and place of conducting a proceeding for a remedy as described above, the Property Trustee shall be under no obligation to take any of the actions described in clauses (1), (2) or (3) above unless the Property Trustee has obtained an opinion of an independent nationally recognized 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 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; (2) a description of any resolution proposed for adoption at such meeting on which such holders are entitled to vote; and (3) instructions for the delivery of proxies. 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, *provided, however*, that persons (other than affiliates of the Bank) to whom the Bank or any of its affiliates have pledged Trust Preferred Securities may vote or consent with respect to such pledged Trust Preferred Securities pursuant to the terms of such pledge.

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

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

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

#### **MERGER, CONSOLIDATION, CONVERSION OR AMALGAMATION 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 organized 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 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 organization 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 recognized law firm in the United States experienced in such matters to the effect that: (A) such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease will not adversely affect the rights, preferences and privileges of the holders of the Trust Preferred Securities (including any Successor Securities) in any material respect; and (B) following such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease: (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% of the Trust Preferred Securities outstanding, consolidate, amalgamate, convert, or merge with or into, or be replaced by any other entity or permit any other entity to consolidate, amalgamate, merge with or into, or replace it, if such consolidation, amalgamation, conversion, merger, replacement, conveyance, transfer or lease would cause the Trust or the successor entity not to be classified as a grantor trust for United States federal income tax purposes.

#### **MODIFICATION OF THE TRUST AGREEMENT**

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

amendment provides for, or the Regular Trustees otherwise propose to effect: (1) any action that would materially and adversely affect the powers, preferences or special rights of the Trust Securities, whether by way of amendment to the Trust Agreement or otherwise; or (2) the dissolution, winding-up or termination of the Trust other than pursuant to the terms of the Trust Agreement, then the holders of the Trust Securities voting together as a single class will be entitled to vote on such amendment or proposal and such amendment or proposal shall not be effective except with the approval of at least a majority of the holders of any outstanding Trust Securities affected thereby; provided, 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% 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 Tier I capital for the Bank.

## **FORM, DENOMINATION AND TRANSFER**

### **General**

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

On or about the Issue Date, the Global Securities will be deposited with, and registered in the name of the Common Depositary for Euroclear and Clearstream, Luxembourg or its nominee. Beneficial interests in the Permanent Global Certificate may be exchanged for definitive Trust Preferred Securities (at the cost and expense of the Bank) if and only if 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 £50,000 or integral multiples of £1,000 above £50,000 per Trust Preferred Security (the “Trust Preferred Security Certificates”). No definitive Trust Preferred

Security Certificates delivered in exchange for a Permanent Global Certificate will be mailed or otherwise delivered to any location in the United States in connection with such exchange. An exchange for definitive Trust Preferred Security Certificates will be made at no charge to the holders of the interests in the Permanent Global Certificate being exchanged. Notwithstanding the foregoing, from and after such time as definitive Trust Preferred Security Certificates are issued in exchange for the Permanent Global Certificate, any remaining interest in the Temporary Global Certificate will be exchangeable only for definitive Trust Preferred Security Certificates. Until exchange in full, the holder of an interest in any Global Certificate shall in all respects be entitled to the same benefits as the holder of definitive Trust Preferred Security Certificates.

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

A definitive Trust Preferred Security Certificate may be transferred or exchanged upon the surrender of the definitive Trust Preferred Security Certificate to be transferred or exchanged, together with the completed and executed assignment, at the specified office of the Registrar or any transfer agent. New certificates will be dispatched to holders within five business days of such surrender and assignment.

Definitive Trust Preferred Security Certificates will be transferred or exchanged at the offices of the Registrar as set forth in the Agency Agreement. No service charge will be imposed for any registration of transfer or exchange, but payment of a sum sufficient to cover any tax or other governmental charge imposed in connection therewith may be required.

### **Transfers Within Global Securities**

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

### **Global Securities**

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

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

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

### **Payments; Certifications by Holders of the Temporary Global Certificate**

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

### **INFORMATION CONCERNING THE PROPERTY TRUSTEE**

The Property Trustee, prior to the occurrence of a default with respect to the Trust Securities, undertakes to perform only such duties as are specifically set forth in the Trust Agreement and, after such default, shall



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

### **REGISTRAR, TRANSFER AGENT AND PAYING AGENTS**

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

### **PAYMENTS**

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

If definitive Trust Preferred Securities are issued in the limited circumstances described above, payments on the Trust Preferred Securities will be made by cheque mailed to the address of the holder entitled to receive the payment as such address appears on the Trust's register, provided that, on redemption of definitive Trust Preferred Securities, payment of the applicable Redemption Price shall be made to the holders against surrender to the relevant Paying Agent of the certificate(s) representing their Trust Preferred Securities.

### **PRESCRIPTION**

Any Dividend or Redemption Price shall have a prescription period of ten years from its date of declaration, upon the expiry of which any such amount shall be forfeited and shall cease to be owing by the Trust.

### **NOTICES**

Notices to the holders of the Trust Preferred Securities will be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg and any other relevant securities clearing system for communication by each of them to participants, and so long as the Trust Preferred Securities are listed on one or more stock exchanges and the rules of such stock exchange(s) so require, notice shall also be published in such manner as the rules of such stock exchange(s) may require. See "General 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 UniCredito Italiano S.p.A., London branch, at its principal office, from time to time, presently at 17 Moorgate, London EC2R 6PH, 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 UniCredito Italiano S.p.A., New York branch, at its principal office, from time to time, presently at 430 Park Avenue, 9th Floor, New York, NY 10022-3258, 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 authorized and directed to conduct the affairs of and to operate the Trust in such a way that the Trust will not be required to register under the 1940 Act or be characterized as other than: (x) a grantor trust; or (y) a foreign trust for United States federal income tax purposes. In this connection, the Regular Trustees are authorized to take any action, not inconsistent with applicable law, in respect of the certificate of trust or the Trust Agreement that the Regular Trustees determine in their discretion to be necessary or desirable for such purposes as long as such action does not adversely affect the interests of the holders of the Trust Preferred Securities.

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## Description of the LLC Securities

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

### LLC COMMON SECURITIES

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

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

### LLC PREFERRED SECURITIES

#### General

The LLC Preferred Securities will rank senior to the LLC Common Securities with respect to the payment of Dividends and the right to receive payments out of the assets of the LLC upon voluntary or involuntary dissolution, liquidation or winding-up of the LLC. The LLC Preferred Securities will rank *pari passu* among themselves.

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

#### Dividends

Dividends on the LLC Preferred Securities will be paid when, as and if declared (or deemed declared) by the LLC Board, 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 on the LLC Preferred Securities in respect of a relevant Dividend Period, holders of the LLC Preferred Securities (and consequently, holders of the Trust Preferred Securities) will not receive, and will have no right to, receive those Dividends 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 non-cumulative basis as follows:

(i) Dividends will accrue at the Fixed Dividend Rate of 5.396% of the relevant LLC Liquidation Preference per LLC Preferred Security during each Dividend Period until the Dividend Period that begins on October 27, 2015, 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 1.76% above STERLING LIBOR 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 October 27, 2015.

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

The LLC is required to pay the Mandatory Dividends in full on the LLC Preferred Securities on each Dividend Payment Date unless:

(1) the Bank does not have, according to the non-consolidated annual accounts of the Bank relating to the financial year immediately preceding the financial year in which the relevant Dividend Payment Date falls

or, where such accounts are not available, the last set of annual non-consolidated 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 of any class of its share capital, or the Bank has not declared or paid dividends on any class of its share capital based on the accounts used to calculate the relevant Distributable Profits; or

(2) the Bank is otherwise prohibited under applicable Italian banking laws or regulations from declaring a dividend or making a distribution on any class of its share capital; or

(3) a Capital Deficiency Event has occurred and is continuing or would result from the payment thereof;

*provided* that the LLC will be prohibited from paying Dividends for any Dividend Period upon the occurrence and during the continuation of a Capital Deficiency Event; 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 any Junior Securities (as defined below), the LLC will be required to declare and pay such Dividends on any Dividend Payment Date:

(1) in full if:

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

(2) *pro rata* if:

- (A) the Bank or any Subsidiary has declared or paid a dividend or distribution or made any other payment with respect to a Parity Security that pays dividends or other distributions on an annual basis during the 12-month period immediately preceding and including such Dividend Payment Date;
- (B) the Bank or any Subsidiary has declared or paid a dividend or distribution or made any other payment with respect to a Parity Security that pays dividends or other distributions on a 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 semi-annually during the three-month period immediately preceding and including such Dividend Payment Date.

In the event that Dividends are deemed payable on any Dividend Payment Date pursuant to 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.

Notwithstanding any other provision in the LLC Agreement other than section 9.2 thereof, and subject to applicable law, if the LLC Board does not declare or pay Mandatory Dividends on the LLC Preferred Securities at the times and in the amounts authorized in clauses (A) and (B) above, then such Mandatory Dividends on the LLC Preferred Securities shall be deemed declared at the times and in the amounts so authorized, and the holders of LLC Preferred Securities shall be entitled to receive such Mandatory Dividends without any further act, vote or approval of the Board, any holder of LLC Securities or any other person.

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

“Parity Securities” means: (1) any preference shares, guarantees or similar instruments (other than the Subordinated Guarantees) issued by the Bank which rank 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 any Subsidiary with the benefit of a guarantee or similar instrument from the Bank, which guarantee or similar instrument ranks equally with the Subordinated Guarantees (but does not include any such securities or shares issued to the Bank by any such Subsidiary) including the 540,000 8.048% Trust Preferred Securities issued by UniCredito Italiano Capital Trust I, the 450,000 9.20% Trust Preferred Securities issued by UniCredito Italiano Capital Trust II and the Other Trust Preferred Securities issued by UniCredito Italiano Capital Trust III (collectively, the “Outstanding UniCredit Tier I Securities”) and certain securities issued by the HVB Group to the extent that the proposed Business Combination is successfully completed.

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

**Payment of LLC Additional Amounts**

All payments in respect of the LLC Preferred Securities made by or on behalf of the LLC will be made without withholding or deduction for or on account of any Relevant Tax payable by or on behalf of the LLC, unless the withholding or deduction of such Relevant Tax is required by law. In that event and if the LLC Preferred Securities are held by the Trust and the Trust is required by law to deduct any Relevant Tax on payments in respect of the Trust Securities, the LLC will pay the LLC Additional Amounts as may be necessary in order that the net amounts received by the holders of the LLC Preferred Securities and/or of the Trust Securities, after such withholding or deduction, will equal the amount which would have been received in respect of the LLC Preferred Securities and/or of the Trust Securities in the absence of such withholding or deduction, except that no such LLC Additional Amounts will be payable to a holder of LLC Preferred Securities (or to a third party on the holder’s behalf) with respect to any LLC Preferred Securities to the extent that such Relevant Tax is imposed or levied by virtue of such holder (or the beneficial owner of such LLC Preferred Securities) or a holder (or beneficial owner) of Trust Securities: (1) having some connection with the Relevant Jurisdiction, other than being a holder (or beneficial owner) of such LLC Preferred Securities or 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 LLC, the Trust 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 on any matter, in any proceedings or to be represented at, or to receive notice of, any meeting of holders of LLC Securities.

If, for any Dividend Period, Mandatory Dividends on the LLC Preferred Securities and any LLC Additional Amounts in respect of such Mandatory Dividends on the LLC Preferred Securities have not been paid in full by the LLC or by the Bank under the LLC Subordinated Guarantee with respect to the LLC Preferred Securities (together with any additional amounts in respect of such guarantee), then the holders of outstanding LLC Preferred Securities will be entitled, by ordinary resolution passed by the holders of a majority of such securities present in person or by proxy at a separate general meeting of such holders convened for the purpose, to appoint one Special Independent Director to the Board. 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. Any such Special Independent Director may be removed with or without cause by, and shall not be removed except by, the vote of a majority in liquidation amount of the outstanding LLC Preferred Securities entitled to vote, at a meeting of the holders of LLC Common Securities or of the LLC Preferred Securities entitled to vote thereon, called for that purpose.

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

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

### LLC Enforcement Events

If one or more of the following events shall occur and be continuing (each, an “LLC Enforcement Event”):

(1) non-payment of Dividends which have been declared or deemed declared on the LLC Preferred Securities for any Dividend Period; (2) a default by the Bank in respect of any of its obligations under the LLC Subordinated Guarantee; or (3) an event of default with respect to any Subordinated Deposit occurs and is continuing, then the Property Trustee, in accordance with the Trust Agreement, for so long as the LLC Preferred Securities are held by the Property Trustee, will have the right, or, 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, to the maximum extent permitted by the applicable law;
- 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 to the fullest extent permitted by law 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, rather than making distributions on the LLC Preferred Securities. Any member of the Board, including the Independent Directors, shall not, by virtue of acting in such capacity, be admitted as a member of the LLC or otherwise be deemed to be a member of the LLC and shall have no liability for the debts, obligations or liabilities of the LLC.

**Independent Director Approval**

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

The LLC Agreement provides that, for so long as any LLC Preferred Securities are outstanding, the Regular Independent Director, acting alone and without the vote or consent of the other members of the Board, has the right and obligation on behalf of the LLC to enforce and otherwise act on behalf of the LLC with respect to the Subordinated Deposits and the LLC Subordinated Guarantee. The LLC Agreement provides that the Regular Independent Director will, to the fullest extent permitted by law: (i) consider only the interests of the holders of LLC Preferred Securities in determining whether any proposed action requiring their approval is in the best interests of the LLC; and (ii) in considering the interests of holders of LLC Preferred Securities, the Regular Independent Director shall owe the holders of the LLC Preferred Securities duties comparable to those that a director of a Delaware corporation owes to shareholders of a corporation.

So long as any LLC Preferred Securities are outstanding, the Designated Actions must be approved by 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 or renewal of the LLC Preferred Securities, the LLC Subordinated Guarantee, the Subordinated Deposits or the Derivative Contracts (or any other security, contract obligation, agreement or instrument that is an asset of the LLC) which adversely affects the powers, preferences or special rights of the LLC Preferred Securities in any material respect; (5) the approval of the sale, transfer or other disposition by the Bank of the LLC Common Securities other than to a branch of the Bank or to a Subsidiary of the Bank that is deemed to be a "company controlled by the parent company" under Rule 3a-5 of the 1940 Act; and



(6) any other action by the LLC or the Bank that could reasonably be expected to adversely affect the interests of the holders of the LLC Preferred Securities in any material respect.

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 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 may be redeemed by the LLC, at its option, in whole but not in part, the Regular Redemption Price on any Dividend Payment Date occurring on or after October 27, 2015, with the prior approval, if then required, of the Bank of Italy upon not less than 30 nor more than 60 days' notice to the holders of the LLC Preferred Securities. See "Description of the Trust Securities – Redemption."

### **LLC Special Events**

If an LLC Special Event occurs (other than a Change in Law Tax Event or an Interpretation Tax Event), then the LLC Preferred Securities may be redeemable on any Dividend Payment Date, in whole but not in part, at the option of the LLC, subject to the prior approval, if then required, of the Bank of Italy, at the Regular Redemption Price if such redemption occurs on or after October 27, 2015, or at the Special Redemption Price if such redemption occurs prior to October 27, 2015. Any such redemption shall be upon not less than 30 nor more than 60 days' notice to the holders of the LLC Preferred Securities. Upon the occurrence of a Change in Law Tax Event or an Interpretation Tax Event, the LLC Preferred Securities may be redeemed by the LLC, at its option, in whole but not in part, at the Regular Redemption Price on any Dividend Payment Date, with the prior approval, if then required, of the Bank of Italy. 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 relevant LLC Liquidation Preference 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 shareholders 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 (as defined herein) shall enforce the LLC Subordinated Guarantee solely for the benefit of the Trust as sole holder of the LLC Preferred Securities.

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

### **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 organized 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 upon notification of official issuance, on any international securities exchange or similar organization 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 recognized statistical rating organization 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 recognized law firm in the United States experienced in such matters to the effect that: (A) such successor entity will be treated as a partnership, and will not be classified as an association or a publicly traded partnership taxable as a corporation, for United States federal income tax purposes; (B) if the LLC Preferred Securities are held by the Trust at the time, such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease would not cause the Trust to be classified as other than a grantor trust for United States federal income tax purposes; (C) following such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease, such successor entity will not be required to register as an “investment company” under the 1940 Act; and (D) such consolidation, amalgamation, merger, conversion, replacement, conveyance, transfer or lease will not adversely affect the limited liability of the holders of the LLC Preferred Securities; and (8) the Bank guarantees the obligations of such successor entity under any LLC Successor Securities at least to the extent provided by the LLC Subordinated Guarantee.

### **BOOK-ENTRY AND SETTLEMENT**

If the LLC Preferred Securities are distributed to holders of Trust Preferred Securities in connection with the involuntary or voluntary dissolution, winding-up or liquidation of the Trust as a result of the occurrence of a Trust Special Event, the LLC Preferred Securities will be issued in the same form as the Trust Preferred Securities they replace. Any global certificate will be replaced by one or more global certificates (each, a “Global LLC Preferred Certificate”) registered in the name of the relevant clearing system or its custodian as the depositary or its nominee. As of the date of this Offering Circular, the description herein of the clearing system’s book-entry system and the clearing system’s practices as they relate to purchase, transfers, notices and payments with respect to the Trust Preferred Securities apply in all material respects to any LLC Preferred Securities represented by one or more Global LLC Preferred Certificates.

**REGISTRAR, TRANSFER AGENT AND PAYING AGENT**

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

**GOVERNING LAW; 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 UniCredito Italiano S.p.A., London Branch, at its principal office from time to time, presently at 17 Moorgate, London EC2R 6PH, 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 UniCredito Italiano S.p.A., New York branch, at its principal office, from time to time, presently at 430 Park Avenue, 9th Floor, New York, NY 10022-3258, 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 the 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 authorized and directed to conduct the affairs of the LLC in such a way that (1) the LLC will not be deemed to be required to register under the 1940 Act and (2) the LLC will not be treated as an association or as a “publicly traded partnership” (within the meaning of Section 7704 of the U.S. Internal Revenue Code) taxable as a corporation for United States federal income tax purposes. In this connection, the Board is authorized 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 the consent of each holder of the LLC Preferred Securities.

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## 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 £3,300,000, the LLC will agree to make a Capital Deficiency Payment (as defined below) to the Bank upon the occurrence of a Capital Deficiency Event. The LLC is not obligated to make any other payment under the Initial Derivative Contract. The Initial Subordinated Deposit will secure the LLC's obligations under the Initial Derivative Contract.

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

### CAPITAL DEFICIENCY EVENT

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

Upon the occurrence of a Capital Deficiency 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 Capital Deficiency Event; and (2) the outstanding amount payable by the LLC under the Derivative Contracts (the "Capital Deficiency Payment"), which may not exceed the amount standing to the credit, for the time being, of the Subordinated Deposit. If the LLC fails to make a Capital Deficiency Payment in cash, the obligation of the LLC to make payment to the Bank of a Capital Deficiency Payment under the Derivative Contracts will be satisfied by the Bank reducing the amount standing to the credit of the Subordinated Deposits by the amount of such Capital Deficiency Payment, according to set-off arrangements contained in the Subordinated Deposits and the Derivative Contracts.

### EXPIRATION AND TERMINATION

The Initial Derivative Contract will expire on October 27, 2025, although the Bank and the LLC will undertake that, prior to the expiration of the Initial Derivative Contract, they will in good faith negotiate a renewal or replacement of such contract and the related collateral arrangements in case optional redemption of the LLC Preferred Securities does not take place.

The Derivative Contract can only be terminated by mutual consent, in whole or in part, by the Bank and the LLC, with the prior approval, if then required, of the Bank of Italy.

However, until October 27, 2015, the LLC and the Bank may only terminate a Derivative Contract (the "Subject Contract") by mutual consent if: (1) the LLC and the Bank enter into a new Derivative Contract that is issued and effective simultaneously with the expiration of the Subject Contract and is secured by a Subordinated Deposit with the same stated amount and maturity date as the stated amount and maturity date of the Subordinated Deposit that secures the Subject Contract; (2) there would be no adverse withholding tax consequences to holders of the Trust Preferred Securities or the LLC Preferred Securities as a consequence of such termination; (3) the Bank receives written confirmation from the Bank of Italy approving such termination and the new Derivative Contract and confirming that the Trust Preferred Securities would continue to qualify as Tier I capital of the Bank on a consolidated basis; (4) neither the Trust nor the LLC would be required to register as an investment company under the 1940 Act; (5) the

## Description of the Initial Derivative Contract

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LLC would continue to be treated as a partnership and the Trust would be classified as a grantor trust, in each case, for U.S. federal income tax purposes; and (6) the Bank delivers to the LLC an officers' certificate and an opinion of counsel stating that all conditions precedent to such termination and entering into such new Derivative Contract have been complied with.

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

- 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 relevant LLC Liquidation Preference per LLC Preferred Security, plus any unpaid Dividends (to the extent declared or deemed declared) and any Additional Amounts thereon.

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

If the Initial Derivative Contract is terminated before October 27, 2025, 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 England.

In relation to any legal action or proceedings arising out of or in connection with the Derivative Contract, each of the Bank and the LLC has irrevocably submitted to the jurisdictions of the courts of England, and has appointed UniCredito Italiano S.p.A., London branch, at its principal office from time to time, presently at 17 Moorgate, London EC2R 6PH, as its agent for service of process in England. 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.

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## 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 defence, right of set-off or counterclaim which the LLC or the Trust may have or assert, other than the defence of payment. The Bank's obligations under the Subordinated Guarantees are several and independent of the obligations of the LLC with respect to the LLC Preferred Securities or the obligations of the Trust with respect to the Trust Securities.

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

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

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

If the LLC fails to make a Capital Deficiency Payment to the Bank in cash upon the occurrence of a Capital Deficiency Event, under the Subordinated Deposits, all or a portion of the Subordinated Deposits will be reduced as a result of a set-off in the amount of any Capital Deficiency Payment. Consequently, it is anticipated that, a substantial portion of any claims of the holders of the LLC Preferred Securities after the occurrence of a Capital Deficiency Event will be required to be satisfied under the LLC Subordinated Guarantee.

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 preference shares of the Bank, if any, and each other, and senior to all its share capital of the Bank, including its other *Azioni Privilegiate*, ordinary shares and *Azioni di Risparmio*, and the holders of the LLC Preferred Securities and the Trust Preferred Securities, by their acceptance thereof, are deemed to agree to the foregoing subordination.

**PAYMENT OF GUARANTOR ADDITIONAL AMOUNTS**

All Subordinated Guarantee Payments in respect of the LLC Preferred Securities and the Trust Securities made by or on behalf of the Bank will be made without withholding or deduction for or on account of any Relevant Tax payable by or on behalf of the Bank, unless the withholding or deduction of the Relevant Tax is required by law. In that event, the Bank will pay such 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 Subordinated Guarantees that, for so long as any Trust Preferred Securities or LLC Preferred Securities remain outstanding, 100% of the Trust Common Securities and the LLC Common Securities will be held by the Bank, another branch of the Bank or, with the consent of the Bank of Italy, if then required, a subsidiary of the Bank which is deemed to be a “company controlled by the parent company” within the meaning of Rule 3a-5 of the 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 “UniCredito Italiano Capital Trust IV” and “UniCredito Italiano Funding LLC IV” for certain additional covenants to be made by the Bank.

### **NO ASSIGNMENT**

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

### **TERMINATION**

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

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

### **AMENDMENT**

Except for those changes provided for in the last sentence of this paragraph (in which case no approval will be required) and changes to the provisions of the Subordinated Guarantees in respect of the Subordinated Guarantee Payments and the circumstances under which Dividends are deemed to have been declared (in which case approval of each holder of the LLC Preferred Securities and the Trust Securities is required), the Subordinated Guarantees may be modified only with the prior approval of the holders of not less than 66⅔ % of the LLC Preferred Securities and not less than 66⅔ % of the Trust Securities (excluding any LLC Preferred Securities and Trust Securities, as the case may be, held by the Bank or any of its affiliates, except that persons (other than affiliates of the Bank) to whom the Bank or any of its subsidiaries have pledged LLC Preferred Securities or Trust Securities may vote or convert with respect to such pledged securities pursuant to the terms of such pledge).

In accordance with the terms of the Subordinated Guarantees, the Subordinated Guarantees may be amended without the consent of the holders of the Trust Securities or LLC Securities 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 be required to register as an investment company under the 1940 Act; (B) cause the Trust to fail to be treated as a grantor trust and a domestic trust for United States federal income tax purposes; (C) cause the LLC to be treated as other than a partnership that is not a publicly traded partnership for United States federal income tax purposes; or (D) have a material adverse effect on the rights, preferences or privileges of the holders of the Trust Securities or LLC Preferred Securities.

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

**GOVERNING LAW; SUBMISSION TO JURISDICTION**

The Subordinated Guarantees will be governed by, and construed in accordance with, the laws of England, except that the subordination provisions thereof will be governed by the laws of the Republic of Italy.

In relation to any legal action or proceedings arising out of or in connection with the Subordinated Guarantees, the Bank will agree to submit to the non-exclusive jurisdictions of the courts of England, and has appointed UniCredito Italiano S.p.A., London branch, at its principal office from time to time, presently at 17 Moorgate, London EC2R 6PH, as its agents for service of process in England. The Bank will also agree to irrevocably waive, to the fullest extent it may effectively do so, the defense of any inconvenient forum to the maintenance of such action or proceeding.

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## 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 (as defined below)), swaps, derivative contracts or other securities which are identified as a permitted investment of a finance subsidiary pursuant to Rule 3a-5 under the 1940 Act at the time such security is acquired by the LLC.

The LLC will initially invest £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 Circular as a “Subordinated Deposit” and will constitute an unsecured obligation of the Bank and will rank subordinate and junior to indebtedness of the Bank (including bonds, notes and debentures, whether senior or subordinated, and instruments constituting “Upper Tier II” or “Lower Tier II” capital of the Bank but, excluding any instrument or contractual right effectively ranking *pari passu* with the Subordinated Deposits), *pari passu* with the most senior preference shares of the Bank, if any, the subordinated guarantees issued by the Bank to secure the obligations arising from the Outstanding UniCredit Tier I Securities and each other, and senior to the share capital of the Bank, including *Azioni Privilegiate*, ordinary shares and *Azioni di Risparmio* and any other instruments issued by the Bank and expressed to rank *pari passu* with the share capital of the Bank.

The Initial Subordinated Deposit will mature on October 27, 2025, *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 payment obligations under the Derivative Contracts. In the event that under a Derivative Contract the LLC is obligated to make a Capital Deficiency Payment to the Bank, if the LLC fails to make such Capital Deficiency Payment, such obligation will be satisfied by applying the amount of such Capital Deficiency Payment as a set-off against the Subordinated Deposits then outstanding on a pro rata basis by the Bank.

#### Interest

Interest on the Subordinated Deposits will accrue and be payable as follows: (i) interest will accrue at the annual rate of 5.296% of the principal amount thereof from the Issue Date to but excluding October 27, 2015, 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 1.66% above STERLING LIBOR for three-month deposits of the principal amount of such Subordinated Deposit and will be payable quarterly in arrear, on the same dates as the quarterly Dividend Payment Dates of the Trust Preferred Securities and the LLC Preferred Securities.

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

#### Redemption

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

**Payment of Subordinated Deposit Additional Amounts**

All payments made by or on behalf of any Eligible Borrower in respect of the Subordinated Deposits will be made without withholding or deduction for or on account of any Relevant Tax payable by or on behalf of any Eligible Borrower, unless the withholding or deduction of such Relevant Tax is required by law. In that event, such Eligible Borrower will pay, as further interest, such Subordinated Deposit Additional Amounts as may be necessary in order that the net amounts received by the holders of the Subordinated Deposits (or to a third party on such holder's behalf) after such withholding or deduction will equal the amount which would have been received in respect of the Subordinated Deposits in the absence of such withholding or deduction, except that no such Subordinated Deposit Additional Amounts will be payable to a holder of Subordinated Deposits (or to a third party on the holder's behalf) with respect to any Subordinated Deposits, to the extent that such Relevant Tax is imposed or levied by virtue of such holder (or the beneficial owner of such Subordinated Deposits) (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 nonresidence in, or other lack of connection with, the Relevant Jurisdiction or any similar claim for exemption, if the Bank or any Eligible Borrower or their agent has provided the beneficial owner of such Subordinated Deposits, or its nominee with at least 60 days' prior written notice of an opportunity to make such a declaration or claim.

**Reinvestment of Proceeds**

The LLC may reinvest the proceeds from the repayment of a Subordinated Deposit only if: (1) there would be no adverse tax consequences to the LLC or 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 I capital of the Bank on a consolidated basis, (4) neither the Trust nor the LLC would be required to register as an investment company under the 1940 Act; (5) the LLC would continue to be treated as a partnership and the Trust would be classified as a grantor trust, in each case, for U.S. federal income tax purposes; and (6) the LLC receives an officers' certificate and an opinion of counsel stating that all conditions precedent to any reinvestment have been complied with.

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

**Governing Law**

The Subordinated Deposits will be governed by the laws of the Republic of Italy.

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## Taxation

*The following is a summary of the principal U.S. federal and Italian income tax consequences of the purchase, ownership and disposition of the Trust Preferred Securities. The U.S. 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. The following summary 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 U.S. federal income tax law (such as banks, insurance companies, regulated investment companies, real estate investment trusts, dealers in securities or currencies, a non-U.S. holder (as defined below) carrying on a trade or business in the United States, an owner (or deemed owner) of 10% or more of the voting stock of the Bank, or a partnership or other entity classified as a partnership for U.S. federal income tax purposes), 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 U.S. dollar or the euro, respectively. In addition, the summary does not address the U.S. Federal or Italian income tax treatment of a Trust Preferred Securityholder on or after the occurrence of a Capital Deficiency Event. The U.S. tax summary is based upon the Internal Revenue Code of 1986, as amended, the Treasury regulations promulgated thereunder and other administrative and judicial authorities in effect as of the date hereof, all of which are subject to change (possibly with retroactive effect). The Italian tax summary is based upon legislation in effect as of the date hereof and administrative practice, all of which are subject to change (possibly with retroactive effect). Italian Law No. 80 of April 7, 2003 for the reform of the Italian tax system has empowered the Italian Government to introduce – within a two-year period – a general reform of the Italian tax regime of financial income and of taxation of individuals and corporations that may impact on the current Italian tax regime in respect of the Trust Preferred Securities, as summarized below. Part of this reform has been enacted by Italian Legislative Decree No. 344 of December 12, 2003, effective as of January 1, 2004. However, on March 18, 2005, the Italian Council of Ministers approved a draft of Legislative Decree (the “Correttivo IRES”), currently pending for necessary approval from the Italian Parliament, that provides for some amendments to such part of reform that may impact on the current Italian tax regime of the purchase, ownership and disposal of the Trust Preferred Securities summarized below.*

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

### **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 UniCredito Capital Trust IV.

#### **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 and do not have a permanent establishment in Italy to which the Trust Preferred Securities are effectively connected, except as indicated below for payments made by the Guarantor.

If the Trust Preferred Securities are held in Italy, non-Italian resident beneficial holders of the Trust Preferred Securities may be required to declare to be non-Italian tax resident to the financial intermediary depository of the Trust Preferred Securities, pursuant to Italian tax provisions.

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 or similar securities, 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.

Pursuant to Legislative Decree No. 239 of April 1, 1996 (“Decree No. 239”), interest (including (i) any difference between the redemption amount and the issue price and (ii) in the case of sales for consideration of the Trust Preferred Securities, any proceeds that represent accrued and expressly or implicitly recognized interest and other proceeds in respect of sales of the Trust Preferred Securities) paid, amongst others, to the following categories of Italian resident beneficial owners is subject to a 12.5% final substitute tax (*imposta sostitutiva*):

- (iii) Partnerships (other than *società in nome collettivo*, *società in accomandata semplice* or similar partnerships), de facto partnerships not carrying out commercial activities, professional associations, public and private entities other than companies, not carrying out commercial activities, government entities and entities exempt from corporate income tax. Pursuant to Decree No. 239, *imposta sostitutiva* is applied by banks, SIMs, fiduciary companies, SGRs, stockbrokers and other entities identified in a decree by the Ministry of Economy and Finance (each an “Intermediary”). An Intermediary must (i) be resident in Italy or be a permanent establishment in Italy of a non-Italian resident financial intermediary; and (ii) intervene, in any way, in the collection of interest or in the transfer of the Trust Preferred Securities. For the purpose of the application of the *imposta sostitutiva*, a transfer of Trust Preferred Securities includes any assignment or other act, either with or without consideration, which results in a change of the ownership of the relevant Trust Preferred Securities or in a change of the Intermediary with which the Trust Preferred Securities are deposited. Where the Trust Preferred Securities are not deposited with an Intermediary, the *imposta sostitutiva* is applied and withheld by any Italian intermediary (including a permanent establishment in Italy of a foreign entity) paying interest to a beneficial owner. Where payments on the Trust Preferred Securities are not received through the intervention of an Italian resident intermediary and as such no *imposta sostitutiva* is applied, the recipients will be required to declare the payments in their yearly tax return and subject them to 12.5% substitute tax, unless option for a different regime is allowed and made. The substitute tax is final and discharges all tax liabilities of the recipient in connection with the interest payments received.
- (iv) Individuals holding Trust Preferred Securities not in connection with entrepreneurial activities. The 12.5% final *imposta sostitutiva* is required to be applied by the Intermediaries that intervene, in any way, in the collection of interest payments on the Trust Preferred Securities or in the transfer of the Trust Preferred Securities. Where the Trust Preferred Securities are not deposited with an Intermediary and no *imposta sostitutiva* is applied by any other Italian intermediary (including a permanent establishment in Italy of a foreign entity) intervening in the interest payments, the individual beneficial owners will be required to declare the payments in their yearly income tax return and subject them to a final substitute tax at a rate of 12.5%, unless option for a different regime is allowed and made. The individual beneficial owners may elect instead to pay ordinary personal income taxes at the progressive rates applicable to them in respect of the payments; if so, the beneficial owners should generally benefit from a tax credit for withholding taxes applied outside Italy, if any. If the Trust Preferred Securities form part of a portfolio managed on a discretionary basis by a qualified Italian professional intermediary, for payments in respect of the Trust Preferred Securities received, and any gain from the disposal of the Trust Preferred Securities derived, by Italian resident individuals holding Trust Preferred Securities not in connection with entrepreneurial activities, an alternative method of taxation (the so called “*risparmio gestito*” regime) may be available. Under the “*risparmio gestito*” regime, according to Art. 7, paragraph 3, of Legislative Decree No. 461 of November 21, 1997, (“Decree No. 461”), the payments will not be subject to any Italian substitute tax. Under the “*risparmio gestito*” regime, the payments will be included in the calculation of the total net appreciation of the portfolio accrued at the end of each year. Such appreciation will be subject to a 12.5% final substitute tax.

Interest paid to Italian beneficial owners who are collective investment funds, SICAVs<sup>(1)</sup> or pension funds subject to the regime provided for by Articles 14, 14-ter or 14-quater, paragraph 1, of Italian Legislative Decree No. 124 of April 21, 1993, is not subject to any withholding tax or substitute tax. The interest is

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

included in the aggregate management result of these funds accrued in each year, which is subject to a substitute tax:

- (i) in case of Italian collective investment funds and SICAVs, at the rate of 12.5% (reduced to 5%, pursuant to Article 12 of Law Decree No. 269 of September 30, 2003 (“Decree No. 269”), in case of collective investment funds or SICAVs that invest at least two-thirds of the funds’ or SICAVs’ assets in the stock of small or medium capitalized companies listed on an EU regulated exchange. However, such regime has been qualified by the EU commission as “state aid”, incompatible with Article 87 of the EC Treaty (and Italy has been requested to eliminate this regime with retroactive effects);
- (ii) in case of Italian pension funds subject to the regime provided for by Articles 14, 14-ter or 14-quater, paragraph 1, of Italian Legislative Decree No. 124 of April 21, 1993, at the rate of 11%.

Pursuant to Law Decree No. 351 of September 25, 2001, converted into law with amendments by Law No. 410 of November 23, 2001 (“Decree No. 351”), as amended by Decree No. 269, Italian resident real estate investment funds established starting from September 26, 2001 pursuant to Art. 37 of Legislative Decree No. 58 of February 24, 1998, and Art. 14-bis of Law No. 86 of January 25, 1994, or, in any case subject to the tax treatment provided for by Decree No. 351 as a consequence of option for application of such treatment having been promptly made by the managing company, are not subject to any taxation at the fund level on payments under the Trust Preferred Securities.

No “entrance” withholding or substitute tax is applicable to interest paid to Italian resident beneficial owners who are corporate entities, commercial partnerships and permanent establishments in Italy of foreign entities to which the Trust Preferred Securities are effectively connected, provided that the Trust Preferred Securities are deposited with an Intermediary. In such cases, interest will generally be included in their aggregate taxable business income subject to tax in Italy according to the ordinary tax provisions (and in certain cases, depending on the status of the beneficial owners, interest may also contribute, according to the ordinary rules, to the calculation of the relevant net value of production to be subject to regional tax on productive activities (IRAP) at the relevant applicable rate). A tax credit may be generally available for taxes withheld abroad, if any.

#### **Early Redemption**

Without prejudice to the above provisions, in the event that Trust Preferred Securities having an original maturity of at least 18 months are redeemed, in full or in part, prior to 18 months from their issue date, Italian resident beneficial owners will be generally required to pay an additional amount equal to 20% of the interest and other proceeds accrued on the early redeemed Trust Preferred Securities up to the time of early redemption. Where Italian withholding agents intervene in the collection of interest on the Trust Preferred Securities or in the redemption of Trust Preferred Securities, this additional amount may be levied by such withholding agents by way of a withholding. In accordance with one interpretation of Italian tax law, the above 20% additional amount may also be due in the event of any purchase of Trust Preferred Securities by the Trust with subsequent cancellation therefore prior to 18 months from the date of issue.

#### **Treatment as Shares**

Should the Trust Preferred Securities be qualified as shares or similar securities, 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:

- (i) dividends paid to Italian beneficial owners who are corporate entities and commercial partnerships (including permanent establishments in Italy of foreign entities to which the Trust Preferred Securities are effectively connected) are not subject to withholding tax. In such cases, the dividends received will form part of the aggregate taxable business income of the investors limited to 5% of their amount and such 5% amount will be subject to taxation pursuant to their ordinary regime. Therefore, the investors must include a sum equal to 5% of the gross amount of the dividends in their income tax return and may generally benefit from a tax credit equal to 5% of the amount of the withholding taxes, if any, applied outside Italy on the dividends received;
- (ii) dividends paid to Italian pension funds, collective investment funds or SICAVs will form part of the aggregate management result of the funds accrued in each year, calculated on the difference between the value of the assets at the beginning of the tax year and the adjusted value of the assets at the end of the same tax year. The management result is subject to a substitute tax:

- (a) in case of Italian collective investment funds and SICAVs, at the rate of 12.5% (reduced to 5%, where the conditions under Article 12 of Decree No. 269 are met, in case of collective investment funds or SICAVs that invest at least two-thirds of the funds' or SICAVs' assets in the stock of small or medium capitalized companies listed on an EU regulated exchange. However, such regime has been qualified by the EU Commission as "state aid", incompatible with Article 87 of the EC Treaty (and Italy has been requested to eliminate this regime with retroactive effects);
- (b) in case of Italian pension funds subject to the regime provided for by Articles 14, 14-ter or 14-quater, paragraph 1, of Italian Legislative Decree No. 124 of April 21, 1993, at the rate of 11%;
- (iii) pursuant to Decree No. 351, as amended by Decree No. 269, Italian resident real estate investment funds established starting from September 26, 2001 pursuant to Article 37 of Legislative Decree No. 58 of February 24, 1998, and Art. 14-bis of Law No. 86 of January 25, 1994, or, in any case subject to the tax treatment provided for by Decree No. 351 as a consequence of option for application of such treatment having been promptly made by the managing company, are not subject to any taxation at the fund level on payments under the Trust Preferred Securities;
- (iv) dividends paid to Italian resident entities exempt from corporate income tax are subject to a definitive 27% withholding tax. This withholding tax is to be applied on the amount of dividends net of any tax withheld outside Italy and is required to be levied by the Italian withholding agent, if any, that intervenes in the collection of the dividends. Where payments on the Trust Preferred Securities are not received through the intervention of an Italian withholding agent and as such no withholding tax is applied, the recipient will be required to declare the payments in its yearly tax return and subject them to a final substitute tax at a rate of 27%;
- (v) dividends paid to Italian resident beneficial owners who are individuals holding Trust Preferred Securities not in connection with entrepreneurial activities are subject to Italian withholding tax at a rate of 12.5%, if the payments are collected through the intervention of an Italian withholding agent. Such withholding tax is to be applied on the amount of dividends net of any tax withheld outside Italy and is final – *a titolo d'imposta* – (with no obligation for Italian individual beneficial owners to include dividends in their global taxable income) for Italian individuals holding non qualified interests in the Trust. In such case, individuals are not entitled to a tax credit for withholding taxes applied outside Italy, if any.

If payments on the Trust Preferred Securities are not received through the intervention of an Italian withholding agent and as such no withholding tax is required to be levied, the recipient holding a non qualified interest in the Trust will be required to declare the payments in its yearly tax return and subject them to final substitute tax at a rate of 12.5%, unless option for a different regime is allowed and made.

The above-mentioned 12.5% final withholding tax does not apply if an individual resident in Italy declares in a timely manner upon collection of dividends that the dividends are connected (i) with an entrepreneurial activity in which the individual is engaged or (ii) with a "qualified" interest in the Trust held by the individual. In general, an interest in an issuer is deemed to be "qualified" if a beneficial owner (i) can dispose of more than 20% of the voting rights exercisable in the general meeting of the relevant issuer (more than 2%, where the issuer's shares are listed on a regulated market); or (ii) controls more than 25% of the issuer's capital or net worth (more than 5% in case the issuer's shares are listed on a regulated market).

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

**Treatment as Atypical Securities**

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 Italian resident beneficial owners who are corporate entities and commercial partnerships (including permanent establishments in Italy of foreign entities to which the Trust Preferred Securities are effectively connected) are not subject to any Italian “entrance” withholding tax. In such cases, the payments received will form part of the aggregate taxable business income of the recipients and will be subject to taxation pursuant to their ordinary tax regime (and in certain cases, depending on the status of the beneficial owners, payments may also contribute, according to the ordinary rules, to the calculation of the relevant net value of production to be subject to regional tax on productive activities (IRAP) at the relevant applicable rate). Therefore, the recipients must include the gross amount of the payments in their income tax return and may generally benefit from a tax credit for withholding taxes applied outside Italy, if any;
- (ii) payments made to Italian resident beneficial owners who are individuals holding Trust Preferred Securities not in connection with entrepreneurial activities will be subject to a 27% final withholding tax. This withholding tax is required to be levied by the entrusted Italian resident bank or other qualified financial intermediary (or permanent establishment in Italy of foreign intermediary), if any, that intervenes in the collection of payments on the Trust Preferred Securities, in the repurchase or in the transfer of the Trust Preferred Securities.

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

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

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

**EU Savings Directive**

Under EC Council Directive 1003/48/EC on the taxation of savings income (the “EU Savings Directive”), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland).

**Implementation in Italy of the EU Savings Directive**

Italy has implemented the EU Savings Directive through Legislative Decree No. 84 of April 18, 2005 (“Decree No. 84”). Under Decree No. 84, subject to a number of important conditions being met, in the case of interest paid starting from July 1, 2005 to individuals who qualify as beneficial owners of the interest payment and are resident for tax purposes in another Member State, Italian paying agents (i.e. banks, *società di intermediazione mobiliare* (so called “SIMs”), fiduciary companies, *società di gestione del risparmio* (SGRs) resident for tax purposes in Italy, permanent establishments in Italy of non-resident persons and any other economic operator resident for tax purposes in Italy paying interest for professional or commercial reasons) are required to report to the Italian tax authorities details of the relevant payments

and personal information on the individual beneficial owner. Such information is transmitted by the Italian tax authorities to the competent foreign tax authorities of the State of residence of the beneficial owner.

**Payments made by the Guarantor**

There is no authority directly regarding the Italian tax regime of payments on securities made by an Italian resident guarantor. Accordingly, there can be no assurance as to the tax treatment of such payments that may be asserted by the Italian tax authorities or that the Italian courts may support.

In accordance with one interpretation, any payments by the Guarantor under the Subordinated Guarantees should be treated in certain circumstances as payments by the Trust and made subject to the tax treatment described in the above paragraphs.

In particular, according to another 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 Guarantor under the Subordinated Guarantees may be subject in certain circumstances to a final withholding tax at a rate of 12.5% if the beneficial owner is an Italian pension fund, collective investment fund or SICAV. If the beneficial owners are Italian resident individuals holding Trust Preferred Securities not in connection with entrepreneurial activities or non commercial entities, payments under the Subordinated Guarantees may be subject to withholding tax at a rate of 12.5% on account of income taxes due thereon and then should be included in the beneficial owners' taxable income and subject as such to the tax rates applicable to them. For beneficial owners who are Italian resident corporate entities, the payments will form part of the annual taxable business income subject to tax according to the ordinary rules.

However, in the case of a beneficial owner of Trust Preferred Securities which is a non-resident of Italy, final withholding tax may be applied at a rate of 27% (if the payment is treated as dividend) or 12.5% (if treated as interest). Double taxation treaties entered into by 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 Subordinated Guarantees to non-Italian resident beneficial owners who are resident for tax purposes in tax haven countries as defined in Article 110, paragraph 10, of Presidential Decree No. 917 of December 22, 1986, and identified by a Decree of the Treasury Ministry of January 23, 2002, as amended from time to time, final withholding tax should in any case apply at a rate of 27%.

According to a different interpretation of Italian fiscal law, payments made by the Guarantor under the Subordinated Guarantees should not be subject to Italian withholding tax.

**Capital Gain**

*Italian collective investment funds, SICAVs, pension funds.* 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 substitute tax:

- (a) in case of Italian collective investment funds and SICAVs, at the rate of 12.5% (reduced to 5%, pursuant to Article 12 of Decree No. 269, in case of collective investment funds or SICAVs that invest at least two-thirds of the funds' or SICAVs' assets in the stock of small or medium capitalized companies listed on an EU regulated exchange. Such regime is presently under scrutiny by the European Commission in order to verify whether such relief can be considered as "state aid" in breach of the rules of the EU market);
- (b) in case of Italian pension funds subject to the regime provided for by Articles 14, 14-ter or 14-quarter, paragraph 1, of Italian Legislative Decree No. 124 of April 21, 1993, at the rate of 11%.

*Italian resident corporate investors.* The capital gains realized by corporations and commercial partnerships resident in Italy for tax purposes (including permanent establishments in Italy of foreign entities to which the Trust Preferred Securities are effectively connected) will generally contribute, according to the ordinary rules, to the calculation of the aggregate business income subject to the ordinary corporate income tax according to the ordinary rules (and in certain cases, depending on the status of the corporate investors, may also contribute, according to the ordinary rules, to the calculation of the relevant net value of production to be subject to regional tax on productive activities (IRAP) at the relevant applicable rate). The gains are calculated as the difference between the acquisition cost and the sale price.



*Italian individual investors.* Where an Italian resident Trust Preferred Securityholder is an individual not holding the Trust Preferred Securities in connection with an entrepreneurial activity and certain other persons, any capital gain realized by such Trust Preferred Securityholder from the sale or redemption of Trust Preferred Securities representing the disposal of a non-qualified interest in the Trust would be subject to a substitute tax levied at the current rate of 12.5% (*imposta sostitutiva* provided for by Art. 5 of Decree No. 461). Trust Preferred Securityholders may generally set off capital losses with capital gains of the same nature.

In respect of the taxation of such capital gains, Italian resident individual investors holding Trust Preferred Securities not in connection with entrepreneurial activity may opt for one of the three regimes described below.

Under the tax declaration regime (*regime della dichiarazione*), which is the default regime for Italian resident individuals not engaged in entrepreneurial activity to which the Trust Preferred Securities are connected, the *imposta sostitutiva* on capital gains will be chargeable, on a cumulative basis, on all capital gains, net of any incurred capital loss of the same nature, realized by the Italian resident individuals holding Trust Preferred Securities not in connection with an entrepreneurial activity pursuant to all sales or redemptions of the Trust Preferred Securities carried out during any given tax year. Italian resident individuals holding Trust Preferred Securities not in connection with an entrepreneurial activity must indicate the overall capital gains realized in any tax year, net of any relevant incurred capital loss of the same nature, in the annual tax return and pay *imposta sostitutiva* on such gains together with any balance of income tax due for such year. Capital losses in excess of capital gains may be carried forward against capital gains of the same nature realized in any of the four succeeding tax years.

As an alternative to the tax declaration regime, Italian resident individual Trust Preferred Securityholders holding the Trust Preferred Securities not in connection with an entrepreneurial activity may elect to pay the *imposta sostitutiva* separately on capital gains realized on each sale or redemption of the Trust Preferred Securities (the *risparmio amministrato regime*). Such separate taxation of capital gains is allowed subject to

(i) the Trust Preferred Securities being deposited with Italian banks, SIMs or certain authorized financial intermediaries; and (ii) an express election for the *risparmio amministrato* regime being punctually made in writing by the relevant Trust Preferred Securityholder. The depository is responsible for accounting for *imposta sostitutiva* in respect of capital gains realized on each sale or redemption of the Trust Preferred Securities (as well as in respect of capital gains realized upon the revocation of its mandate), net of any relevant incurred capital loss of the same nature, and is required to pay the relevant amount to the Italian tax authorities on behalf of the taxpayer, deducting a corresponding amount from the proceeds to be credited to the Trust Preferred Securityholder or using funds provided by the Trust Preferred Securityholder for this purpose. Under the *risparmio amministrato* regime, where a sale or redemption of the Trust Preferred Securities results in a capital loss, such loss may be deducted from capital gains of the same nature subsequently realized, within the same securities management, in the same tax year or in the following tax years up to the fourth. Under the *risparmio amministrato* regime, the Trust Preferred Securityholder is not required to declare the capital gains in its annual tax return.

Any capital gains realized by Italian resident individuals holding the Trust Preferred Securities not in connection with an entrepreneurial activity who have entrusted the management of their financial assets, including the Trust Preferred Securities, to an authorized intermediary and have opted for the so-called “*risparmio gestito*” regime will be included in the computation of the annual increase in value of the managed assets accrued, even if not realized, at year end, subject to a 12.5% substitute tax, to be paid by the managing authorized intermediary. Under the *risparmio gestito* regime, any depreciation of the managed assets accrued at year end may be carried forward against increase in value of the managed assets accrued in any of the four succeeding tax years. Under the *risparmio gestito* regime, the Trust Preferred Securityholder is not required to declare the capital gains realized in its annual tax return.

However, the 12.5% *imposta sostitutiva* does not apply if the Trust Preferred Securities are deemed to be shares or securities similar to shares and the Trust Preferred Securityholder holds a qualified interest in the Trust. In this case, the Trust Preferred Securityholder should include 40% of the capital gain in the yearly tax return and should pay income taxes on the relevant amount.

Capital gains realized by non-Italian resident Trust Preferred Securityholders without permanent establishment in Italy to which the Trust Preferred Securities are effectively connected, from the sale or



redemption of the Trust Preferred Securities are not subject to Italian taxation, provided that the Trust Preferred Securities are held outside Italy.

If the Trust Preferred Securities are held in Italy, the capital gains realized from the sale or redemption of Trust Preferred Securities by a non-Italian resident Trust Preferred Securityholder without permanent establishment in Italy to which the Trust Preferred Securities are effectively connected may be taxable in Italy, subject however to certain exceptions and in any case subject to application of double taxation treaties entered into by Italy, if more favourable.

**Receipt of LLC Preferred Securities upon 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 holders of Trust Preferred Securities upon liquidation of the Trust. Such a distribution to an Italian resident holder would be treated as a taxable event for Italian tax purposes.

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

**Early Redemption**

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

**Transfer Tax**

Where applicable, upon transfer of Trust Preferred Securities executed in Italy, Italian transfer tax (*tassa sui contratti di borsa*) will be payable at a rate between a maximum of €0.0720 and a minimum of €0.00465 for every €51.65 (or fraction thereof) of the price at which the Trust Preferred Securities are transferred. In certain cases, Italian transfer tax due in respect of transfers of Trust Preferred Securities cannot exceed €929.62 for each transaction.

For transfer tax purposes, transfers of Trust Preferred Securities to or by Italian residents are considered as executed in Italy for presumption of law. Moreover, contracts of transfer of Trust Preferred Securities executed outside Italy between non-Italian residents will have legal effect (*efficacia giuridica*) in Italy to the extent that transfer tax is paid.

However, Italian transfer tax (*tassa sui contratti di borsa*) does not apply, *inter alia*, to the following:

- (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 24, 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 undertakings for collective savings investments, on the other hand;
- (iii) contracts related to public sale offering ordered to the listing on regulated markets or involving financial instruments already listed on regulated markets; and
- (iv) contracts regarding securities not listed on a regulated market entered into between the authorized intermediaries referred to in (ii)(a) above, on the one hand, and non-Italian residents on the other hand.

**Inheritance and Gift Tax**

According to Law No. 383 of October 18, 2001 (“Law No. 383”), starting from October 25, 2001, Italian inheritance and gift tax, previously generally payable on the transfer of securities as a result of death or donation, has been abolished.

However, according to Law No. 383, for donees other than spouses, direct descendants or ancestors and other relatives within the fourth degree, if and to the extent that the value of the gift attributable to each such donee exceeds €180,759.91, the gift of Trust Preferred Securities may be subject to the ordinary transfer taxes provided for the transfer thereof for consideration. In this respect, the Italian tax authorities have expressed the view that the transfer tax mentioned above (*tassa sui contratti di borsa*) should not be considered as a “transfer tax ordinarily applicable” to transfers for consideration.

Moreover, an anti-avoidance rule is provided by Law No. 383 for any gift of assets (such as the Trust Preferred Securities) which, if sold for consideration, would give rise to capital gains subject to the substitute tax (*imposta sostitutiva*) provided for by Decree No. 461. In particular, if the donee sells the Trust Preferred Securities for consideration within 5 years from the receipt thereof as gift, the donee is required to pay the relevant substitute tax (*imposta sostitutiva*) on capital gains as if the gift had never taken place.

**Tax Monitoring Obligations**

Italian resident individuals, partnerships (other than *società in nome collettivo*, *società in accomandita semplice* or similar partnerships), de facto partnerships not carrying out commercial activities, professional associations and public and private entities, other than companies, not carrying out commercial activities, will be required to report in their yearly income tax return, for tax monitoring purposes:

- (a) the amount of investments held abroad and foreign financial assets generating foreign source income taxable in Italy (including the Trust Preferred Securities) held at the end of each tax year, if exceeding in the aggregate €12,500.00;
- (b) the amount of any transfers from abroad, towards abroad and occurring abroad, related to investments held abroad and foreign financial assets generating foreign source income taxable in Italy (including the Trust Preferred Securities), occurring during each tax year, if these transfers exceed in the aggregate €12,500.00 each year. This also applies in the case that at the end of the tax year, investments held abroad and foreign financial assets generating foreign source income taxable in Italy (including the Trust Preferred Securities) are no longer held by the above-mentioned subjects.

The above subjects will however not be required to comply with the above reporting requirements with respect to Trust Preferred Securities (and other foreign financial assets) deposited for management or administration with qualified Italian financial intermediaries (including permanent establishments in Italy of foreign intermediaries) and with respect to contracts entered into through their intervention, upon condition that the items of income derived from the Trust Preferred Securities are collected through the intervention of the same intermediaries.

**U.S. FEDERAL INCOME TAX CONSIDERATIONS**

To ensure compliance with U.S. Internal Revenue Service Circular 230, each Trust Preferred Securityholder is hereby notified that: (A) any discussion of federal tax issues in this Offering Circular is not intended or written to be relied upon, and cannot be relied upon by them for the purpose of avoiding penalties that may be imposed on them under the U.S. Internal Revenue Code; (B) such discussion is written to support the promotion or marketing of the transactions or matters addressed herein; and (C) they should seek advice based on their particular circumstances from an independent tax adviser.

For purposes of this discussion, a “Non-U.S. Holder” means a beneficial owner of a Trust Preferred Security that is for U.S. federal income tax purposes:

- a non-resident alien individual;
- a corporation that was not created or organized in or under the laws of the United States, any state of the United States or the District of Columbia;
- a trust if either:
  - primary supervision over the administration of the trust is unable to be exercised by a United States court, or
  - the authority to control all substantial decisions of the trust does not rest with one or more United States persons; or
- an estate the income of which is not subject to U.S. federal income tax on a net basis.

The treatment of a partner in a partnership generally depends on the status of the partner and the activities of the partnership. A partner in a partnership considering an investment in the Trust Preferred Securities should consult its own tax adviser about the consequences of the investment.

This discussion does not address: (i) a Non-U.S. Trust Preferred Securityholder whose income is effectively connected with the conduct of a trade or business in the United States or (ii) a Non-U.S. Trust Preferred Securityholder who is present in the United States for 183 days or more in the taxable year in which any gain on the sale of the Trust Preferred Securities is realized.

Also, this discussion does not address the U.S. federal estate tax consequences of the ownership of the Trust Preferred Securities. Trust Preferred Securityholders are urged to consult their own tax adviser regarding the application of the U.S. federal estate tax in their particular circumstances.

**Classification of the Trust and the LLC**

For U.S. federal income tax purposes, the Trust will be treated as a grantor trust and the LLC will be treated as a partnership. Accordingly, neither the Trust nor the LLC will be treated as a taxable entity for U.S. federal income tax purposes and a Trust Preferred Securityholder will be treated as owning an undivided beneficial interest in its proportionate share of the LLC Preferred Securities through the Trust. In purchasing the Trust Preferred Securities, the Trust Preferred Securityholder agrees with the Bank, the Trust, and the LLC that it will treat itself as a holder of the Trust Preferred Securities (and an owner of an undivided interest in the LLC Preferred Securities) for all U.S. federal income tax purposes and will follow allocations made by the LLC pursuant to the LLC Agreement.

**Tax Consequences to Certain Non-U.S. Trust Preferred Securityholders**

The LLC intends to operate so that it will not be engaged in the conduct of a U.S. trade or business for U.S. federal income tax purposes. Moreover, it is expected that the LLC's income from the payments from the Bank under the Initial Derivative Contract and Initial Subordinated Deposit (and other Eligible Investments) will not be U.S. source income for U.S. federal income tax purposes. Accordingly, Trust Preferred Securityholders will not be subject to U.S. federal income or withholding tax with respect to their share of the LLC's income or gain, or with respect to any gain that Trust Preferred Securityholders realize on the sale or disposition of the Trust Preferred Securities. However, it is possible that, in the future, the LLC may invest in Eligible Securities, the income from which will be U.S. source. If the LLC invests in such securities, Trust Preferred Securityholders will be subject to U.S. withholding tax with respect to their share of the LLC's income from such securities unless they certify on Internal Revenue Service Form W-8BEN, under penalties of perjury, that they are not U.S. persons.

**Information Reporting and Backup Withholding**

Trust Preferred Securityholders will generally be exempt from backup withholding and information reporting requirements with respect to payments made outside of the United States by a non-U.S. payor. However, payments made in the United States or by brokers with certain U.S. connections may be subject to the information reporting and backup withholding rules, in which case Trust Preferred Securityholders may be required to certify that they are not U.S. persons or otherwise establish an exemption from the information reporting and backup withholding rules. Any amounts withheld under the backup withholding rules will be allowed as a refund, provided the required information is furnished to the Internal Revenue Service.

**Certain Non-U.S. Holders**

In the following discussion the term "Non-U.S. Holder" refers to a beneficial owner of Trust Preferred Securities who is not a U.S. Holder. A "U.S. 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 organized 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 U.S. 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 U.S. trade or business for U.S. Federal income tax purposes. A United States withholding agent will not be required to withhold 30% of amounts payable to a Non-U.S. Holder, provided that the withholding agent receives a certification, signed under penalties of perjury, on the applicable Internal Revenue Service Form W-8 (or similar substitute form)

that such Non-U.S. Holder is not a United States person and providing its name and address. A Non-U.S. Holder also will not be subject to U.S. federal income tax on its allocable share of the LLC's income unless the income is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States.

A Non-U.S. Holder will not be subject to U.S. federal income or withholding tax on gain realized on the sale or exchange of the Trust Preferred Securities, unless (i) such income or gain is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States or (ii) in the case of gain realized by an individual Non-U.S. Holder, the Non-U.S. Holder is present in the United States for 183 days or more in the taxable year in which the gain is realized 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 January 31 following each calendar year.

Non-U.S. Holders may be required to provide the applicable Internal Revenue Service form W-8 (or similar substitute form) to establish their non-U.S. 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 TRUST PREFERRED SECURITYHOLDER'S PARTICULAR SITUATION. TRUST PREFERRED SECURITYHOLDERS SHOULD CONSULT THEIR TAX ADVISERS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE TRUST PREFERRED SECURITIES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, FOREIGN, AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN U.S. FEDERAL OR OTHER TAX LAWS.**

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## Subscription and Sale

Each of the Managers, pursuant to a Subscription Agreement dated October 24, 2005 (the “Subscription Agreement”), has 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 100% of the relevant Trust Liquidation Preference per Trust Preferred Security (or £300,000,000 million 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 0.75% of the aggregate liquidation preference of the Trust Preferred Securities or £2,250,000 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 Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular 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 Circular 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, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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

The Trust Preferred Securities will be treated as Category 3 debt securities as defined in and pursuant to Regulation S, and therefore will initially be represented by the registered Temporary Global Certificate which will not be exchangeable for beneficial interests in the registered Permanent Global Certificate until the expiration of 40 days after the later of the commencement of the offering and the Issue Date. Under certain limited circumstances described under “Description of the Trust Preferred Securities—Form, Denomination and Transfer”, the Permanent Global Certificate may be exchanged for definitive Trust Preferred Securities, in each case upon certification of beneficial ownership in the Trust Preferred Securities by a non-U.S. person who purchased the Trust Preferred Securities in a transaction that did not require registration under the Securities Act.

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

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

#### **European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Lead Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Trust

Preferred Securities to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Trust Preferred Securities which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Trust Preferred Securities to the public in that Relevant Member State at any time:

- (a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (c) in any other circumstances which do not require the publication by the Trust of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Trust Preferred Securities to the public” in relation to any Trust Preferred Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Trust Preferred Securities to be offered so as to enable an investor to decide to purchase or subscribe the Trust Preferred Securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

**United Kingdom Selling Restrictions**

Each of the Managers has represented and agreed that:

- it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the “FSMA”) with respect to anything done by it in relation to the Trust Preferred Securities in, from or otherwise involving the United Kingdom; and
- it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Trust Preferred Securities in circumstances in which section 21(1) of the FSMA does not apply to the Trust or would not apply, in the case of the Guarantor, if it were not an authorized person.

**Irish Selling Restrictions**

Each of the Managers has represented and agreed that:

- (a) it has only issued or passed on, and will only issue or pass on, any document received by it in connection with the issue of Trust Preferred Securities to persons who are persons to whom the document may otherwise lawfully be issued or passed on;
- (b) in the case of a Manager acting under and within the terms of an authorization to do so for the purposes of EU Council Directive 93/22/EEC of 10 May, 1993 (as amended or extended), it has complied with any codes of conduct made under the Investment Intermediaries Act, 1995 of Ireland (as amended) and, in the case of a Manager acting within the terms of an authorization granted to it for the purposes of EU Council Directive 2000/12/EC of 20 March, 2000 (as amended or extended), it has complied with any codes of conduct or practice made under section 117(1) of the Central Bank Act, 1989 of Ireland (as amended); and
- (c) in respect of a local offer (within the meaning of Section 38(1) of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 of Ireland) of Trust Preferred Securities in Ireland, it has complied and will comply with Section 49 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 of Ireland.

**Italian Selling Restrictions**

The offering of the Trust Preferred Securities has not been submitted to the clearance procedure of 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 Circular or of any other document relating to the Trust Preferred Securities be distributed in the Republic of Italy, except (i) to “professional investors”, as defined in Article 31, paragraph 2 of CONSOB Regulation No. 11522 of July 1, 1998 as amended (“Regulation No. 11522”), or (ii) pursuant to Article 30, paragraph 2 and Article 100 of the Financial Act, or (iii) in any other circumstances where an express exemption from compliance with the solicitation restrictions provided by the Financial Act or CONSOB Regulation No. 11971 of May 14, 1999, as amended, applies.

Any offer, sale or delivery of the Trust Preferred Securities or distribution of copies of the Offering Circular 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 Consolidated Banking Act, the Financial Act, Regulation No. 11522 and any other applicable laws and regulations;
- (b) in compliance with Article 129 of the Consolidated Banking Act and the implementing instructions of the Bank of Italy (*Istruzioni di Vigilanza per le banche della Banca d'Italia*) pursuant to which, *inter alia*, 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 amount and the characteristics of the securities issued or offered in the Republic of Italy; and
- (c) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

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## General Listing Information

### LISTING

Application has been made to IFSRA to approve this document as a prospectus. Application has also been made to the Irish Stock Exchange for the Trust Preferred Securities to be admitted to the Official List and trading on its regulated market.

It is estimated that the total fees and expenses relating to the admission to trading will be approximately €4,000.

### CONSENTS

The Trust will obtain all necessary consents, approvals and authorizations in connection with the issue of the Trust Preferred Securities. The issuance of the Trust Preferred Securities will be authorized by the Trustees of the Trust on October 27, 2005. The issuance of the Subordinated Guarantees was authorized by the Bank on October 13, 2005.

### GENERAL

The Bank was established on April 28, 1870 and is registered in the Companies Register (Registro delle Imprese) of Genoa under number 00348170101. The Bank operates in the form of a *società per azioni* (joint stock company) under Italian law.

### NO MATERIAL CHANGE

Except as otherwise disclosed in this Offering Circular, there has been no material adverse change in the financial position of the Bank and the Group since December 31, 2004.

There has been no material adverse change in the financial position of the Trust since its creation and formation on October 14, 2005.

There has been no material adverse change in the financial position of the LLC since its creation and formation on October 14, 2005.

### LITIGATION

Save as disclosed in this Offering Circular, neither the Bank, the Trust or the LLC is involved in any governmental, legal 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 Bank, the Trust or the LLC is aware, is any such litigation or arbitration pending or threatened.

### EXTERNAL AUDITORS

Listed companies may not appoint the same auditors for more than three consecutive three-year terms. At the annual general shareholders' meeting of the Bank held on May 4, 2004, KPMG S.p.A. was appointed to act as the Bank's external auditor for a period of three years. KPMG S.p.A. succeeds to PricewaterhouseCoopers S.p.A., which had acted as the external auditor for the Parent, and for its predecessor entity Credito Italiano, for three consecutive three-year terms. Both KPMG S.p.A. and PricewaterhouseCoopers S.p.A. are chartered accountants and registered auditors.

The external auditors of the Bank who have audited the annual consolidated financial statement for the financial year ended December 31, 2003, without qualification, in accordance with generally accepted auditing standards in Italy are PricewaterhouseCoopers S.p.A., Via Vittor Pisani 20, 20124 Milan. The auditors of the Bank who have audited the annual consolidated financial statement for the financial year ended December 31, 2004, without qualification, in accordance with generally accepted auditing standards in Italy are KPMG Via Vittor Pisani 25, 20124 Milan.

### AVAILABLE DOCUMENTS

So long as the Trust Preferred Securities and the LLC Preferred Securities are outstanding, the annual audited consolidated and non-consolidated financial statements and interim unaudited consolidated and financial statements of the Bank will be available for physical inspection and can be obtained free of charge at the

specified offices of the Principal Paying Agent and the Irish Paying Agent (for so long as the Trust Preferred Securities are listed on the Irish Stock Exchange). The Bank produces audited consolidated and non-consolidated financial statements on an annual basis, unaudited consolidated and non-consolidated financial statements on a semi-annual and quarterly basis.

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 physically inspected and obtained free of charge at the specified offices of the Bank, the LLC, the Trust, the Principal Paying Agent and the Irish Paying Agent (for so long as the Trust Preferred Securities are listed on the Irish Stock Exchange) in each case at the relevant specified office as indicated herein (or at such further or other offices as may be notified to the holders of the Trust Preferred Securities and the LLC Preferred Securities):

- By-laws (*statuto*) of the Bank;
- LLC Agreement;
- Trust Agreement and Certificate of Trust of the Trust;
- Subordinated Guarantees;
- Agency Agreement;
- Calculation Agency Agreement;
- Account Agreement;
- Initial Banking Deposit Agreement; and
- Initial Derivative Contract.

### **CLEARING SYSTEMS AND SETTLEMENT**

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

The ISIN number for the Trust Preferred Securities is XS0231436667 and the Common Code is 023143666.

### **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 Irish Stock Exchange and it is required by the rules of the Irish Stock Exchange, publication of such notice to the holders of Trust Preferred Securities in English in a leading newspaper having general circulation in the Republic of Ireland (which is expected to be *The Irish Times*), provided that, so long as securities are held in registered global form and if the rules of the Irish Stock Exchange would so permit, notifications may be made through Euroclear and Clearstream, Luxembourg in place of publication in a newspaper as described above.

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**PRINCIPAL PLACE OF BUSINESS OF THE BANK**

**UniCredito Italiano S.p.A.**  
Piazza Cordusio, 2  
20123 Milan  
Italy

**THE COMPANY**

**UniCredito Italiano Funding LLC IV**  
430 Park Avenue, 9th Floor  
New York, New York 10022-3258  
United States

**THE TRUST**

**UniCredito Italiano Capital Trust IV**  
430 Park Avenue, 9th Floor  
New York, New York 10022-3258  
United States

**PRINCIPAL PAYING AGENT AND  
CALCULATION AGENT**

The Bank of New York  
One Canada Square  
London E14 5AL

**IRISH LISTING AGENT**

**J&E Davy**  
49 Dawson Street  
Dublin 2  
Republic of Ireland

**IRISH PAYING AND TRANSFER AGENT  
AIB/BNY Fund Management (Ireland) Limited**

Guild House  
Guild Street  
Dublin 1  
Republic of Ireland

**PROPERTY TRUSTEE**

The Bank of New York  
101 Barclay Street  
New York, NY 10286  
United States

**DELAWARE TRUSTEE**

The Bank of New York (Delaware)  
White Clay Centre  
Newark, DE 19711  
United States

**LEGAL ADVISERS**

*To the Managers*

*As to Italian and English Law*  
**Clifford Chance Studio Legale Associato**  
Piazzetta M. Bossi, 3  
20121 Milan  
Italy

*As to United States Law*  
**Clifford Chance LLP**  
10 Upper Bank Street  
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United Kingdom

*As to Italian Tax Law*  
**Vitali Romagnoli  
Piccardi e Associati**  
Via Crocefisso, 12  
20122 Milan  
Italy

*To the Bank, the LLC and the Trust*

*As to Delaware law*  
**Richards, Layton & Finger**  
One Rodney Square  
Wilmington, DE 19899  
United States

*As to Italian, English and United States law*  
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Corso Vittorio Emanuele II, 284  
00186 Rome  
Italy

