

BASE PROSPECTUS



Capitalia S.p.A.

(incorporated as a Società per Azioni in the Republic of Italy)

€20,000,000,000

EURO MEDIUM TERM NOTE PROGRAMME

Under the Euro Medium Term Note Programme (the **Programme**) described in this Base Prospectus (the **Base Prospectus**), Capitalia S.p.A. (the **Issuer** or **Bank**) may, including through any such branch outside the Republic of Italy as it may agree with the Relevant Dealer(s) (as defined below) and as specified in the applicable Final Terms (as defined below), subject to compliance with all relevant laws, regulations and directives, from time to time issue debt instruments (the **Notes**) denominated in any currency (including euro) and in any denomination (subject to a minimum denomination of €1,000 (or its equivalent in other currencies) agreed between the Bank and the Relevant Dealer(s)). The aggregate nominal amount of Notes outstanding will not at any time exceed €20,000,000,000 (or its equivalent in other currencies), subject to any duly authorised increase.

The Notes may be issued on a continuing basis to one or more of the Dealers specified herein and any additional Dealer appointed under the Programme from time to time, which appointment may be for a specific issue or an ongoing basis (each, a **Dealer** and, together, the **Dealers**). References in this Base Prospectus to the **Relevant Dealer** shall, in relation to any issue of Notes, be to the Dealer agreeing to purchase such Notes or, in the case of each issue of Notes syndicated amongst a group of Dealers, the lead manager of such issue.

Payments of interest, premium or other income relating to the Notes qualifying as bonds (*obbligazioni*) or securities similar to bonds (*titoli similari alle obbligazioni*) are subject to a substitutive tax (referred to as *imposta sostitutiva*) of 12.5 per cent. in certain circumstances. In order to obtain exemption at source from *imposta sostitutiva* in respect of payments of interest, premium or other amounts relating to the Notes, each Noteholder (as defined below) not resident in the Republic of Italy is required to declare itself to be: (a) resident, for tax purposes, in a country which allows for a satisfactory exchange of information; (b) subject to Taxation in its country of residence; and (c) the beneficial owner of payments of interest, premium or other income relating to the Notes, all as more fully set out in this Base Prospectus under "*Italian Taxation*".

Notes issued by the Bank with a maturity of less than 18 months or qualifying as atypical securities (*titoli atipici*) are subject to a withholding tax at the rate of 27 per cent. per annum in respect of interest and premium (if any). The Bank will not be liable to pay any additional amounts to Noteholders in relation to any such withholding.

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the Prospectus Directive).

Application has been made to the Luxembourg *Commission de Surveillance du Secteur Financier* (the CSSF), which is the Luxembourg competent authority for the purpose of the Prospectus Directive and relevant implementing measures in Luxembourg, for approval of this Base Prospectus as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in Luxembourg for the purpose of giving information with regard to the issue of Notes under the Programme during the period of twelve months after the date hereof. Application has been made for Notes issued under the Programme to be admitted to trading on the regulated market of the Luxembourg Stock Exchange (the **Luxembourg Stock Exchange**) which is a regulated market for the purposes of Directive 93/22/EEC, and to be listed on the official list of the Luxembourg Stock Exchange. The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further listing authorities, stock exchanges and/or quotation systems as may be agreed between the Bank and the Relevant Dealers.

Arranger

LEHMAN BROTHERS

Dealers

ABN AMRO

BANC OF AMERICA SECURITIES LIMITED

CREDIT SUISSE

HSBC

LEHMAN BROTHERS

MORGAN STANLEY

BANCA IMI

CAPITALIA

GOLDMAN SACHS INTERNATIONAL

JPMORGAN

MERRILL LYNCH INTERNATIONAL

UBS INVESTMENT BANK

4 October 2006

IMPORTANT NOTICES

This Base Prospectus should be read and construed together with any supplements hereto and with any other documents incorporated by reference herein and, in relation to any Tranche of Notes, should be read and construed together with the relevant Final Terms (as defined herein).

The Bank has confirmed to the Dealers named under “*Subscription and Sale*” below that this Base Prospectus (including for this purpose, each relevant Final Terms) contains all information which is (in the context of the Programme and the issue, offering and sale of the Notes) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, predictions or intentions expressed herein are honestly held or made and are not misleading in any material respect; that this Base Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the Programme and the issue, offering and sale of the Notes) not misleading in any material respect; and that all proper enquiries have been made to verify the foregoing.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other document entered into in relation to the Programme or any information supplied by the Bank or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Bank or any Dealer.

No representation or warranty is made or implied by the Trustee, the Dealers or any of their respective affiliates, and neither the Trustee, the Dealers nor any of their respective affiliates makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Base Prospectus. Neither the delivery of this Base Prospectus, or any Final Terms, nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date hereof or the date upon which this Base Prospectus has been most recently supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Bank since the date thereof or, if later, the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Base Prospectus and any Final Terms and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms comes are required by the Bank and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Base Prospectus or any Final Terms and other offering material relating to the Notes, see “*Subscription and Sale*”. In particular, the Notes have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the **Securities Act**) and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons.

To the extent that the offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* (**CONSOB**), this Base Prospectus may not be used in connection with any offer of the Notes in the Republic of Italy other than (i) to professional investors, as that term is defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1 July 1998 (“*operatori qualificati*”) as amended or (ii) in any circumstances which although constituting a solicitation of investment in the Republic of Italy, are exempt from the rules on solicitation of investments pursuant to the applicable laws and regulations.

Neither this Base Prospectus nor any Final Terms constitute an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Bank, the Trustee or any of the Dealers that any recipient of this Base Prospectus or any Final Terms should subscribe for or purchase any Notes. Each recipient of this Base Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Bank.

The maximum aggregate nominal amount of Notes outstanding at any one time under the Programme will not exceed €20,000,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into euro at the date of the agreement to issue such Notes (calculated in accordance with the provisions of the Dealer Agreement (as defined under “*Subscription and Sale*”))). The maximum aggregate principal amount of Notes which may be outstanding and guaranteed at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement.

In this Base Prospectus, unless otherwise specified, references to **Member State** are references to a Member State of the European Economic Area, references to **U.S.\$**, **U.S. Dollars** or **Dollars** are to United States dollars, references to **€** or **Euro** are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes (provided that, in the case of any Tranche of Notes to be admitted to trading on a regulated market in the European Economic Area, the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant Tranche) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. In doing so, the Stabilising Manager(s) shall act as principal and not as agent of the Issuer or the Dealers. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes.

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GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Bank may from time to time issue Notes denominated in any currency, subject as set out herein. A summary of the terms and conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the relevant Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as modified and amended by Part A of the applicable Final Terms attached to, or endorsed on, such Notes, as more fully described under “*Summary of Provisions Relating to the Notes Whilst in Global Form*”.

The Base Prospectus and any supplement will only be valid for listing Notes on the Luxembourg Stock Exchange during the period of 12 months from the date of this Base Prospectus in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed €20,000,000,000 or its equivalent in other currencies. For the purpose of calculating the euro equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

- (a) The euro equivalent of Notes denominated in another currency of denomination (as specified in the applicable Final Terms in relation to the relevant Notes) shall be determined, at the discretion of the relevant Bank, either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the euro against the purchase of such currency of denomination in the London foreign exchange market quoted by any leading international bank selected by the relevant Issuer on the relevant day of calculation;
- (b) the euro equivalent of Notes with different currency of denomination and currency of payment, Index Linked Notes and partly Paid Notes (each as specified in the applicable Final Terms in relation to the relevant Notes) shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and
- (c) the euro equivalent of non-interest bearing Notes (as specified in the applicable Final Terms in relation to the relevant Notes) and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the relevant Issuer for the relevant issue.

SUMMARY OF THE PROGRAMME

This summary must be read as an introduction to the Base Prospectus. The following summary does not purport to be complete and is qualified in its entirety by the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of the Notes, the applicable Final Terms. Words and expressions defined in “Terms and Conditions of the Notes” below shall have the same meanings in this summary. Any decision to invest in any Notes should be based on a consideration of this Base Prospectus as a whole, including the documents incorporated by reference, by any investor.

Following the implementation of the relevant provisions of the Prospectus Directive in each Member State, no civil liability will attach to the Bank in any such Member State in respect of this summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Base Prospectus. Where a claim relating to information contained in this Base Prospectus is brought before a court in a Member State, the claimant may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Base Prospectus before the legal proceedings are initiated.

Issuer: Capitalia S.p.A., including through any such branch outside the Republic of Italy as it may agree with the Relevant Dealer(s), as specified in the applicable Final Terms, and subject to compliance with all applicable legal and/or regulatory requirements. The Issuer’s registered office is Via Marco Minghetti no. 17, 00187 Roma, Italy. Telephone number is +39 06 67071.

Business of the Issuer: The Issuer is the parent and holding company of the Capitalia Group, a full-service banking group based in Rome and the fourth largest banking group in Italy in terms of assets at year-end 2005. The Capitalia Group is organised into three macro business areas: (i) Commercial Banks, (ii) Specialist Banks and Product Factories and (iii) Providers of Shared Services, and operates the following business lines which the Issuer is responsible for managing: Commercial Banks, Specialist Banks and Product Factories, Corporate, Credit Policies and Finance. Principal subsidiaries of the Issuer are: Banca di Roma S.p.A., Banco di Sicilia S.p.A., Bipop Carire S.p.A., MCC S.p.A. and FinecoBank S.p.A. While maintaining the independence and brands of its subsidiaries, the Issuer is responsible for establishing strategic and governance guidelines, monitoring credit and financial risks for the entire Capitalia Group, and guiding and monitoring commercial activities.

Arranger: Lehman Brothers International (Europe)

Dealers: ABN AMRO Bank N.V., Banca IMI S.p.A., Banc of America Securities Limited, Capitalia S.p.A., Credit Suisse Securities (Europe) Limited, Goldman Sachs International, HSBC Bank plc, J.P. Morgan Securities Ltd., Lehman Brothers International (Europe), Merrill Lynch International, Morgan Stanley & Co. International Limited, UBS Limited and any other Dealer appointed from time to time by the Bank either generally in respect of the Programme or in relation to a particular Tranche of Notes.

Trustee: Deutsche Trustee Company Limited

Principal Paying Agent:	Deutsche Bank AG, London Branch
Paying Agents:	Deutsche Bank Luxembourg S.A., Credit Suisse
Luxembourg Listing Agent:	Deutsche Bank Luxembourg S.A.
Final Terms:	<p>Notes issued under the Programme shall be issued pursuant to this Base Prospectus and associated Final Terms.</p> <p>For each Tranche of Notes, the associated Final Terms will, for the purposes of that Tranche only, supplement the Terms and Conditions of the Notes and this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Notes are the Terms and Conditions of the Notes as supplemented, amended and/or replaced to the extent described in the relevant Final Terms.</p>
Listing and Admission to Trading:	<p>Application has been made for Notes issued under the Programme to be admitted to trading on the regulated market of the Luxembourg Stock Exchange. The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further listing authorities, stock exchanges and/or quotation systems as may be agreed with the Bank.</p>
Clearing Systems:	<p>Euroclear Bank S.A./N.V. (Euroclear) and/or Clearstream Banking, société anonyme, Luxembourg (Clearstream, Luxembourg) and/or, in relation to any Series of Notes, any other clearing system as may be specified in the relevant Final Terms.</p>
Programme Amount:	<p>Up to €20,000,000,000 (or its equivalent in other currencies) aggregate principal amount of Notes outstanding at any time.</p>
Issuance in Series:	<p>Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. Any subsequent Tranche may have a different Issue Price as specified in the relevant Final Terms. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes of different denominations.</p>
Forms of Notes:	<p>Notes may only be issued in bearer form. Each Tranche of Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Final Terms. Each Global Note will (i) if it is intended to be issued in new global note (NGN) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the Common Safekeeper) for Euroclear and Clearstream, Luxembourg and (ii) if it is not intended to be issued in NGN form, as stated in the applicable Final Terms,</p>

be deposited on or around the issue date of the relevant Tranche of the Notes with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Final Terms, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Final Terms as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons.

Currencies:

Notes may be denominated in euro, U.S. Dollars, Australian Dollars, Canadian Dollars, Danish Kroner, Hong Kong Dollars, Japanese Yen, New Zealand Dollars, Norwegian Kroner, Pounds Sterling, Swedish Kroner, Swiss Francs and/or in any other currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.

Status of Senior Notes:

Senior Notes will constitute unsubordinated, unconditional and unsecured obligations of the Bank and (subject to the provision concerning previously issued Senior Notes, below) will rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Bank from time to time outstanding.

Absence of Negative Pledge:

Senior Notes issued prior to 27 May 2004: Senior Notes issued under this Programme prior to the date of 27 May 2004 have the benefit of a negative pledge provision in the following terms:

“The Bank will not, so long as any of the Senior Notes remains outstanding create or have outstanding any mortgage, lien, pledge or other charge upon the whole or any part of its assets or revenues, present or future, to secure any External Indebtedness or any guarantee of any External Indebtedness unless:

- (i) the same security shall forthwith be extended (to the satisfaction of the Trustee) equally and rateably to the Senior Notes; or
- (ii) such other security as the Trustee in its absolute discretion deems reasonably equivalent thereto or is approved by an Extraordinary Resolution of the holders of Senior Notes shall previously have been or

shall forthwith be extended equally and rateably to the Senior Notes.”

Senior Notes to be issued under this Programme after 27 May 2004 will not have the benefit of this provision. Outstanding Senior Notes issued prior to 27 May 2004 are unaffected by this change and will continue to benefit from such negative pledge provision up to maturity.

Status of Subordinated Notes:

Lower Tier II Subordinated Notes, Upper Tier II Subordinated Notes and Tier III Subordinated Notes will constitute direct, unsecured and subordinated obligations of the Bank.

In the event of the winding-up, dissolution, liquidation or *Liquidazione Coatta Amministrativa* (the latter as described in Articles 80 to 94 of the Italian Banking Act) of the Bank, the payment obligations of the Bank under the Lower Tier II Subordinated Notes, the Upper Tier II Subordinated Notes and Tier III Subordinated Notes and the related Coupons will rank in right of payment after unsubordinated unsecured creditors (including depositors) of the Bank but at least *pari passu* with all other subordinated obligations of the Bank which do not rank or are not expressed by their terms to rank junior or senior to the Lower Tier II Subordinated Notes, Upper Tier II Subordinated Notes and Tier III Subordinated Notes, as the case may be, and in priority to the claims of shareholders of the Bank, as described in Condition 4(b) (*Subordinated Notes*).

Loss Absorption on Upper Tier II Subordinated Notes:

To the extent that the Bank at any time suffers losses which in accordance with Italian laws and regulations would require the Bank to reduce its capital to below the Minimum Capital (as defined in Condition 4(b)(iii) (*Subordinated Notes*), the payment obligations of the Bank in respect of interest and principal under Upper Tier II Subordinated Notes will be reduced to the extent necessary to enable the Bank, in accordance with the requirements of Italian law, to maintain at least the required Minimum Capital.

The payment obligations of the Bank in respect of interest and principal due under Upper Tier II Subordinated Notes which are so reduced will be subject to reinstatement in certain circumstances.

Deferral of Interest on Upper Tier II Subordinated Notes:

The Bank is not required to pay interest on Upper Tier II Subordinated Notes on an Interest Payment Date if (i) no annual dividend has been approved by the shareholders of the Bank or paid in respect of any class of shares during the 12 month period ending on, and including the day which is three London Business Days preceding such Interest Payment Date; or (ii) the Board of Directors of the Bank has announced at the time of publication of any interim accounts of the Bank published during the six months ending on, and including the day which is three London Business Days preceding such Interest Payment Date that, based on such

accounts, no sums are available at such time in accordance with Italian law for the payment of interim dividends.

Tier III Subordinated Notes:

Tier III Subordinated Notes shall be subject to the same restrictions provided in respect of similar indebtedness qualifying as Upper Tier II Subordinated Notes or Lower Tier II Subordinated Notes except that any Tier III Subordinated Notes shall (i) have a different minimum maturity period, as specified in the relevant Final Terms and (ii) be subject to a lock-in clause pursuant to which payments of interest and repayment of principal cannot be effected if such payments or repayment would reduce the total value of the Bank's assets below the minimum capital requirements of Italian law. Such suspension of payments shall not constitute an Event of Default.

Issue Price:

Notes, any Series and each single Tranche may be issued at any price and either on a fully or partly paid basis, as specified in the relevant Final Terms. The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Maturities:

Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements. Unless otherwise permitted by current law, regulations, directives and/or the Bank of Italy's requirements applicable to the issue of Subordinated Notes (i) Lower Tier II Subordinated Notes must have a maturity of not less than five years, (ii) Upper Tier II Subordinated Notes must have a maturity of not less than ten years and (iii) Tier III Subordinated Notes will have a maturity of not less than two years. Where Lower Tier II Subordinated Notes and Tier III Subordinated Notes are redeemable, Lower Tier II Subordinated Notes may be redeemed only after five years from the relevant issue date and only after a prior notice is given to the Noteholders, while Tier III Subordinated Notes may be redeemed only after two years from the relevant issue date and only after a prior notice is given to Noteholders.

Any Notes having a maturity of less than one year from their date of issue must (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the Financial Services and Markets Act (FSMA) by the Bank.

According to the Luxembourg law on prospectuses for securities, the CSSF is not competent for approving prospectuses for the listing of money market instruments

having a maturity of less than 12 months which are otherwise “transferable securities” as defined by Article 1(5) of Directive 93/22/EC. Any minimum and maximum maturities may be subject to change from time to time as a result of changes to the relevant legal and regulatory requirements.

Redemption:

Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise) as may be specified in the relevant Final Terms. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Final Terms.

Optional Redemption:

Notes may be redeemed before their stated maturity at the option of the Bank (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Final Terms.

Under applicable laws and regulations at the date of this Base Prospectus, Lower Tier II Subordinated Notes may not be repaid (other than for tax reasons and subject to the prior approval of the Bank of Italy, or following an Event of Default) prior to five years from the relevant Issue Date; Upper Tier II Subordinated Notes may not be repaid prior to 10 years from the relevant Issue Date and in any case subject always to the prior consent of the Bank of Italy; and Tier III Subordinated Notes may not be repaid prior to two years from the relevant Issue Date.

Tax Redemption:

Except as referred to in “*Optional Redemption*” above, early redemption will only be permitted for tax reasons as described in Condition 9(c) (*Redemption for tax reasons*).

Interest:

Notes may be interest-bearing or non-interest-bearing. Interest in respect of Upper Tier II Subordinated Notes and Tier III Subordinated Notes may be deferred as provided in the Conditions applicable to such Notes. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate or be index-linked and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series, as provided in the relevant Final Terms.

Denominations:

In respect of Issues of Notes to be admitted to trading on the Luxembourg Stock Exchange’s regulated market or any other European regulated market, no Notes may be issued under the Programme which (a) have a minimum denomination of less than €1,000 (or nearly equivalent in another currency), or (b) carry the right to acquire shares (or transferable securities equivalent to shares) issued by the Bank or by any entity to whose group the Bank belongs. Subject thereto, Notes will be issued in such denominations as may be specified in the relevant Final Terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

In respect of Issues of any unlisted Notes or Notes listed on any other market where this is permitted, the minimum

	denomination will be as agreed between the Issuer and the Dealers in relation to such Issue.
Cross Default:	The Senior Notes will have the benefit of a cross default as described in Condition 12 (<i>Events of Default</i>).
Taxation:	<p>All payments by the Bank in respect of the Notes will be made free and clear of any deduction or withholding for or on account of any present or future taxes of the Republic of Italy, the United Kingdom, Belgium and Luxembourg or the country where the branch through which the Bank is issuing the Notes is located, unless such deduction or withholding is required by law. In that event, the Bank will (subject as provided in Condition 11 (<i>Taxation</i>)) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of the Notes had no such deduction or withholding been required.</p> <p>Notes issued by the Bank with a maturity of less than 18 months or qualifying as atypical securities (<i>titoli atipici</i>) are subject to a withholding tax at the rate of 27 per cent. per annum in respect of interest and premium (if any). The Bank will not be liable to pay any additional amounts to Noteholders in relation to any such withholding.</p>
Governing Law:	The Notes and the Trust Deed shall be governed by, and shall be construed in accordance with, English law, except for Condition 4(b) (<i>Subordinated Notes</i>), which shall be governed by, and construed in accordance with, Italian law.
Enforcement of Notes in Global Form:	In the case of Global Notes, individual noteholders' rights against the Bank will be governed by the Trust Deed, a copy of which will be available for inspection at the specified office of the Principal Paying Agent and at the offices of the Paying Agent for the time being in Luxembourg.
Rating:	Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as ratings assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Risk Factors:	<p>Investing in the Notes involves certain risks. Risk factors identified include general business risk factors which may affect the Bank's ability to fulfil its obligations under the Notes issued under the Programme. These general business risk factors include credit risk and market risk, liquidity risk, exchange rate risk and interest rate risk.</p> <p>Other risk factors identified by the Bank are specific to the Notes and include risks related to the structure of a particular issue of Notes (e.g. Index Linked Notes, Inverse Floating Rate Notes, Notes issued at a substantial discount or premium, etc.) and risks related to Notes generally, such as</p>

the risk of changes in currency or interest rates and changes of law.

Selling Restrictions:

For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, the European Economic Area, the United Kingdom, the Republic of Italy, Japan, France, and the Netherlands, see “*Subscription and Sale*” below.

Information regarding public offer:

Information regarding a public offer of the Notes will be disclosed in the relevant Final Terms, if applicable.

RISK FACTORS

The Bank believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. These factors are contingencies that may or may not occur and the Bank is not in a position to express a view on the likelihood of any such contingency occurring. Factors (although not exhaustive) which could be material for the purpose of assessing the market risks associated with Notes issued under the Programme are described below.

The Bank believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Bank to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons and the Bank does not represent that the statements below regarding the risks of holding any Notes are exhaustive. The risks described below are not the only risks the Bank faces. Additional risks and uncertainties not presently known to the Bank or that it currently believes to be immaterial could also have a material impact on its business operations. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

Words and expressions defined in the “Terms and Conditions of the Notes” below or elsewhere in this Base Prospectus have the same meanings in this section, unless otherwise stated.

Factors that may affect the Bank’s ability to fulfil its obligations under Notes issued under the Programme

Like all other banks the Bank is mainly exposed to credit risk and market risk (e.g. interest rate movements and currency movements).

These risk factors are addressed by the Bank’s own risk management procedures and exposures are constantly measured and supervised.

With the exception of the risk factors in this section entitled “*Factors that may affect the Bank’s ability to fulfil its obligations under the Notes issued under the Programme*”, the Bank does not consider there to be any other risk factors relevant to its business.

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor’s currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes may not be a suitable investment for all investors.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured and appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes would generally have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The Bank will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may change significantly (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes. This is particularly evident for Fixed Rate Notes or Zero Coupon Notes, in case of an increase in the interest rates of the specified currency, the market value of the Notes may decrease.

Credit Rating

Corporate ratings may not reflect the credit risk. One or more independent rating agencies may assign ratings to the Notes and/or the Bank. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed in this paragraph, and other factors that may affect the value of the Notes or the standing of the Bank. A credit rating and/or a corporate rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common of such features:

Notes subject to optional redemption by the Bank

An optional redemption feature of Notes is likely to limit their market value. During any period when the Bank may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Bank may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Equity/Credit Linked Notes and Dual Currency Notes

The Bank may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**). In addition, the Bank may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated.

Potential investors should be aware that:

- (i) the market price of such Notes may be very volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable is likely to be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations.

Partly-paid Notes

The Bank may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Bank may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Bank's ability to convert the interest rate will affect the secondary market and the market value of the Notes since the Bank may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Bank converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Bank converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

The Bank's obligations under Subordinated Notes are subordinated

The payment obligations of the Bank under Upper Tier II Subordinated Notes will rank behind Lower Tier II Subordinated Notes and Tier III Subordinated Notes. The Upper Tier II Subordinated Notes constitute direct, unsecured and, in accordance with the paragraphs below, subordinated obligations of the Bank and rank *pari passu* without any preference among themselves. The claims of the holders of Upper Tier II Subordinated Notes are subordinated to the claims of Senior Creditors (as defined below) of the Bank in that payments of principal and interest in respect of the Upper Tier II Subordinated Notes are conditional upon the Bank being solvent (as defined below) at the time of payment by the Bank and in that no principal or interest shall be payable in respect of Upper Tier II Subordinated Notes except to the extent that the Bank could make such payment and still be solvent immediately thereafter. See Condition 4(b) of the Terms and Conditions of the Notes for a full description of subordination and the payment obligations of the Bank under the Subordinated Notes.

Senior Creditors means all creditors of the Bank who are cash depositors or other general, unsubordinated creditors including holders of Senior Notes.

Risks related to Notes generally

Modification and waiver

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (**EU Savings Directive**), Member States are required, from 1 July 2005, 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) with effect from the same date.

If, following implementation of the EU Savings Directive, a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Bank nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payments made by a Paying Agent following implementation of the EU Savings Directive, the Bank will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the EU Savings Directive.

The aforesaid EU Savings Directive was implemented in Italy by Legislative Decree No.84 of 18 April 2005, which applies to interest payments made starting from 1 July 2005.

Change of law

The Terms and Conditions of the Notes are based on the laws of England and Italy in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to the laws or administrative practice of England or Italy after the date of this Base Prospectus.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Instruments under any applicable risk-based capital or similar rules.

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and its affiliates in the ordinary course of business.

RESPONSIBILITY STATEMENT

The Bank accepts responsibility for the information contained in this Base Prospectus.

The Bank declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have previously been published or are published simultaneously with this Base Prospectus and have been filed with the CSSF, are to be incorporated in, and to form part of, this Base Prospectus:

- (1) the published audited unconsolidated annual financial statements of the Bank in respect of financial years ended 31 December 2004 and 31 December 2005¹, including the information set out at following pages in particular:

	2004	2005
Balance Sheet	304-305	66-67
Income Statement	306-307	68-69
Accounting Policies and Notes	310-386	78-216
Cashflow Statement	388-389	74-75
Audit Report	416-417	244-245

- (2) the published audited consolidated financial statements of the Bank in respect of financial years ended 31 December 2004 and 31 December 2005, including the information set out at the following pages in particular:

	2004	2005
Balance Sheet	110-111	96-97
Income Statement	112-113	98-99
Accounting Policies and Notes	116-210	108-272
Cashflow Statement	212-213	104-105
Audit Report	236-237	286-287

and

- (3) for information only, the Articles of Association of the Bank;

provided, however, that any statement contained in this Base Prospectus or in any of the documents incorporated by reference in, and forming part of, this Base Prospectus shall be deemed to be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained in a supplement to this Base Prospectus prepared in accordance with Article 16 of the Prospectus Directive amends or otherwise modifies or supersedes such earlier statement.

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

In connection with the listing of the Notes on the Luxembourg Stock Exchange, if there is a significant new factor, material mistake or inaccuracy relating to the information included in the Base Prospectus which is capable of affecting the assessment of the securities and which arises or is noted between the time when the prospectus is approved and the final closing of the offer to the public or, as the case may be, the time when trading on a regulated market begins the Bank or any change in the information set out under “*Terms and Conditions of the Notes*”, in relation to a particular tranche of Notes that is material in the context of issuance under the Programme, the Bank will prepare or procure the preparation of an supplement to this Base Prospectus for use in connection with any subsequent issue by the Bank of Notes to be listed on the Luxembourg Stock Exchange.

1. The consolidated and unconsolidated financial statements of the Bank as at 31 December 2004 have been prepared pursuant to the Italian National Accounting Principles and to Legislative Decree No.87/92. The consolidated and unconsolidated financial statements of the Bank as at 31 December 2005 have been prepared pursuant to the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS). The 31 December 2004 financial statements data have been restated in order to ensure compliance with IAS/IFRS accounting principles and are published, for comparison purposes, in the 2005 annual report.

The Bank will, at the specified offices of the Paying Agents, provide, free of charge, upon oral or written request, a copy of this Base Prospectus (or any document incorporated by reference in this Base Prospectus) or any supplement thereto. Requests in person for such documents should be directed to the specified office of any Paying Agent or the specified office of the Listing Agent in Luxembourg. Copies of documents incorporated by reference will also be available for viewing on the website of the Luxembourg Stock Exchange, www.bourse.lu.

FORMS OF THE NOTES

Notes issued under the Programme shall be issued pursuant to this Base Prospectus and associated Final Terms prepared in connection with a particular Tranche of Notes.

For each Tranche of Notes, the associated Final Terms will, for the purposes of that Tranche only, supplement the Terms and Conditions of the Notes and this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Notes which is the subject of Final Terms are the Terms and Conditions of the Notes as supplemented, amended and/or replaced to the extent described in the relevant Final Terms.

Each Tranche of Notes will initially be in the form of either a temporary global note (the **Temporary Global Note**), without interest coupons, or a permanent global note (the **Permanent Global Note**), without interest coupons, in each case as specified in the relevant Final Terms. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a **Global Note**) will:

- (i) if the Global Notes are intended to be issued in new global note (NGN) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, société anonyme, Luxembourg (**Clearstream, Luxembourg**); and
- (ii) if the Global Notes are not intended to be issued in NGN form, as stated in the applicable Final Terms, be deposited on or around the issue date of the relevant Tranche of the Notes with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

The relevant Final Terms will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the **TEFRA C Rules**) or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the **TEFRA D Rules**) are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

Temporary Global Note exchangeable for Permanent Global Note

If the relevant Final Terms specifies the form of Notes as being “Temporary Global Note exchangeable for a Permanent Global Note”, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of such Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

- (a) presentation and (in the case of final exchange) surrender of the Temporary Global Note to or to the order of the Principal Paying Agent; and
- (b) receipt by the Principal Paying Agent of a certificate or certificates of non-U.S. beneficial ownership, within 7 days of the bearer requesting such exchange.

The principal amount of the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership; *provided, however, that* in no circumstances shall the principal amount of the Permanent Global Note exceed the initial principal amount of the Temporary Global Note.

The Permanent Global Note will be exchangeable in whole, but not in part, for Notes in definitive form (**Definitive Notes**):

- (i) on the expiry of such period of notice as may be specified in the relevant Final Terms; or
- (ii) at any time, if so specified in the relevant Final Terms; or
- (iii) if the relevant Final Terms specifies “in the limited circumstances described in the Permanent Global Note”, then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 12 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

Temporary Global Note exchangeable for Definitive Notes

If the relevant Final Terms specifies the form of Notes as being “Temporary Global Note exchangeable for Definitive Notes” and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Final Terms specifies the form of Notes as being “Temporary Global Note exchangeable for Definitive Notes” and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

Permanent Global Note exchangeable for Definitive Notes

If the relevant Final Terms specifies the form of Notes as being “Permanent Global Note exchangeable for Definitive Notes”, then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

- (i) on the expiry of such period of notice as may be specified in the relevant Final Terms; or
- (ii) at any time, if so specified in the relevant Final Terms; or
- (iii) if the relevant Final Terms specifies “in the limited circumstances described in the Permanent Global Note”, then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 12 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under “*Terms and Conditions of the Notes*” below and the provisions of the relevant Final Terms which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under “*Summary of Provisions Relating to the Notes while in Global Form*” below.

Legend concerning United States persons

In the case of any Tranche of Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

“Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.”

The sections referred to in such legend provide that a United States person who holds a Note, Coupon or Talon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Note, Coupon or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes which, as supplemented, amended and/or replaced by the relevant Final Terms, will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from the terms and conditions which would apply to the Note were it in definitive form to the extent described under “Summary of Provisions Relating to the Notes while in Global Form” below.

1. INTRODUCTION

- (a) **Programme:** Capitalia S.p.A. (the **Bank**) has established a Euro Medium Term Note Programme (the **Programme**) for the issuance of up to €20,000,000,000 in aggregate principal amount of notes (the **Notes**) including through any such branch of the Bank outside the Republic of Italy as may be specified in the applicable Final Terms (as defined below).
- (b) **Final Terms:** Notes issued under the Programme are issued in series (each a **Series**) and each Series may comprise one or more Tranches (each a **Tranche**) of Notes. Each Tranche is the subject of a Final Terms (the **Final Terms**) which supplements these terms and conditions (the **Conditions**). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented, amended and/or replaced by the relevant Final Terms. In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms will prevail.
- (c) **Trust Deed:** The Notes are constituted by an amended and restated trust deed dated 4 October 2006 (as amended or supplemented from time to time, the **Trust Deed**) made between the Bank and Deutsche Trust Company Limited as trustee (the **Trustee**, which expression includes any successor trustee appointed from time to time under the Trust Deed).
- (d) **Agency Agreement:** The Notes are the subject of an amended and restated paying agency agreement dated 4 October 2006 (the **Agency Agreement**) between the Bank, the Trustee, Deutsche Bank AG, London Branch as principal paying agent (the **Principal Paying Agent**, which expression includes any successor principal paying agent appointed from time to time in accordance with the Agency Agreement), and Deutsche Bank Luxembourg S.A. and Credit Suisse as paying agents (together with the Principal Paying Agent, the **Paying Agents**, which expression includes any successor or additional paying agents appointed from time to time in accordance with the Agency Agreement).
- (e) **The Notes:** All subsequent references in these Conditions to **Notes** are to the Notes which are the subject of the relevant Final Terms. Copies of the relevant Final Terms are available (as defined below) during normal business hours at the Specified Offices of the Paying Agents, the initial Specified Offices of which are set out below.
- (f) **Summaries:** Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and are subject to their detailed provisions. The holders of the Notes (the **Noteholders**) and the holders of the related interest coupons, if any (the **Couponholders** and the **Coupons**, respectively) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices of each of the Paying Agents, the initial Specified Offices of which are set out below.

2. INTERPRETATION

- (a) **Definitions:** In these Conditions the following expressions have the following meanings:

Accrual Yield has the meaning given in the relevant Final Terms;

Additional Business Centre(s) means the city or cities specified as such in the relevant Final Terms;

Additional Financial Centre(s) means the city or cities specified as such in the relevant Final Terms;

Business Day means:

- (i) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre;
- (ii) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre; and
- (iii) in relation to the Interest Determination Date, a day on which foreign exchange markets are open for business generally in London and, if the relevant Interest Determination Date relates to an amount of interest payable in euro, a TARGET Settlement Day;

Business Day Convention, in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (i) **Following Business Day Convention** means that the relevant date shall be postponed to the first following day that is a Business Day;
- (ii) **Modified Following Business Day Convention** or **Modified Business Day Convention** means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (iii) **Preceding Business Day Convention** means that the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (iv) **FRN Convention, Floating Rate Convention** or **Eurodollar Convention** means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred *provided, however, that:*
 - (A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
 - (B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
 - (C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (v) **No Adjustment** means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

Calculation Agent means the Principal Paying Agent or such other person specified in the relevant Final Terms as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Final Terms;

Coupon Sheet means, in respect of a Note, a coupon sheet relating to the Note;

Day Count Fraction means (subject as provided in Condition 5 (*Fixed Rate Note Provisions*)), in respect of the calculation of an amount for any period of time (the **Calculation Period**), such day count fraction as may be specified in these Conditions or the relevant Final Terms and:

- (i) if **Actual/Actual (ISMA)** is so specified, means:
 - (a) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods normally ending in any year; and
 - (b) where the Calculation Period is longer than one Regular Period, the sum of:
 - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods normally ending in any year.
- (ii) if **Actual/365** or **Actual/Actual (ISDA)** is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (iii) if **Actual/365 (Fixed)** is so specified, means the actual number of days in the Calculation Period divided by 365;
- (iv) if **Actual/360** is so specified, means the actual number of days in the Calculation Period divided by 360;
- (v) if **30/360** is so specified, means the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (i) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (ii) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (vi) if **30E/360** or **Eurobond Basis** is so specified means, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of the final Calculation Period, the date of final maturity is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month);

Early Redemption Amount (Tax) means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

Early Termination Amount means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Final Terms;

External Indebtedness means any present or future loan, indebtedness or other obligation for or in respect of indebtedness (whether or not initially distributed by means of a private placing) which, in each case, is intended to be, or is for the time being, quoted, listed or ordinarily dealt in on any stock exchange or over-the-counter or other securities market (for which purpose any loan, indebtedness or

other obligation shall be deemed not to be capable of being quoted, listed or ordinarily dealt in as aforesaid if the terms of issue expressly so provide) and which is quoted, listed or ordinarily dealt in on any stock exchange or over-the-counter or other securities market outside the Republic of Italy and cleared and settled through a clearing system other than Monte Titoli or any of the successors thereof or any other domestic clearing system in the Republic of Italy;

Extraordinary Resolution has the meaning given in the Trust Deed;

Final Redemption Amount means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

Fixed Coupon Amount has the meaning given in the relevant Final Terms;

Interest Amount means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

Interest Commencement Date means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms;

Interest Determination Date has the meaning given in the relevant Final Terms;

Interest Payment Date means the date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

- (i) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

Interest Period means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

ISDA Definitions means the 2000 ISDA Definitions (as further amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms) as published by the International Swaps and Derivatives Association, Inc. (formerly the International Swap Dealers Association, Inc.);

Issue Date has the meaning given in the relevant Final Terms;

Issue Price has the meaning given in the relevant Final Terms;

Margin has the meaning given in the relevant Final Terms;

Maturity Date has the meaning given in the relevant Final Terms;

Maximum Redemption Amount has the meaning given in the relevant Final Terms;

Minimum Redemption Amount has the meaning given in the relevant Final Terms;

Optional Redemption Amount (Call) means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

Optional Redemption Amount (Put) means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

Optional Redemption Date (Call) has the meaning given in the relevant Final Terms;

Optional Redemption Date (Put) has the meaning given in the relevant Final Terms;

Participating Member State means a Member State of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty;

Payment Business Day means:

- (i) if the currency of payment is euro, any day which is:
 - (A) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
 - (B) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or
- (ii) if the currency of payment is not euro, any day which is:
 - (A) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
 - (B) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

Principal Financial Centre means, in relation to any currency, the principal financial centre for that currency *provided, however, that:*

- (i) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and
- (ii) in relation to Australian dollars, it means Sydney and Melbourne and, in relation to New Zealand dollars, it means Wellington and Auckland; in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

Put Option Notice means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

Put Option Receipt means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

Rate of Interest means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in relevant Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Final Terms;

Redemption Amount means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Final Terms;

Reference Banks has the meaning given in the relevant Final Terms or, if none, four (or if the Principal Financial Centre is Helsinki, five) major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

Reference Price has the meaning given in the relevant Final Terms;

Reference Rate has the meaning given in the relevant Final Terms;

Relevant Date means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Principal Paying Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

Relevant Financial Centre has the meaning given in the relevant Final Terms;

Relevant Screen Page means the page, section or other part of a particular information service (including, without limitation, the Reuter Money 3000 Service and the Moneyline Telerate Service) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

Relevant Time has the meaning given in the relevant Final Terms;

Reserved Matter has the meaning given in Schedule 3 of the Trust Deed;

Senior Note means a Note specified in the relevant Final Terms as being unsubordinated or not specified as being subordinated;

Specified Currency has the meaning given in the relevant Final Terms;

Specified Denomination(s) has the meaning given in the relevant Final Terms;

Specified Office has the meaning given in the Agency Agreement;

Specified Period has the meaning given in the relevant Final Terms;

Subordinated Note means a Note specified in the relevant Final Terms as being subordinated;

Subsidiary means in relation to any person (the **first person**) at any particular time, any other person (the **second person**):

- (i) whose majority of votes in ordinary shareholders' meetings of the second person is held by the first person; or
- (ii) in which the first person holds a sufficient number of votes giving the first person a dominant influence in ordinary shareholders' meetings of the second person; or
- (iii) which are under the dominant influence of the first person by virtue of certain contractual relationships between the first person and the second person, pursuant to the provisions of Article 2359 of the Italian Civil Code;

Talon means a talon for further Coupons;

TARGET Settlement Day means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open;

Treaty means the Treaty establishing the European Community, as amended; and

Zero Coupon Note means a Note specified as such in the relevant Final Terms.

(b) **Interpretation:** In these Conditions:

- (i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;
- (ii) if Talons are specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;

- (iii) if Talons are not specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Talons are not applicable;
- (iv) any reference to principal and/or interest in respect of the Notes of any Series shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 9 (*Redemption and Purchase*) and Condition 11 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;
- (v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 11 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;
- (vi) references to Notes being **outstanding** shall be construed in accordance with the Trust Deed; and
- (vii) if an expression is stated in Condition 2(a) (*Definitions*) to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is **not applicable** then such expression is not applicable to the Notes.

3. FORM, DENOMINATION AND TITLE

The Notes are in bearer form in the Specified Denomination(s) with Coupons and, if specified in the relevant Final Terms, Talons attached at the time of issue. In the case of a Series of Notes with more than one Specified Denomination, Notes of one Specified Denomination will not be exchangeable for Notes of another Specified Denomination. Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

4. STATUS

- (a) **Senior Notes:** The Senior Notes constitute direct, unconditional, unsubordinated and unsecured obligations of the Bank which will at all times rank *pari passu* among themselves and, subject to the provision below, equally with all other present and future unsecured obligations (other than subordinated obligations if any) of the Bank (including, without limitation, obligations in respect of deposits), save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The Bank has covenanted in the Trust Deed that it will treat all Senior Notes equally and that all amounts paid by the Bank in respect of principal and interest (if any) thereon will be paid *pro rata* on all Senior Notes. Provided that certain Senior Notes of the Bank, issued under the Programme prior to the date of issue of the Notes subject to these Conditions, have the benefit of a covenant by the Bank in terms that it will not secure any External Indebtedness on its assets or revenues unless the same or equivalent security is extended equally and rateably to such Senior Notes. The Notes issued subject to these Conditions do not have the benefit of this covenant and therefore would not be secured in these circumstances.
- (b) **Subordinated Notes:**
 - (i) The Lower Tier II Subordinated Notes (*Passività Subordinate*), as defined in Title IV, Chapter I, Section II, paragraph 4.2 of the Regulations of the Bank of Italy (*Istruzioni di Vigilanza della Banca d'Italia*) in force at 9 May 2003 and the Upper Tier II Subordinated Notes (*Strumenti Ibridi di Patrimonializzazione*), as defined in Title IV, Chapter 1, Section II, paragraph 4.1 of the Regulations of the Bank of Italy (being those Subordinated Notes that are specified in the relevant Final Terms as being Lower Tier II Subordinated Notes or Upper Tier II Subordinated Notes) and the related Coupons constitute direct, unsecured and subordinated obligations of the

Bank and, subject as provided below and in Condition 4(b)(ii) (*Subordinated Notes*), 4(b)(iii) (*Subordinated Notes*) and 4(b)(iv)(A) (*Subordinated Notes*) rank *pari passu* and without any preference among themselves. In relation to each Series of Lower Tier II Subordinated Notes or Upper Tier II Subordinated Notes, all Lower Tier II Subordinated Notes or Upper Tier II Subordinated Notes, as the case may be, of such Series will be treated equally and all amounts paid by the Bank in respect of principal and interest thereon will be paid *pro rata* on all Lower Tier II Subordinated Notes or Upper Tier II Subordinated Notes, as the case may be, of such Series.

- (ii) In the event of the liquidation, dissolution, winding-up or *Liquidazione Coatta Amministrativa* (the latter as described in Articles 80 to 94 of Legislative Decree No. 385 of 1 September 1993, as amended from time to time (the **Italian Banking Act**)) of the Bank, the payment obligations of the Bank under the Lower Tier II Subordinated Notes or Upper Tier II Subordinated Notes, as the case may be, and the relative Coupons shall rank in right of payment after unsubordinated, unsecured creditors (including depositors) of the Bank but *pari passu* with all other present and future subordinated obligations of the Bank which do not rank or are not expressed by their terms to rank junior to or senior to the Lower Tier II Subordinated Notes or Upper Tier II Subordinated Notes, as the case may be, and in priority to the claims of shareholders of the Bank.
- (iii) To the extent that the Bank at any time suffers losses which in accordance with Italian laws and regulations would require the Bank to reduce its capital to below the minimum capital (the **Minimum Capital**) as provided for by the Bank of Italy from time to time for the issuance or maintenance of the Bank of Italy's authorisation to carry on banking activities and as determined by the external auditors of the Bank, the obligations of the Bank in respect of interest and principal under the Upper Tier II Subordinated Notes will be reduced to the extent necessary to enable the Bank to maintain at least the required Minimum Capital. The obligations of the Bank in respect of interest and principal due under the Upper Tier II Subordinated Notes which are so reduced will be reinstated whether or not the maturity date of the relevant obligation has occurred:
 - (A) in whole, in the event of dissolution, liquidation, winding-up or *Liquidazione Coatta Amministrativa* of the Bank and with effect immediately prior to the commencement of such dissolution, liquidation, winding-up or order for *Liquidazione Coatta Amministrativa* as if such obligations of the Bank had not been so reduced in accordance with this Condition 4b(iii) (*Subordinated Notes*); and
 - (B) in whole or in part, from time to time, to the extent that the Bank, by reason of it having profits, or by reason of it obtaining new capital contributions, or by reason of the occurrence of any other event, would again have at least the Minimum Capital and therefore would not be required to reduce its obligations in respect of principal and interest in accordance with this Condition 4b(iii) (*Subordinated Notes*).
- (iv) (A) The Bank is not required to pay interest on the Upper Tier II Subordinated Notes on an Interest Payment Date if (1) no annual dividend has been approved, paid or set aside for payment by the shareholders of the Bank in respect of any class of shares of the Bank during the 12-month period ending on, and including the day which is three London Business Days preceding such Interest Payment Date; or (2) the Board of Directors of the Bank has announced, at the time of publication of any interim accounts of the Bank published during the six-month period ending on, and including the day which is three London Business Days preceding such Interest Payment Date, that, based on such accounts, no sums are available at such time in accordance with Italian law for the payment of interim dividends, in accordance with Article 2433-*bis* of the Italian Civil Code.
- (B) Tier III Subordinated Notes (*Prestiti Subordinati di 3^o Livello*) (as defined in Title IV, Chapter 3, paragraph 3 of the Regulations of the Bank of Italy) (being those Notes that

are specified in the relevant Final Terms as being Tier III Subordinated Notes) and the related Coupons constitute direct, unsecured and subordinated obligations of the Bank and rank *pari passu* among themselves. Tier III Subordinated Notes shall be subject to the same provisions as Upper Tier II Subordinated Notes or Lower Tier II Subordinated Notes except that any Tier III Subordinated Notes shall (1) have a different minimum maturity period, as specified in the relevant Final Terms, and (2) be subject to a lock-in clause pursuant to which payments of interest and repayment of principal amount cannot be effected if such payments or repayment would reduce the total value of the Bank's assets below the Minimum Capital requirements of Italian law.

5. FIXED RATE NOTE PROVISIONS

- (a) **Application:** This Condition 5 (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Final Terms as being applicable.
- (b) **Accrual of interest:** The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 10 (*Payments*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 5 (*Fixed Rate Note Provisions*) (as well after as before judgment) in the manner provided in the Trust Deed (except in the case of Zero Coupon Notes, to which Condition 7(b) (*Late payment on Zero Coupon Notes*) shall apply).
- (c) **Fixed Coupon Amount:** The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.
- (d) **Regular Interest Periods:** If all of the Interest Payment Dates fall at regular intervals between the Issue Date and the Maturity Date, then:
 - (i) the Notes shall for the purposes of this Condition 5 (*Fixed Rate Note Provisions*) be **Regular Interest Period Notes**;
 - (ii) the day and month (but not the year) on which any Interest Payment Date falls shall for the purposes of this Condition 5 (*Fixed Rate Note Provisions*) be a **Regular Date**; and
 - (iii) each period from and including a Regular Date falling in any year to but excluding the next succeeding Regular Date shall for the purposes of this Condition 5 (*Fixed Rate Note Provisions*) be a **Regular Period**.
- (e) **Irregular first or last Interest Periods:** If the Notes would be Regular Interest Period Notes but for the fact that either or both of:
 - (i) the interval between the Issue Date and the first Interest Payment Date; and
 - (ii) the interval between the Maturity Date and the immediately preceding Interest Payment Date,
 is longer or shorter than a Regular Period, then the Notes shall nevertheless be deemed to be Regular Interest Period Notes *provided, however, that* if the interval between the Maturity Date and the immediately preceding Interest Payment Date is longer or shorter than a Regular Period, the day and month on which the Maturity Date falls shall not be a **Regular Date**.
- (f) **Irregular interest amount:** If the Notes are Regular Interest Period Notes, the amount of interest payable in respect of each Note for any period which is not a Regular Period shall be calculated by applying the Rate of Interest to the principal amount of such Note, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards). For this purpose a **sub-unit** means, in the case of

any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

- (g) **Day Count Fraction:** In respect of any period which is not a Regular Period the relevant day count fraction (the **Day Count Fraction**) shall be determined in accordance with the following provisions:
- (i) if the Day Count Fraction is specified in the relevant Final Terms as being **30/360**, the relevant Day Count Fraction will be the number of days in the relevant period (calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed) divided by 360;
 - (ii) if the Day Count Fraction is specified in the relevant Final Terms as being **Actual/Actual ISMA** and the relevant period falls during a Regular Period, the relevant Day Count Fraction will be the number of days in the relevant period divided by the product of (A) the number of days in the Regular Period in which the relevant period falls and (B) the number of Regular Periods in any period of one year; and
 - (iii) if the Day Count Fraction is specified in the relevant Final Terms as being **Actual/Actual ISMA** and the relevant period begins in one Regular Period and ends in the next succeeding Regular Period, interest will be calculated on the basis of the sum of:
 - (A) the number of days in the relevant period falling within the first such Regular Period divided by the product of (1) the number of days in the first such Regular Period and (2) the number of Regular Periods in any period of one year; and
 - (B) the number of days in the relevant period falling within the second such Regular Period divided by the product of (1) the number of days in the second such Regular Period and (2) the number of Regular Periods in any period of one year.
- (h) **Number of days:** For the purposes of this Condition 5 (*Fixed Rate Note Provisions*), unless the Day Count Fraction is specified in the relevant Final Terms as being 30/360 (in which case the provisions of Condition (g)(i) above shall apply), the number of days in any period shall be calculated on the basis of actual calendar days from and including the first day of the relevant period to but excluding the last day of the relevant period.
- (i) **Irregular Interest Periods:** If the Notes are not Regular Interest Period Notes and interest is required to be calculated for any period other than an Interest Period, interest shall be calculated on such basis as is described in the relevant Final Terms.

6. FLOATING RATE NOTE AND INDEX-LINKED INTEREST NOTE PROVISIONS

- (a) **Application:** This Condition 6 (*Floating Rate Note and Index-Linked Interest Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Final Terms as being applicable.
- (b) **Accrual of interest:** The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 10 (*Payments*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (*Floating Rate Note and Index-Linked Interest Note Provisions*) (as well after as before judgment) in the manner provided in the Trust Deed (except in the case of Zero Coupon Notes, to which Condition 7(b) (*Late Payment on Zero Coupon Notes*) shall apply).
- (c) **Screen Rate Determination:** If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:

- (i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
- (ii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
- (iii) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:
 - (A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and
 - (B) determine the arithmetic mean of such quotations; and
- (iv) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; *provided, however, that* if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate (or as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

- (d) **ISDA Determination:** If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where **ISDA Rate** in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
 - (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
 - (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms; and
 - (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Final Terms.
- (e) **Index-Linked Interest:** If the Index-Linked Interest Note Provisions are specified in the relevant Final Terms as being applicable, the Rate(s) of Interest applicable to the Notes for each Interest Period will be determined in the manner specified in the relevant Final Terms.

- (f) **Maximum or Minimum Rate of Interest:** If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.
- (g) **Calculation of Interest Amount:** The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the principal amount of such Note during such Interest Period and multiplying the product by the relevant Day Count Fraction.
- (h) **Calculation of other amounts:** If the relevant Final Terms specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Final Terms.
- (i) **Publication:** The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s), to be notified to the Paying Agents and each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than four Business Days after the relevant determination date. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period.
- (j) **Notifications etc:** All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 6 (*Floating Rate Note and Index-Linked Interest Note Provisions*) by the Calculation Agent will (in the absence of manifest error) be binding on the Bank, the Trustee, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.
- (k) **Determination or Calculation by Trustee:** If the Calculation Agent fails at any time to determine a Rate of Interest or to calculate an Interest Amount, the Trustee will determine such Rate of Interest and make such determination or calculation which shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply all of the provisions of these Conditions with any necessary consequential amendments and subject always to any minimum or maximum interest rate stated in the Final Terms to the extent that, in its sole opinion and with absolute discretion, it shall deem fair and reasonable in all the circumstances and will not be liable for any loss, liability, cost, charge or expense which may arise as a result thereof except in the case of gross negligence or wilful default. Any such determination or calculation made by the Trustee shall be binding on the Bank, Noteholders and Couponholders.

7. ZERO COUPON NOTE PROVISIONS

- (a) **Application:** This Condition 7 (*Zero Coupon Note Provisions*) is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Final Terms as being applicable.
- (b) **Late payment on Zero Coupon Notes:** If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:
 - (i) the Reference Price; and

- (ii) a single payment of rolled-up interest calculated as the product of the Accrual Yield specified in the applicable Final Terms (compounded annually) being applied to the Issue Price from (and including) the Issue Date to (but excluding) whichever is the earlier of (A) the date on which all amounts due in respect of the Notes have been paid and (B) the date on which the full amount of the moneys repayable has been received by the Principal Paying Agent or, as the case may be, the Trustee and notice to that effect has been given in accordance with Condition 19 (*Notices*) or individually (except to the extent that there is any subsequent default in payment).

8. DUAL CURRENCY NOTE PROVISIONS

- (a) **Application:** This Condition 8 (*Dual Currency Note Provisions*) is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Final Terms as being applicable.
- (b) **Rate of Interest:** If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Final Terms.

9. REDEMPTION AND PURCHASE

- (a) **Scheduled redemption:** Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 10 (*Payments*).
- (b) **Redemption of Upper Tier II Subordinated Notes:** The redemption of Upper Tier II Subordinated Notes shall always be subject to the prior approval of the Bank of Italy, such approval being dependent on the Bank maintaining the Minimum Capital requirements (*patrimonio di vigilanza*) as prescribed in Title IV, Chapter 1 of the Regulations of the Bank of Italy immediately following redemption of the Upper Tier II Subordinated Notes. If such approval is not given on or prior to the Maturity Date, the Bank will re-apply to the Bank of Italy for its consent to such redemption forthwith upon its having again, by whatever means, such required Minimum Capital. The Bank will use its reasonable endeavours to maintain such required Minimum Capital and to obtain such approval.
- (c) **Redemption for tax reasons:** The Notes may be redeemed at the option of the Bank in whole, but not in part (subject, in the case of Subordinated Notes, to the prior approval of the Bank of Italy):
 - (i) at any time (if neither the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Final Terms as being applicable); or
 - (ii) on any Interest Payment Date (if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Final Terms as being applicable):
 - (A) on giving not less than 30 nor more than 60 days' notice to the Noteholders and the Trustee, at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if the Bank has or will become obliged to pay additional amounts as provided or referred to in Condition 11 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Republic of Italy, the United Kingdom, Belgium, Luxembourg or the country where the branch through which the Bank is issuing the Notes is located or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; *provided, however*, that no such notice of redemption shall be given earlier than:
 - (1) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Bank would be obliged to pay such additional amounts if a payment in respect of the Notes were then due; or

- (2) where the Notes may be redeemed only on an Interest Payment Date, 90 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Bank would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Immediately prior to the publication of any notice of redemption pursuant to this paragraph, the Bank shall deliver or procure that there is delivered to the Trustee (A) a certificate satisfactory to the Trustee signed by two Directors of the Bank stating that the Bank is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Bank so to redeem have occurred and (B) an opinion satisfactory to the Trustee of independent legal advisers of recognised standing to the effect that the Bank has or will become obliged to pay such additional amounts as a result of such change or amendment (and such evidence shall be sufficient to the Trustee and conclusive and binding on the Noteholders). Upon the expiry of any such notice as is referred to in this Condition 9(c) (*Redemption for tax reasons*), the Bank shall be bound to redeem the Notes in accordance with this Condition 9(c) (*Redemption for tax reasons*).

- (d) ***Redemption at the option of the Bank:*** If the Call Option is specified in the relevant Final Terms as being applicable, the Notes may be redeemed at the option of the Bank (subject, in the case of Lower Tier II Subordinated Notes, Upper Tier II Subordinated Notes and Tier III Subordinated Notes, to the prior approval of the Bank of Italy) in whole or, if so specified in the relevant Final Terms, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Bank's giving (i) not less than 15 nor more than 30 days' notice to the Noteholders (or such other notice period as is specified in the relevant Final Terms) and (ii) not less than 15 days before the giving of the notice referred to in paragraph (i), notice to the Trustee and the Principal Paying Agent (which notices shall be irrevocable and shall oblige the Bank to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).
- (e) ***Partial redemption:*** If the Notes are to be redeemed in part only on any date in accordance with Condition 9(d) (*Redemption at the option of the Bank*), the Notes to be redeemed shall be selected by the drawing of lots in such place as the Principal Paying Agent approves and in such manner as the Principal Paying Agent considers appropriate, subject to compliance with applicable law and the rules of each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), and the notice to Noteholders referred to in Condition 9(d) (*Redemption at the option of the Bank*) shall specify the serial numbers of the Notes so to be redeemed. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.
- (f) ***Redemption at the option of Noteholders:*** This Condition 9(f) (*Redemption at the option of the Noteholders*) shall not apply to Subordinated Notes. If the Put Option is specified in the relevant Final Terms as being applicable, the Bank shall, at the option of the holder of any Note, redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 9(f) (*Redemption at the option of Noteholders*), the holder of a Note must, not less than 15 nor more than 30 days before the relevant Optional Redemption Date (Put), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 9(f) (*Redemption at the option of Noteholders*), may be withdrawn; *provided, however*, that if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld

or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 9(f) (*Redemption at the option of Noteholders*), the depositor of such Note and not such Paying Agent shall be deemed to be the holder of such Note for all purposes.

- (g) **No other redemption:** The Bank shall not be entitled to redeem the Notes otherwise than as provided in Conditions 9(a) (*Scheduled Redemption*) to 9(f) (*Redemption at the option of Noteholders*) above.
- (h) **Early redemption of Zero Coupon Notes:** Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:
 - (i) the Reference Price; and
 - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition 9(h) (*Early redemption of Zero Coupon Notes*) or, if none is so specified, a Day Count Fraction of 30E/360.

- (i) **Purchase:** Subject as provided in Condition 9(j) (*Purchase of Lower Tier II and Upper Tier II Subordinated Notes*), the Bank or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, *provided that* all unmatured Coupons and Talons are purchased therewith.
- (j) **Purchase of Lower Tier II and Upper Tier II Subordinated Notes:** Lower Tier II Subordinated Notes and Upper Tier II Subordinated Notes may only be purchased by the Bank or any of its Subsidiaries subject to the prior approval of the Bank of Italy, unless the Notes to be purchased (i) do not exceed 10 per cent. of the aggregate nominal amount of the Series and (ii) are not purchased in order to be surrendered to any Paying Agent for cancellation.
- (k) **Cancellation:** All Notes so redeemed or purchased by any of the Subsidiaries (other than MCC S.p.A.) and any unmatured Coupons and Talons attached to or surrendered with them shall be cancelled and may not be reissued or resold. This Condition 9(k) (*Cancellation*) shall not apply to any Notes so deemed or purchased by the Bank or MCC S.p.A. where that redemption or purchase is made in accordance with Condition 9(i) (*Purchase*) and Condition 9(j) (*Purchase of Lower Tier II and Upper Tier II Subordinated Notes*). As a consequence, all current and future Notes so purchased by the Bank or MCC S.p.A. may be reissued or resold.

In each case where a redemption is made in accordance with Condition 9(d) (Redemption at the option of the Bank), Condition 9(e) (Partial redemption) or Condition 9(f) (Redemption at the option of Noteholders), a notification of such redemption shall be made to the Luxembourg Stock Exchange.

10. PAYMENTS

- (a) **Principal:** Payments of principal shall be made only against presentation and (*provided that* payment is made in full) surrender of Notes to or to the order of any Paying Agent outside the United States by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London).

- (b) **Interest:** Payments of interest shall, subject to Condition 10(h) (*Payments other than in respect of matured Coupons*) below, be made only against presentation and (*provided that* payment is made in full) surrender of the appropriate Coupons to or to the order of any Paying Agent outside the United States in the manner described in Condition 10(a) (*Principal*) above.
- (c) **Payments in New York City:** Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Bank has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.
- (d) **Payments subject to fiscal laws:** All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 11 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) **Deductions for unmatured Coupons:** If the relevant Final Terms specifies that the Fixed Rate Note Provisions are applicable and a Note is presented without all unmatured Coupons relating thereto:
 - (i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; *provided, however,* that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;
 - (ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
 - (A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the **Relevant Coupons**) being equal to the amount of principal due for payment; *provided, however, that* where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
 - (B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; *provided, however, that,* if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in Condition 10(a) (*Principal*) against presentation and (*provided that* payment is made in full) surrender of the relevant missing Coupons.

- (f) **Unmatured Coupons void:** If the relevant Final Terms specifies that this Condition 10(f) (*Unmatured Coupons void*) is applicable or that the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are applicable, on the due date for final redemption of any Note or early redemption of such Note pursuant to Condition 9(c) (*Redemption for tax reasons*), Condition 9(f) (*Redemption at the option of Noteholders*), Condition 9(d) (*Redemption at the option of the Bank*) or Condition 12 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

- (g) **Payments on business days:** If the due date for payment of any amount in respect of any Note or Coupon is not a Payment Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.
- (h) **Payments other than in respect of matured Coupons:** Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes to or to the order of any Paying Agent outside the United States (or in New York City if permitted by Condition 10(c) (*Payments in New York City*) above).
- (i) **Partial payments:** If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (j) **Exchange of Talons:** On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 13 (*Prescription*)). Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

11. TAXATION

- (a) **Gross up:** All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Bank shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Italy, the United Kingdom, Belgium, Luxembourg, or in the country where the branch through which the Bank is issuing the Notes is located or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Bank shall pay such additional amounts as will result in the receipt by the Noteholders and the Couponholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:
 - (i) in relation to any payment or deduction on account of *imposta sostitutiva* pursuant to Italian Legislative Decree No. 239 of 1 April 1996, as amended from time to time, and related regulations which have been or may be enacted; or
 - (ii) in case of any Note having a maturity of less than eighteen months where such withholding or deduction is required pursuant to Article 26 of Italian Presidential Decree No. 600 of 29 September 1973, as amended or supplemented from time to time; or
 - (iii) where such withholding or deduction is required pursuant to Italian Legislative Decree No. 512 of 30 September 1983, converted, with amendments, by Law No. 649 of 25 November 1983, as amended from time to time; or
 - (iv) by or on behalf of a holder which:
 - (A) would have been entitled to avoid such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by making a declaration of non-residence or other similar claim for exemption; or
 - (B) is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the Republic of Italy, the United Kingdom, Belgium or Luxembourg, or the country where the branch through

which the Bank is issuing the Notes is located, other than the mere holding of such Note or Coupon; or

- (C) would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the EU; or
 - (v) more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had presented such Note or Coupon on the last day of such period of 30 days; or
 - (vi) in the Republic of Italy; or
 - (vii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC of 3 June 2003 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.
- (b) **Taxing jurisdiction:** If the Bank becomes subject at any time to any taxing jurisdiction other than the Republic of Italy, references in these Conditions to the Republic of Italy, the United Kingdom, Belgium, Luxembourg, or the country where the branch through which the Bank is issuing the Notes is located, shall be construed as references to the Republic of Italy and/or such other jurisdiction.
- (c) **Additional Amounts:** Any reference in these Terms and Conditions to **principal** and/or **interest** in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under Condition 9 (*Redemption and Purchase*) and Condition 11 (*Taxation*) or under any undertakings given in addition to or in substitution for this Condition 11 (*Taxation*) pursuant to the Trust Deed. Unless the context otherwise requires, any reference in these Terms and Conditions to **principal** shall include any premium payable in respect of any Note, any Instalment Amount or Redemption Amount and any other amounts in the nature of principal payable pursuant to these Terms and Conditions and **interest** shall include all amounts payable pursuant to Conditions 5 (*Fixed Rate Note Provisions*) and 6 (*Floating Rate Note and Index-Linked Interest Note Provisions*) and any other amounts in the nature of interest payable pursuant to these Conditions.

12. EVENTS OF DEFAULT

- (a) **Events of Default relating to Senior Notes:** This Condition 12(a) (*Events of Default relating to Senior Notes*) applies only to Senior Notes and references to **Notes** in this Condition 12(a) (*Events of Default relating to Senior Notes*) shall be construed accordingly. The Trustee at its discretion may, and if so requested in writing by the holders of Notes relating to at least one-quarter of the nominal amount of the Notes outstanding or by an Extraordinary Resolution of the Noteholders shall (but, in the case of the occurrence of any of the events mentioned in paragraph (viii) below, only if the Trustee shall have certified to the Bank that the occurrence of such event is in its opinion materially prejudicial to the interests of the Noteholders (and in all cases subject to the Trustee having been indemnified or provided with security to its satisfaction), give notice to the Bank that the Notes are, and they shall accordingly immediately become, due and repayable at their Early Redemption Amount together, if appropriate, with accrued interest as provided in the Trust Deed if:
- (i) a default is made for more than seven days in the repayment on the due date of the principal amount of any of the Notes; or
 - (ii) a default is made for more than fifteen days in the payment on the due date of interest in respect of any of the Notes; or
 - (iii) the Bank is adjudicated or found bankrupt or insolvent or shall stop or threaten to stop payment or shall be found unable to pay its debts, or any order shall be made by any competent court or administrative agency for, or any resolution shall be passed by the Bank for, judicial composition, proceedings with its creditors or for the appointment of an administrator,

administrative or other receiver or trustee or other similar official in insolvency proceedings in relation to the Bank or a substantial part of its assets; or

- (iv) the Bank becomes subject to an order for “*Liquidazione Coatta Amministrativa*”, “*Amministrazione Straordinaria*” or “*Gestione Provvisoria*” (within the meaning ascribed to those expressions by the laws of the Republic of Italy); or
 - (v) the Bank fails to pay a final judgment of a court of competent jurisdiction within 60 days from the entering thereof or an execution is levied on or enforced upon or sued out in pursuance of any such judgment against any substantial part of the assets or property of the Bank; or
 - (vi) the Bank shall be wound up or dissolved (otherwise than for the purposes of an amalgamation, merger or reconstruction on terms previously approved by the Trustee); or
 - (vii) the Bank shall cease or threaten to cease to carry on all or substantially all of its business (otherwise than for the purposes of an amalgamation, merger or reconstruction on terms previously approved by the Trustee); or
 - (viii) (A) the security for any debenture, mortgage or charge of the Bank in respect of any indebtedness for borrowed money of the Bank, where the principal amount (including any premium payable on redemption or at maturity) of such indebtedness is in any one case in excess of €10,000,000 or its equivalent in any other currency or currencies, or in aggregate in excess of €40,000,000 or its equivalent in any other currency or currencies, shall have become enforceable and legal proceedings are taken to enforce the same (other than where in the opinion of the Trustee the Bank is contesting in good faith and by appropriate proceedings that such indebtedness was due or capable of being rendered due); or
 - (B) any indebtedness for borrowed money of the Bank where the principal amount (including any premium payable on redemption or at maturity) of such indebtedness is in any one case in excess of €10,000,000 or its equivalent in any other currency or currencies, or in aggregate in excess of €40,000,000 or its equivalent in any other currency or currencies (other than where in the opinion of the Trustee the Bank is contesting in good faith and by appropriate proceedings that such indebtedness was due or capable of being rendered due) (i) shall become repayable prior to the date for payment thereof by reason of default by the Bank or (ii) shall not be repaid at maturity as extended by any applicable grace period therefor and, in either case, steps shall have been taken to obtain repayment; or
 - (C) any guarantee (other than a guarantee given in the ordinary course of its banking business or where, in the opinion of the Trustee, the Bank is contesting in good faith and by appropriate proceedings that such indebtedness for borrowed money shall not be honoured when due and called where the principal amount (including any premium payable on redemption or at maturity)) of such guarantee is in any one case in excess of €10,000,000 or its equivalent in any other currency or currencies or in aggregate in excess of €40,000,000 or its equivalent in any other currency or currencies; or
 - (ix) default is made by the Bank in the performance or observance of any obligation, condition or provision binding on it or in respect of the Notes, these Conditions or the Trust Deed (other than any obligation for payment of any principal or interest in respect of the Notes) and, except where the Trustee certifies that in its opinion such default is not capable of remedy, such default continues for 30 days after written notice thereof by the Trustee to the Bank requiring the same to be remedied (each, an **Event of Default**).
- (b) ***Events of Default relating to Subordinated Notes***: This Condition 12(b) (*Events of Default relating to Subordinated Notes*) applies only to Subordinated Notes and references to **Notes**, **Noteholders** and **Couponholders** in this Condition 12(b) (*Events of Default relating to Subordinated Notes*) shall be construed accordingly.

- (i) The Trustee at its discretion may, and if so directed in writing by the holders of Notes relating to at least one-quarter of the nominal amount of the Notes outstanding or by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified or provided with security to its satisfaction), give notice to the Bank that the Notes are, and they shall accordingly immediately become, due and repayable at their Early Redemption Amount together, if appropriate, with accrued interest as provided in the Trust Deed if the Bank is wound up or dissolved (otherwise than for the purposes of any amalgamation, merger or reconstruction on terms previously approved by the Trustee) (an **Event of Default**);
- (ii) The Trustee may at its discretion and without further notice institute such proceedings against the Bank as it may think fit to enforce any obligation, condition or provision binding on the Bank under the Trust Deed or in relation to the Notes. The Trustee shall not in any event be bound to take any of the actions referred to in this paragraph (ii) unless it shall have been so directed in writing by the holders of Notes relating to at least one-fifth of the nominal amount of the Notes outstanding or by an Extraordinary Resolution of the Noteholders and subject to being indemnified or provided with security to its satisfaction;
- (iii) No remedy against the Bank other than as specifically provided by this Condition 12(b) (*Events of Default relating to Subordinated Notes*) or in the Trust Deed shall be available to the Trustee or the Noteholders or Couponholders whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the Bank of any of its obligations under the Trust Deed or in relation to the Notes or otherwise.

13. PRESCRIPTION

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

14. REPLACEMENT OF NOTES AND COUPONS

If any Note, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent or any Paying Agents (each a **Replacement Agent**), subject to all applicable laws and listing authority, stock exchange and/or quotation system requirements, upon payment by the claimant of all expenses incurred in connection with such replacement and upon such terms as to evidence, security, indemnity and otherwise as the Bank and the Replacement Agent may require. Mutilated or defaced Notes, Coupons and Talons must be surrendered before replacements will be delivered therefor.

15. THE PAYING AGENTS AND THE CALCULATION AGENT

The initial Paying Agents and their respective initial specified offices are specified below. The Calculation Agent in respect of any Notes shall be specified in the Final Terms. The Bank reserves the right at any time (with the prior written approval of the Trustee) to vary or terminate the appointment of any Paying Agent (including the Principal Paying Agent) or the Calculation Agent and to appoint additional or other Paying Agents or another Calculation Agent, *provided, however, that* the Bank will at all times maintain:

- (i) a Principal Paying Agent;
- (ii) so long as the Notes are listed on the Luxembourg Stock Exchange and/or are admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system, a Paying Agent with a specified office in Luxembourg and/or in such other place as may be required by the rules of such other listing authority, stock exchange and/or quotation system;
- (iii) if a Calculation Agent is specified in the relevant Final Terms, a Calculation Agent; and
- (iv) a Paying Agent in an EU member state (to the extent that such member state exists) that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC of 3 June 2003

on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive. Notice of all changes in the identities or specified offices of any Paying Agent or the Calculation Agent will be given promptly by the Bank to the Trustee and the Noteholders in accordance with Condition 19 (*Notices*).

16. ENFORCEMENT

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Bank, as it may think fit to enforce the terms of the Trust Deed and the Notes, but it need not take any such proceedings unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in principal amount of Notes outstanding, and (ii) it shall have been indemnified and/or secured to its satisfaction. No Noteholder or Couponholder may proceed directly against the Bank.

17. THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility and to be paid its costs and expenses in priority to the claims of the Noteholders. The Trustee is entitled to enter into business transactions with the Bank and any entity related to the Bank without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Noteholders or Couponholders as a result of such holders being connected in any way with a particular territory or taxing jurisdiction.

18. MEETINGS OF NOTEHOLDERS; MODIFICATION AND WAIVER

- (a) ***Meetings of Noteholders:*** The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Trustee, the Bank or by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of such outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing more than one half of the aggregate principal amount of the outstanding Notes of such Series or, at any adjourned meeting, one or more persons being or representing Noteholders whatever the principal amount of the Notes of such Series held or represented; *provided, however, that* any proposal relating to a Reserved Matter may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more persons holding or representing not less than two thirds or, at any adjourned meeting, one third of the aggregate principal amount of the outstanding Notes of such Series form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) ***Modification:*** The Trustee may (subject to certain exceptions) without the consent of the Noteholders or the Couponholders (i) agree to any modification of these Conditions or of the Trust Deed (other than in respect of Reserved Matters (as defined in terms of the Trust Deed)) which, in any case, in the opinion of the Trustee, is not materially prejudicial to the interests of such Noteholders or Couponholders or is of a formal, minor or technical nature or which is made to correct a manifest error, or (ii) waive or authorise any breach or proposed breach by the Bank of any of the provisions of these Conditions applicable to such Notes or the Trust Deed or determine that an Event of Default shall not be treated as such, *provided, however, that* in either case, in the Trustee's opinion, the

interests of such Noteholders or Couponholders will not be materially prejudiced thereby. Any such modification, waiver, authorisation or determination shall be binding on such Noteholders and Couponholders and, unless the Trustee agrees otherwise, shall be notified to such Noteholders as soon as practicable thereafter.

In connection with the exercise of its powers, trusts, authorities or discretions (including but not limited to, those in relation to any proposed modification, waiver, authorisation, determination or assumption as aforesaid) in relation to any Series of Notes, the Trustee shall have regard to the interest of the Noteholders as a class and, in particular, but without prejudice to the generality of the foregoing, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being, for any purpose, domiciled or resident in, or otherwise connected with, or subject to any jurisdiction of, any particular territory. No Noteholder shall, in connection with any assumption as aforesaid, be entitled to claim from the Bank any indemnification or payment in respect of any tax consequence of any such substitution upon individual Noteholders except to the extent already provided for in Condition 11 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 11 (*Taxation*).

19. NOTICES

Notices to Noteholders will, save where another means of effective communication has been specified herein or in the Final Terms, be deemed validly given if (i) published in a leading daily newspaper having general circulation in London (which is expected to be the *Financial Times*) and (ii) in the case of any Notes which are listed on the Luxembourg Stock Exchange (so long as such Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require), in a leading newspaper having general circulation in Luxembourg (which is expected to be the *d'Wort*) or (in the case of (i) or (ii), if such publication is not practicable in the opinion of the Trustee, if published in a leading English language daily newspaper having general circulation in Europe approved by the Trustee; or (iii) published on the Luxembourg Stock Exchange website www.bourse.lu. The Bank shall also ensure that notices are duly published in compliance with the requirements of each stock exchange on which the Notes are listed. Any notice so given will be deemed to have been validly given on the date of first such publication (or, if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders will be deemed for all purposes to have notice of the contents of any notice given to Noteholders in accordance with this Condition 19 (*Notices*).

20. ROUNDING

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Final Terms), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

21. FURTHER ISSUES

The Bank may from time to time, without the consent of the Noteholders or Couponholders, create and issue further notes, such further notes to rank *pari passu* in all respects (or in all respects save for the date of, and the amount of, first payment of interest in such further notes) with the outstanding Notes and so that the same shall be consolidated and form a single series with the outstanding Notes.

22. LAW AND JURISDICTION

- (a) **Governing Law:** The Trust Deed, the Notes and all matters arising from or connected with the Notes are governed by, and shall be construed in accordance with, English law except for Conditions 4(b) (*Subordinated Notes*) and 9(b) (*Redemption of Upper Tier II Subordinated Notes*) which are governed by, and shall be construed in accordance with, Italian law.
- (b) **English courts:** The courts of England have exclusive jurisdiction to settle any dispute (a **Dispute**), arising from or connected with the Trust Deed or the Notes.
- (c) **Appropriate forum:** The Bank agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.
- (d) **Rights of the Noteholders and Trustee to take proceeding outside England:** Condition 22(b) (*English courts*) is for the benefit of the Trustee and the Noteholders only. As a result, nothing in this Condition 22 (*Law and jurisdiction*) prevents the Trustee or any Noteholder from taking proceedings relating to a Dispute (**Proceedings**) in any other courts with jurisdiction. To the extent allowed by law, the Trustee and Noteholders may take concurrent Proceedings in any number of jurisdictions.
- (e) **Service of process:** The Bank agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to the London Branch of Banca di Roma S.p.A. at 87 Gresham Street, London EC2V 7NQ or at any address of the Bank in Great Britain at which service of process may be served on it in accordance with Part XXIII of the Companies Act 1985. Nothing in this paragraph shall affect the right of the Trustee or any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

23. RIGHTS OF THIRD PARTIES

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

FORM OF FINAL TERMS

The Final Terms in respect of each Tranche of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue. Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.

Final Terms dated [•]

Capitalia S.p.A.

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

under the €20,000,000,000

Euro Medium Term Note Programme

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus (the **Base Prospectus**) dated 4 October 2006 [and the supplement to the Base Prospectus[es] dated [•] (the **Supplement to the Base Prospectus[es]**)] which [together] constitutes[s] a base prospectus for the purposes of Directive 2003/71/EC (the **Prospectus Directive**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented].

Full information on the Bank and the Notes described herein is only available on the basis of a combination of these Final Terms and the Base Prospectus[and the Supplement to the Base Prospectus[es]]. The Base Prospectus [and the Supplement to the Base Prospectus[es]] [is] [are] available for viewing at [and] [website]] and copies may be obtained from [address].

The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus or an Information Memorandum with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Base Prospectus dated [original date]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of Directive 2003/71/EC (the **Prospectus Directive**) and must be read in conjunction with the Base Prospectus/Information Memorandum dated [current date] [and the supplement to the Base Prospectus[es]/Information Memorandum dated [•] (the **Supplement to the Base Prospectus[es]**)], ([together] the **Base Prospectus**) which [together] constitute[s] a base prospectus for the purposes of the prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated [original date] and are attached hereto.

Full information on the Bank and the Notes described herein is only available on the basis of a combination of these Final Terms and the Base Prospectus. The Base Prospectus [and the Supplement to the Base Prospectus[es]] [is] [are] available for viewing at [[address] [and] [website]] and copies may be obtained from [address].

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]

[When adding any other final terms or information including final terms at, items 9, 10, 16, 17, 18 or 30 of Part A or in relation to the interests of natural and legal persons involved in the issue/offer in Part B consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]

1. Issuer: Capitalia S.p.A.

(a) [Branch: [Not Applicable/name]]

2. (i) Series Number: [•]
- (ii) [Tranche Number: (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)] [•]
3. Specified Currency or Currencies: [•]
4. Aggregate Nominal Amount of Notes [admitted to trading]
- (i) [Series: [•]]
- (ii) [Tranche: [•]]
5. (i) [Issue Price: [•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)]]
- (ii) [Net proceeds: [•] (Required only for listed issues)]
6. Specified Denominations: [•] [•]
- (N.B. If an issue of Notes is (i) not admitted to trading on a European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive, the €1,000 minimum denomination is not required.)*
7. (i) [Issue Date: [•]]
- (ii) [Interest Commencement Date (if different from the Issue Date): [•]]
8. Maturity Date: [specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]
- [If the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to **professional investors** or (ii) another applicable exemption from section 19 of the FSMA must be available.]*
9. Interest Basis: [[•] per cent. Fixed Rate] [[specify reference rate] +/- [•] per cent. Floating Rate] [Zero Coupon] [Index-Linked Interest] [Other (specify)](further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par] [Index-Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (specify)]

(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value, the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive will apply.)

11. Change of Interest or Redemption/Payment Basis: [Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis]
12. Put/Call Options: [Investor Put] [Issuer Call] [(further particulars specified below)]
13. (a) Status of the Notes: Senior/[Dated/Perpetual]/ Upper Tier II/Lower Tier II/Tier III/Subordinated]
- (b) Date Board approval for issuance of Notes obtained: [•]
- (N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes.)*
14. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. **Fixed Rate Note Provisions** [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate[(s)] of Interest: [•] per cent. per annum [payable [annually/ semiannually/ quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [•] in each year [adjusted in accordance with [specify Business Day Convention and any applicable Business Centre(s) for the definition of “Business Day”]/not adjusted]
- (iii) Fixed Coupon Amount[(s)]: [•] [per Note of [•] Specified Denomination and per Note of [•] Specified Denomination]
- (iv) Day Count Fraction: 30/360 /[Actual/Actual (ICMA)] / [other]
- (v) Broken Amount(s): *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)]]*
- (vi) Determination Date(s): [] in each year
[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon.

N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration.

N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA)]

(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/give details] (<i>Consider if day count fraction, particularly for Euro denominated issues, should be on an Actual/Actual basis. Also consider what should happen to unmatured Coupons in the event of early redemption of the Notes.</i>)
16. Floating Rate Note Provisions	[Applicable/Not Applicable] (<i>If not applicable, delete the remaining sub-paragraphs of this paragraph. Also consider whether EURO BBA LIBOR or EURIBOR is the appropriate reference rate</i>)
(i) Specified Period(s)/Specified Interest Payment Dates:	[•]
(ii) Business Day Convention:	[Floating Rate Convention/ Following Business Day Convention / Modified Following Business Convention / Preceding Business Day Convention / other (<i>give details</i>)]
(iii) Additional Business Centre(s):	[Not Applicable/ <i>give details</i>]
(iv) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/ other (<i>give details</i>)]
(v) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Principal Paying Agent):	[[Name] shall be the Calculation Agent (<i>no need to specify if the Principal Paying Agent is to perform this function</i>)]
(vi) Screen Rate Determination:	
– Reference Rate:	[For example, <i>LIBOR or EURIBOR</i>]
– Relevant Screen Page:	[For example, Moneyline Telerate page 3750/248]
– Interest Determination Date(s):	[•]
– Relevant Time:	[For example, <i>11:00 a.m. London time/Brussels time</i>]
– Relevant Financial Centre:	[For example, <i>London/Euro-zone (where Eurozone means the region comprised of the countries whose lawful currency is the euro)</i>]
– Reference Banks:	[•]
(vii) ISDA Determination:	
– Floating Rate Option:	[•]
– Designated Maturity:	[•]
– Reset Date:	[•]
(viii) Margin(s):	[+/-][•] per cent. per annum
(ix) Minimum Rate of Interest:	[•] per cent. per annum
(x) Maximum Rate of Interest:	[•] per cent. per annum
(xi) Day Count Fraction:	[•]

(xii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[•]
17. Zero Coupon Note Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i) Accrual Yield:	[•] per cent. per annum
(ii) Reference Price:	[•]
(ii) Any other formula/basis of determining amount payable:	<i>[Consider whether it is necessary to specify a Day Count Fraction for the purposes of Condition 9(h) (Early redemption of Zero Coupon Notes)]</i>
18. Index-Linked Interest Note Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i) Index/Formula:	<i>[Give or annex details]</i>
(ii) Calculation Agent responsible for calculating the interest due:	[•]
(iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula:	
(iv) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable or otherwise disrupted:	[•] (Need to include a description of market disruption or settlement disruption events and adjustment provisions)
(v) Specified Period(s)/Specified Interest Payment Dates:	[•]
(vi) Business Day Convention:	[Floating Rate Convention/ Following Business Day Convention/Modified Following Business Convention/Preceding Business Day Convention/ other <i>(give details)</i>]
(vii) Additional Business Centre(s):	[•]
(viii) Minimum Rate of Interest:	[•] per cent. per annum
(ix) Maximum Rate of Interest:	[•] per cent. per annum
(x) Day Count Fraction:	[•]
19. Dual Currency Note Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i) Rate of Exchange/method of calculating Rate of Exchange:	<i>[Give details]</i>
(ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due:	[•]

- | | |
|--|--|
| (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable or otherwise disrupted: | [•] (Need to include a description of market disruption or settlement disruption events and adjustment provisions) |
| (iv) Person at whose option Specified Currency(ies) is/are payable: | [•] |

PROVISIONS RELATING TO REDEMPTION

20. **Call Option** [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- | | |
|--|-----|
| (i) Optional Redemption Date(s) (Call): | [•] |
| (ii) Optional Redemption Amount(s) (Call) of each Note and method, if any, of calculation of such amount(s): | [•] |
| (iii) If redeemable in part: | |
| (a) Minimum Redemption Amount: | [•] |
| (b) Maximum Redemption Amount: | [•] |
| (iv) Notice period: | [•] |

[]

(N.B. If setting notice periods which are different from those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)

21. **Put Option** [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- | | |
|---|-----|
| (i) Optional Redemption Date(s) (Put): | [•] |
| (ii) Optional Redemption Amount(s) (Put) of each Note and method, if any, of calculation of such amount(s): | [•] |
| (iii) Notice period: | [•] |

(N.B. If setting notice periods which are different from those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)

22. **Final Redemption Amount of each Note** [[•] per Note of specified denomination/other/see Appendix]

(N.B. In relation to any issue of Notes which are expressed at paragraph 6 above to have a minimum

denomination and tradeable amounts above such minimum denomination which are smaller than it the following wording should be added: “For the avoidance of doubt, in the case of a holding of Notes in an integral multiple of [] in excess of [] as envisaged in paragraph [6] above, such holding will be redeemed at its nominal amount.”)

(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive, the requirements of Annex XII to the Prospectus Directive Regulation will apply)

23. Early Redemption Amount

Early Redemption Amount(s) of each Note payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):

[Not Applicable (if both the Early Redemption Amount (Tax) and the Early Termination Amount are the principal amount of the Notes/specify the Early Redemption Amount (Tax) and/or the Early Termination Amount if different from the principal amount of the Notes)]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. (a) Form of Notes:

Bearer Notes:

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [•] days notice/at any time/in the limited circumstances specified in the Permanent Global Note]

[Temporary Global Note exchangeable for Definitive Notes on [•] days notice]

[Permanent Global Note exchangeable for Definitive Notes on [•] days notice/at any time/in the limited circumstances specified in the Permanent Global Note]

(b) New Global Note:

[Yes] [No]

25. Additional Financial Centre(s) or other special provisions relating to Payment Dates:

[Not Applicable/give details. Note that this item relates to the place of payment, and not interest period end dates, to which item(s) 16(ii), 17(iii) and 19(v) relate]

26. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):

[Yes/No. If yes, give details]

27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:

[Not Applicable/give details]

28. Consolidation provisions: [Not Applicable/The provisions [in Condition 21 (*Further Issues*)] [annexed to this Final Terms] apply]
29. Other terms or special conditions: [Not Applicable/*give details*]
(When adding any other final terms, consideration should be given as to whether such terms constitute a ‘significant new factor’ and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive)

DISTRIBUTION

30. (i) If syndicated, names and addresses of Managers and underwriting commitments: [Not Applicable/*give names and addresses and underwriting commitments*]

(*Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a “best efforts” basis if such entities are not the same as the Managers.*)
- (ii) Date of Subscription Agreement: []
- (iii) Stabilising Manager (if any): [Not Applicable/*give name*]
31. If non-syndicated, name and address of relevant Dealer: [*Name and address*]
32. Total commission and concession: [] per cent. of the Aggregate Nominal Amount
33. TEFRA: [Not Applicable/The [C/D] Rules are applicable]
34. Additional selling restrictions: [Not Applicable/*give details*]

[LISTING AND ADMISSION TO TRADING APPLICATION]

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the €20,000,000,000 Euro Medium Term Note Programme of Capitalia S.p.A.]

RESPONSIBILITY

The Bank accepts responsibility for the information contained in these Final Terms. [[] has been extracted from []. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of the Bank:

By:

Duly Authorised

PART B – OTHER INFORMATION

1. ADDITIONAL INFORMATION

[Include any product specific risk factors which are not covered under “Risk Factors” in the Prospectus. If any such additional risk factors need to be included, consideration should be given as to whether they constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus Directive, the publication of which would in turn trigger the investor’s right to withdraw their acceptances within a 48 hour time period]

2. LISTING AND ADMISSION TO TRADING

- (i) Listing: Luxembourg Stock Exchange (*Bourse de Luxembourg*)/other (specify)/None
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [the Luxembourg Stock Exchange] with effect from [].] [Not Applicable.
- (iii) Estimate of total expenses related to admission to trading: []

3. RATINGS

- Ratings: The Notes to be issued [have been rated]/[are expected to be rated]:
- [Moody’s: []]
- [[Other]: []]
- [Need to include a brief explanation of the meaning of the ratings if this has been previously published by the rating provider.]*
- (The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

4. NOTIFICATION

[The Commission de Surveillance du Secteur Financier [has been requested to provide/has provided - include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [include names of competent authorities of host Member States] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]

5. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

“Save as discussed in [“Subscription and Sale”], so far as the Bank is aware, no person involved in the offer of the Notes has an interest material to the offer.”]

6. **[REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES]**

(i) [Reasons for the offer: []]

(See [“Use of Proceeds”] wording in Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]

(ii) [Estimated net proceeds: []]

(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)]

(iii) [Estimated total expenses: []]

[Include breakdown of expenses.]

(N.B.: If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies (i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks and, where such reasons are inserted in (i), disclosure of net proceeds and total expenses at (ii) and (iii) above are also required.)

(Only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)]

7. **[YIELD]**

Fixed Rate Notes only

Indication of yield: []

[Calculated as [include details of method of calculation in summary form] on the Issue Date.]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

8. **HISTORIC INTEREST RATES** (Floating Rate Notes only)

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Telerate].]

9. [Index-Linked or other variable-linked Notes only – **PERFORMANCE OF INDEX/FORMULA/ OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING**

Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained. Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident. Where the underlying is a security, need to include the name of the issuer of the security and the ISIN or other such security identification code. Where the underlying is an index need to include the name of the index and a description if composed by the Bank and if the index is not composed by the Bank need to include details of where the information about the index can be obtained. Where the underlying is an interest rate need to include a description of the interest rate. Where the underlying does not fall

within the categories described above, need to include equivalent information. Where the underlying is a basket of underlyings, need to include disclosure of the relevant weightings of each underlying in the basket.]

10. [Dual Currency Notes only – **PERFORMANCE OF RATE[S] OF EXCHANGE**

Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.

Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.]

11. **OPERATIONAL INFORMATION**

ISIN Code: []

Common Code: []

Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not applicable/give name(s) and number(s)]

Delivery: Delivery [against/free of] payment

Names and address of additional Paying Agent(s) (if any): []

Intended to be held in a manner which would allow Eurosystem eligibility: [Yes] [No]

[Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] *[include this text if “yes” selected in which case the Notes must be issued in NGN form]*

12. **[INFORMATION IN RESPECT OF PUBLIC OFFERS OF CERTIFICATES**

The Notes will be offered to the public (**Offer**) in [•] in accordance with the arrangements listed below.

Offer Period: []

Details of the minimum/maximum amount of application (whether in numbers of Notes or aggregate amount to invest): []

Method and time limits for paying up the Notes and for delivery of the securities: []

Indication of the expected price at which the Notes will be offered or the method of determining the price and the process for its disclosure: []

Publication of the results of the offer: []

Categories of potential investors to which the securities are offered: []

(If the offer is being made simultaneously in the markets of two or more countries and if a tranche has been or is being reserved for certain of these, indicate any such tranche.)

Method of Distribution: []

Names of the Distributors: []

Additional information applicable to the terms and conditions of the offer, if any: []

[Prospective investors should contact a Distributor for any further information in connection with their prospective investment. For the avoidance of doubt, the Manager is not a Distributor.]

Other: []

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Clearing System Accountholders

Each Global Note will be in bearer form. Consequently, in relation to any Tranche of Notes represented by a Global Note, references in the Terms and Conditions of the Notes to “**Noteholder**” are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary, or common safekeeper, as the case may be, for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or common safekeeper.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note (each an **Accountholder**) must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder’s share of each payment made by the Bank to the bearer of such Global Note and in relation to all other rights arising under the Global Note. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by the Global Note, Accountholders shall have no claim directly against the Bank in respect of payments due under the Notes and such obligations of the Bank will be discharged by payment to the bearer of the Global Note.

Exchange of Temporary Global Notes

Whenever any interest in a Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Bank shall procure:

- (a) in the case of first exchange, the prompt delivery (free of charge to the bearer) of such Permanent Global Note, duly authenticated, to the bearer of the Temporary Global Note; or
- (b) in the case of any subsequent exchange, an increase in the principal amount of such Permanent Global Note in accordance with its terms,

in each case in an aggregate principal amount equal to the aggregate of the principal amounts specified in the certificates issued by Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and received by the Principal Paying Agent against presentation and (in the case of final exchange) surrender of the Temporary Global Note to or to the order of the Principal Paying Agent within 7 days of the bearer requesting such exchange.

Whenever a Temporary Global Note is to be exchanged for Definitive Notes, the Bank shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

If:

- (a) a Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 p.m. (London time) on the seventh day after the bearer of a Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or
- (b) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer of a Temporary Global Note has requested exchange of the Temporary Global Note for Definitive Notes; or
- (c) a Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of a Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued

interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment, then the Temporary Global Note (including the obligation to deliver a Permanent Global Note or increase the principal amount thereof or deliver Definitive Notes, as the case may be) will become void at 5:00 p.m. (London time) on such seventh day (in the case of (a) above) or at 5:00 p.m. (London time) on such thirtieth day (in the case of (b) above) or at 5:00 p.m. (London time) on such due date (in the case of (c) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under an amended and restated trust deed dated 4 October 2006 (the **Trust Deed**) executed by the Bank and Deutsche Trustee Company Limited, as trustee). Under the Trust Deed, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note will acquire directly against the Bank all those rights to which they would have been entitled if, immediately before the Temporary Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Exchange of Permanent Global Notes

Whenever a Permanent Global Note is to be exchanged for Definitive Notes, the Bank shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Notes have not been delivered by 5:00 p.m. (London time) on the thirtieth day after the bearer of a Permanent Global Note has duly requested exchange of the Permanent Global Note for Definitive Notes; or
- (b) a Permanent Global Note (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Permanent Global Note in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5:00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5:00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Trust Deed. Under the Trust Deed, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Permanent Global Note will acquire directly against the Bank all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Conditions applicable to Global Notes

Each Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Note. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note to or to the order

of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Bank in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Bank shall procure that the same is noted in a schedule thereto.

Exercise of put option: In order to exercise the option contained in Condition 9(f) (*Redemption at the option of Noteholders*) the bearer of the Permanent Global Note must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 9(d) (*Redemption at the option of the Bank*) in relation to some only of the Notes, the Permanent Global Note may be redeemed in part in the principal amount specified by the Bank in accordance with the Conditions and the Notes to be redeemed will be selected as provided in the Conditions.

Notices: Notwithstanding Condition 19 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a depositary or a common depositary, or common safekeeper, as the case may be, for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 19 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

DESCRIPTION OF THE ISSUER

Capitalia S.p.A. (hereinafter referred to also as **Capitalia** or the **Bank**) is the parent and holding company of the Capitalia Group (hereinafter referred to also as the **Group**), Italy's fourth largest banking group with €8.8 billion in shareholders' equity. At year-end 2005 the Group reported direct funding of €90.2 billion (market share: 6.4 per cent.), customer loans of €82.4 billion (market share: 5.4 per cent.), assets under management of about €34 billion (market share: 5.8 per cent.), total revenues of €5.17 billion and net profit of €1.028 billion.

The Capitalia Group was formed on 1 July 2002 from the merger of the former Bancaroma and Bipop Carire groups. It is present nationwide with 1,950 branches and abroad with branches and representative offices in 26 countries. It employs about 28,000 people who serve about 5 million customers.

BUSINESS OVERVIEW

The Group provides traditional banking products and services through its three commercial banks: Banca di Roma, Banco di Sicilia and Bipop Carire. The three banks offer the full range of traditional banking products and services to retail, private, corporate and institutional customers. More sophisticated lending and other products and services tailored to the needs of corporate customers, including project finance, leasing and factoring, industrial long-term loans, development loans and export finance, are offered by MCC S.p.A. (**MCC**), either directly or through the Group's commercial networks. Online banking and brokerage services, mortgage and personal finance, as well as credit card processing are provided by FinecoBank S.p.A. (**FinecoBank**), one of Europe's largest on-line banks. Capitalia also owns Capitalia Informatica, Capitalia Services JV and Capitalia Solutions, which provide specialist services for the entire Group.

Capitalia is listed on the Milan Stock Exchange and is currently rated A2/Stable/P1 by Moody's and A-/Positive/F2 by Fitch.

Capitalia Group Rationalisation

The 2005-2007 Business Plan approved by the Capitalia Board of Directors on 4 July 2005 marked a further significant step forward in the organisational and corporate rationalisation of the Capitalia Group over the prior 2003-2005 Business Plan that radically reshaped the Group. The goals of the 2005-2007 Business Plan include strengthening group governance, simplifying decision-making processes and pursuing additional cost and revenue synergies.

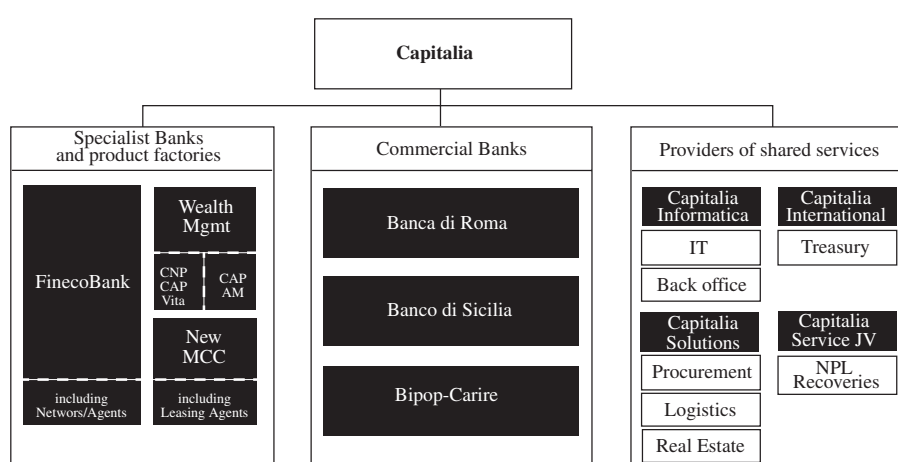
The rationalisation entailed the following steps under the 2005-2007 Business Plan, all completed within year-end 2005:

- the merger of Fineco S.p.A. into Capitalia S.p.A. effective as of 31 December 2005 with legal and accounting effects from 1 January 2005. The merger enables better leverage of specialist skills and dissemination of best practices across the Group as well as the reduction of staff overlaps and costs;
- the focusing of MCC on mid-corporate customers. That process entailed the strengthening of export, project and acquisition finance, industrial lending, subsidised lending, leasing and factoring operations and distribution capacity as well as the significant expansion of the product range, also through the merger with Capitalia Leasing & Factoring (effective as of 1 January 2006) and the partial non-proportional spin-off of MCC business lines no longer consistent with its new orientation (i.e. capital market and investment banking activities) into Capitalia S.p.A. (effective as of 1 January 2006);
- the transfer of properties owned by Banca di Roma, Banco di Sicilia and Bipop Carire and one property owned by Capitalia Leasing & Factoring to Capitalia S.p.A. as well as the provision of property and facility management services for the Group's commercial banks by Capitalia Solutions, a Capitalia wholly-owned subsidiary which became operational on 1 January 2006.

Principal Activities

Following the completion of the organisational and corporate rationalisation under the 2005-2007 Business Plan, the Group's organisation is structured as follows:

- the parent and holding company, Capitalia S.p.A.; and
- 3 macro business areas:
 - Commercial Banks;
 - Specialist Banks and Product Factories; and
 - Providers of shared services.



(a) Capitalia S.p.A.

Capitalia S.p.A. is the parent and holding company of the Capitalia Group. It is responsible for, *inter alia*, strategic and governance guidelines, credit and risk policies, finance and monitoring of commercial activities for the entire Group.

The Capitalia Group operates the following Business Lines, which Capitalia is responsible for managing: Commercial Banks, Specialist Banks and Product Factories, Corporate, Credit Policies, Finance. It also heads the following Operational Units: Systems and Organisation, Tax and Financial Reporting, Human Resources, Operations, and Legal and Corporate Affairs.

In accordance with the 2005-2007 Business Plan, the Capitalia Finance Business Line was strengthened by transferring MCC's capital markets business line (equity and fixed income) to it. The new Corporate Business Line is responsible for the Group's large corporate customer relationship management, provision of advisory services, enhancement of non-core equity investments and management of institutional customers to ensure product synergies and better coordination of commercial activities.

From 2002, the management of the Group's funding and finance activities has been centralised into Capitalia. Operational companies collect deposits from retail, corporate and institutional clients, while the parent and holding company issues securities on the domestic and international capital markets and is the primary interbank lender for the Group. The Capitalia Finance Business Line is responsible for Group Asset & Liability Management as well as proprietary trading and trade execution on behalf of clients. The Capital

Management and Ratings function within the Finance Business Line serves as the Group’s internal rating agency, coordinating its actions with subsidiaries and ensuring the analysis and planning of capital utilisation within the Group in accordance with Basel 2 requirements.

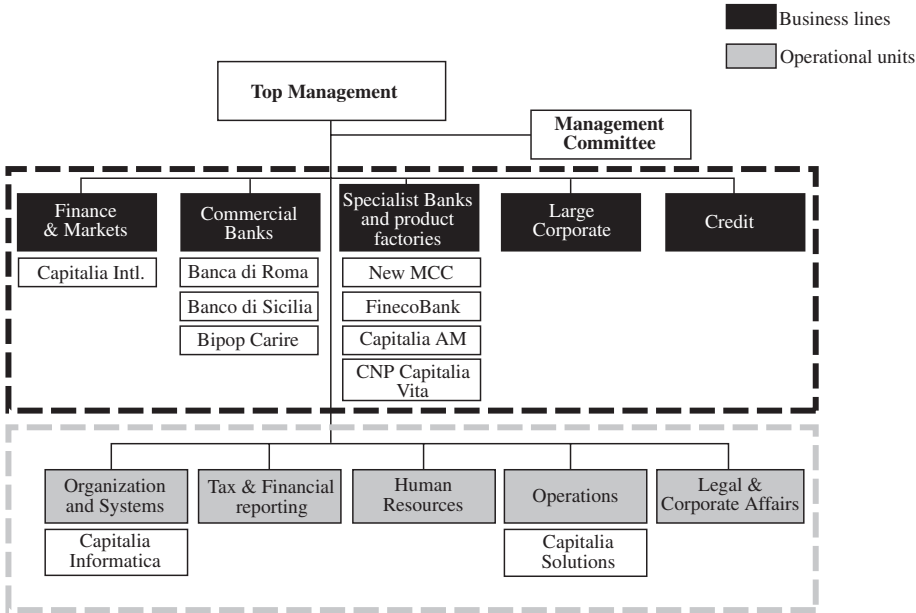
As set out in the 2005-2007 Business Plan, from September 2005 the management of Capitalia Group corporate clients is centrally provided by Capitalia. At that date the investment banking business line was transferred from MCC to Capitalia. By concentrating the most sophisticated skills in a single company, the new organisation ensures a more efficient coverage and a more effective response to customer needs. The responsibility for day-to-day treasury management remains with the commercial banks, while Capitalia focuses on the provision of top-notch quality service to corporate clients, who represent an important customer segment.

The Credit Policy Business Line sets out, coordinates and monitors the implementation of the credit policy within the Group. The various Group banks and operational companies adopt the guidelines drafted by the parent and holding company, which ensures they follow a consistent lending approach, and deal with their customers independently.

The parent and holding company organisation comprises seven areas reporting directly to the Board of Directors. These areas include Internal Audit, Risk Measurement and Control and Investor Relations.

Capitalia is also responsible for coordination and support of its sub-holding Fineco S.p.A.’s subsidiaries, which was previously provided by Fineco S.p.A. It also coordinates and monitors the activities carried out by the companies which provide services for the entire Group, i.e. Capitalia Informatica, Capitalia Service JV and Capitalia Solutions.

To facilitate coordination between the Group companies and evaluate the competitive position of the Group on a continuous basis, Capitalia established a Management Committee that reports directly to the CEO. The Management Committee is composed of the key managers of the principal banks and operational companies.



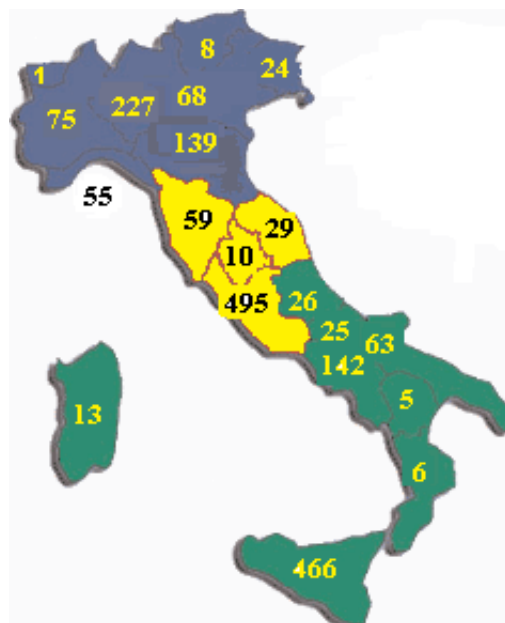
(b) Commercial banks

Capitalia conducts traditional banking business in Italy through its three wholly-owned commercial banks, which operate through their local networks under their own brands: Banca di Roma, Banco di Sicilia and Bipop Carire.

The three banks have a significant regional franchise. Specifically, Banca di Roma is mostly present in central and southern Italy, Banco di Sicilia in southern Italy (particularly Sicily) and Bipop Carire in northern Italy.

The following table sets out the current geographical distribution of the Group's traditional banking branches in Italy:

Banca di Roma	Branches	%
Total Italy	1,120	100.0
North	266	23.8
Center	550	49.1
South	304	27.1
Bipop Carire	Branches	%
Total Italy	293	100.0
North	277	94.5
Center	16	5.5
South	—	—
Banco di Sicilia	Branches	%
Total Italy	523	100.0
North	54	10.3
Center	27	5.2
South	442	84.5
TOTAL	Branches	%
Total Italy	1,936	100.0
North	597	30.9
Center	593	30.6
South	746	38.5



Capitalia conducts business on international markets through branches and offices operating under the Banca di Roma brand in the following financial centres:

- Europe: Bucharest, Dublin, Frankfurt, London, Madrid and Paris;
- United States: New York;
- Other: Beirut, Beijing, Hong Kong, Moscow, Shanghai, Singapore and Tokyo.

c) *Specialist Banks and Product Factories*

The Capitalia Group offers specialist products and services through MCC and FinecoBank. Following the reorganisation, which was completed at the end of 2005, MCC now offers a broad range of services to mid-corporate customers including industrial credit, leasing and factoring, structured finance, acquisition finance, real estate finance, project finance and export finance as well as all forms of ship financing. It also provides a complete range of services, incentives and subsidised financing to support economic growth in Italy's underdeveloped areas.

FinecoBank S.p.A. is Italy's largest and first on-line broker in terms of trading orders and second largest on-line broker in terms of intermediated volumes. It provides on-line finance, securities brokerage, mortgage lending and consumer credit products and services. FinecoBank boasts a network of about 200 financial shops across Italy and over 1,300 financial advisers.

The Group product factories include: Capitalia Asset Management SGR S.p.A. (wholly-owned subsidiary, **Capitalia AM**), Capitalia Investimenti Alternativi SGR S.p.A. (95 per cent.-owned subsidiary, **Capitalia Investimenti Alternativi**), CNP Capitalia Vita S.p.A. (38.8 per cent.-owned company, **CNP Capitalia Vita**) and Fineco Assicurazioni S.p.A. (wholly-owned subsidiary, **Fineco Assicurazioni**).

Capitalia AM is the Group company which provides asset management products and services as well as administration. Capitalia Investimenti Alternativi is the Group specialist in the creation and management of hedge funds. CNP Capitalia Vita (formerly Fineco Vita), owned by Compagnie Nazionale di Previdence (57.5 per cent.), Cardif (3.7 per cent.) and Capitalia (38.8 per cent.), distributes its life insurance policies (both index-linked and unit-linked) principally via the Group's commercial banks and FinecoBank financial planners. Fineco Assicurazioni writes non-life insurance policies, primarily offered in connection with residential mortgage loans sold through the commercial banks or FinecoBank.

Providers of common services

To provide more efficient, cost-effective services Capitalia decided to centralise several activities into separate companies which report directly to the parent and holding company.

These companies include:

- Capitalia Solutions, a company which provides a full-service property management package, including optimised procurement of goods and services, oversight of property acquisition, management and enhancement. To ensure greater efficiency, in accordance with the 2005-2007 Business Plan, at the end of 2005 the real estate business lines of Banca di Roma, Banco di Sicilia, Bipop Carire and Capitalia L&F were transferred to Capitalia Solutions;
- Capitalia Informatica, a company specialising in the management of IT and back office operations of the Group's three main banks and Capitalia S.p.A.; and
- Capitalia Service JV, a company responsible for the recovery of non-performing loans between €55,000 and €20,000,000.

Segment Reporting

Segment reporting reflects the organisation and management reporting system of the Capitalia Group in accordance with the 2005-2007 Business Plan. Information is therefore provided for the following business segments:

1. Retail
2. Corporate
3. Wholesale & Investment Banking
4. Financial Services
5. Corporate Centre

The Retail segment includes the retail and small business activities of the commercial banks. This is the most important Group segment, accounting for 50 per cent. of total revenues (equally distributed between interest income and income from services) and approximately 63 per cent. of operating costs. Its importance is also reflected in the balance sheet, as the retail segment accounts for 26 per cent. of total customer loans and 38 per cent. of deposits.

The Corporate segment includes the mid-corporate business of the commercial banks and foreign branches and offices. This segment's Income Statement and Balance Sheet data reflect the fact that its predominant business is corporate finance. Net interest income accounts for 80 per cent. of corporate segment revenues, which in turn account for 14 per cent. of total Group revenues. Corporate loans account for almost 30 per cent. of total customer loans, while corporate deposits account for 6 per cent. of Group funding.

The Wholesale & Investment Banking segment includes Large Corporate and Institutional clients, Investment Banking and the finance activities conducted by Capitalia and its operational subsidiaries. This segment accounts for 13 per cent. of total revenues, of which approximately 80 per cent. is derived from services, while its operating costs account for 5 per cent. of total operating costs and are the lowest of all business areas. Wholesale & Investment Banking loans and deposits account for 13 per cent. of Group total loans and deposits.

The revenues of the Financial Services segment, which includes specialist banks and product factories, account for approximately 15 per cent. of Group revenues. In this segment, non-interest income contributes more than interest income to total revenues.

Finally, the Corporate Centre segment is composed of the Group Treasury, the Parent Company's business lines (equity investments, real estate, non-performing loans) and some minor Group companies. This segment also includes inter-segment transaction balances. It accounts for about 9 per cent. of Group revenues and operating costs.

FINANCIAL HIGHLIGHTS OF THE CAPITALIA GROUP

The following table shows a summary of key financial results by business segment.

At 31 December 2005	Capitalia Group	Retail	Corporate	Wholesale and Investment	Financial Services	Corporate Centre
				(euro millions)		
PROFIT & LOSS						
Net Interest Income	2,521.0	1,263.2	581.4	130.9	313.4	232.1
Services Income	2,649.3	1,284.4	158.4	534.8	454.3	217.4
Total Revenues	5,170.3	2,547.6	739.8	665.7	767.7	449.5
Total Operating Expenses	(3,171.7)	(1,981.7)	(409.5)	(164.9)	(343.3)	(272.3)
Gross Operating Profit ..	1,998.6	565.9	330.3	500.8	424.4	177.2
Total Provisions and value adjustments.....	(588.5)	(98.1)	(124.1)	5.1	(81.0)	(290.4)
Net Operating Profit	1,401.1	467.8	206.2	505.9	343.4	(113.2)
Realised gains and losses on sales of assets	82.6	0.0	0.0	17.9	0.4	64.3
Profit Before Taxes	1,492.7	467.8	206.2	523.8	343.8	(48.9)
Income Taxes	(460.3)	(241.4)	(97.1)	(187.3)	(127.4)	192.9
Profit from discontinues operations	1.5	0.0	0.0	0.0	0.0	1.5
Income/loss pertaining to minority interests	(5.9)	0.0	0.0	0.0	0.0	(5.9)
Net Profit.....	1,028.0	226.4	109.1	336.5	216.4	139.6
ASSETS/LIABILITIES						
Customer Loans	82,381	21,040	24,364	11,342	22,264	3,371
Deposit Loans	90,206	34,114	5,652	10,697	5,230	34,513

ORGANISATIONAL STRUCTURE

Capitalia is a joint stock company limited by shares (*società per azioni*) incorporated on 28 November 1923 under the laws of Italy. Its registered address is at Via Marco Minghetti, 17, 00187 Rome, Italy, telephone number +39 06 67071. It is registered at the Company Registry (*registro delle imprese*) of Rome under number 00644990582, and is registered with the Banks Register held by the Bank of Italy under number 5525. Capitalia's Articles of Association provide that the duration of the company shall be until 31 December 2100, which may be extended by a shareholders' resolution passed in an extraordinary meeting.

Capitalia's corporate objective, as set out in its by-laws, is to raise funds and grant credit in its various forms. Capitalia may, in compliance with existing laws and regulations, carry out all permitted banking and financial operations and services, may establish open-end pension funds and manage other forms of supplementary pension funds within the limits of existing laws and regulations and may carry out any other operation instrumental to or otherwise connected with the attainment of its corporate objective. Capitalia may issue bonds (including bonds convertible into either its own shares or exchangeable into shares of another company), share or subscription warrants, in accordance with existing laws and regulations.

Share Capital

Capitalia's share capital at 1 September 2006 amounted to €2,594,692,435 divided into 2,594,692,435 ordinary shares with a nominal value of €1.00 each. Each ordinary share of Capitalia carries the right to one vote. For a summary of the principal Shareholders and the Shareholders' Pact (as defined below) agreement, please refer to the discussions under "Main Shareholders" and "Shareholders' Pact".

Corporate Governance

Upon its formation Capitalia adopted corporate governance rules, internal procedures and an organisational structure which reflect Italian and international best practices.

The tables below set out (i) Capitalia's main shareholders as of 1 September 2006; and (ii) the members of the Board of Directors.

The business address of the members of Capitalia's Board of Directors is Via Marco Minghetti 17, 00187 Rome, Italy.

Main Shareholders

	Number of shares	%	
ABN-AMRO BANK (Luxembourg) S.A. ⁽¹⁾	117,133,575	4.51	} 7.65
ABN-AMRO BANK N.V. ⁽¹⁾	53,365,351	2.06	
ALGEMENE BANK NEDERLAND B.V. ⁽¹⁾	28,114,964	1.08	
FONDAZIONE CASSA DI RISPARMIO DI ROMA	130,409,704	5.03	} 3.13
FONDAZIONE MANODORI	100,459,893	3.87	
FONDIARIA – SAI S.P.A. ⁽²⁾	60,411,042	2.33	
MILANO ASSICURAZIONI S.P.A. ⁽²⁾	20,462,448	0.80	
REGIONE SICILIANA	73,746,225	2.84	
FONDAZIONE BANCO DI SICILIA	70,875,000	2.73	
LIBYAN ARAB FOREIGN BANK	66,873,409	2.58	
TT International Investment Management	56,518,243	2.18	
LEHMAN BROTHERS INTERNATIONAL EUROPE	55,745,557	2.15	
TOSINVEST S.A.	54,633,051	1.17	

(1) Subsidiary of ABN-AMRO Holding N.V.

(2) Subsidiary of PREMAFIN Finanziaria S.p.A. Holding di Partecipazioni

Board of Directors

Pursuant to the Bylaws, Capitalia is managed by a Board of Directors composed of 11 to 21 members. Directors hold office for three financial years and are eligible for re-election. The term in office of the current Directors expires on 4 December 2006.

<u>Name</u>	<u>Position</u>	<u>Position at other companies</u>
Cesare Geronzi	Chairman	Deputy Chairman and Member of the Executive Committee of Mediobanca S.p.A. Director of RCS MediaGroup S.p.A.
Coenraad Hendrik Adolph Collee	Deputy Chairman	Director of ABN AMRO Bank N.V. Chairman of the Supervisory Board of ABN AMRO Bouwfonds Nederlandse Gemeenten N.V. Director of Kereskedelmi & Hitelbank Rt Member of the Supervisory Board of Delta Lloyd ABN AMRO Verzekeringen N.V. Member of the Supervisory Board of The Netherlands Development Finance Company (FMO)
Mario Federici Matteo Arpe	Deputy Chairman CEO	Director and Member of the Executive Committee of Mediobanca S.p.A. Director and Member of the Executive Committee of Banca di Roma S.p.A. Director of MCC S.p.A. Director of Fineco Vita S.p.A.
Pasquale Cannatelli	Director	Chief Executive Officer of Fininvest S.p.A. Director of Mediolanum S.p.A. Director of Mediaset S.p.A.
Carlo Colaiacovo	Director	Director of Arnoldo Mondadori Editore S.p.A. Chief Executive Officer of Colacem S.p.A. Chairman of Colabeton S.r.l. Chairman of Fondazione Cassa di Risparmio di Perugia Director of Financo S.r.l. Member of the Steering Committee of Cassa Depositi e Prestiti S.p.A.
Roberto Colaninno	Director	Chairman of Omniaholding S.p.A. Chairman of Omniainvest S.p.A. Chairman of Omniapartecipazioni S.p.A. Chairman of Immsi S.p.A. Chairman of Piaggio Holding Netherlands B.V. Chairman of Piaggio & C. S.p.A. Chairman of RCN Finanziaria S.p.A. Chairman of Mediobanca S.p.A. Chairman of Efibanca S.p.A. Director of Rodriguez Cantieri Navali S.p.A. Chairman of Immobiliare Regis S.r.l.

<u>Name</u>	<u>Position</u>	<u>Position at other companies</u>
Salvatore Cuffaro	Director	Senior Advisor Credit Suisse First Boston Chairperson of FONDIARIA-SAI S.p.A. Chairperson of SAI Holding Italia S.p.A. Deputy Chairperson of ATAHOTELS S.p.A. Deputy Chairperson of Premafin Finanziaria S.p.A. HdP Deputy Chairperson of Gilli S.r.l. Director of Milano Assicurazioni S.p.A. Director of Finadin S.p.A. Director of Mediobanca S.p.A. Director of RCS MediaGroup S.p.A. Chairman and Chief Executive Officer of Astrim S.p.A. Chairman of Keryx S.p.A. Chairman of FI.MAR. S.p.A. Director of Cementir – Cementerie del Tirreno S.p.A. Director of SO.FI.MAR. International S.A. Director of STM S.p.A. Sole Director of Lujan S.r.l.
Paolo Fresco	Director	
Jonella Ligresti	Director	
Alfio Marchini	Director	Chairman of Libya's Central Bank Chairman of Astaldi Group Chairman of Tosinvest Group Director of Enertad S.p.A. Director of Finmeccanica S.p.A. Chairman of Pirelli & C. Real Estate Opportunities SGR S.p.A. Chairman of Pirelli & C. Real Estate SGR S.p.A. Chairman of Pirelli & C. Real Estate Franchising Holding S.r.l. Chairman of Fratelli Puri Negri S.p.A. Chairman of Partecipazioni Finanziarie S.r.l. Chairman Partecipazioni Real Estate S.p.A. Deputy Chairman and Chief Executive Officer of Pirelli & C. Real Estate S.p.A. Deputy Chairman and Chief Executive Officer of Pirelli & C. Ambiente Holding S.p.A. Deputy Chairman of Pirelli & C. S.p.A. Deputy Chairman of Camfin S.p.A. Deputy Chairman of Sacra S.p.A. Chief Executive Officer of GPI – Gruppo Partecipazioni Industriali S.p.A. Director of Aon Italia S.p.A. Director of Eurostazioni S.p.A. Director of Olimpia S.p.A. Director of Telecom Italia S.p.A. Director of TAV - Treno Alta Velocità S.p.A.
Gabriel M. Marino	Director	
Paolo Mariotti	Director	
Ahmed A. Menesi	Director	
Ernesto Monti	Director	Chairman of Libya's Central Bank Chairman of Astaldi Group Chairman of Tosinvest Group Director of Enertad S.p.A. Director of Finmeccanica S.p.A. Chairman of Pirelli & C. Real Estate Opportunities SGR S.p.A. Chairman of Pirelli & C. Real Estate SGR S.p.A. Chairman of Pirelli & C. Real Estate Franchising Holding S.r.l. Chairman of Fratelli Puri Negri S.p.A. Chairman of Partecipazioni Finanziarie S.r.l. Chairman Partecipazioni Real Estate S.p.A. Deputy Chairman and Chief Executive Officer of Pirelli & C. Real Estate S.p.A. Deputy Chairman and Chief Executive Officer of Pirelli & C. Ambiente Holding S.p.A. Deputy Chairman of Pirelli & C. S.p.A. Deputy Chairman of Camfin S.p.A. Deputy Chairman of Sacra S.p.A. Chief Executive Officer of GPI – Gruppo Partecipazioni Industriali S.p.A. Director of Aon Italia S.p.A. Director of Eurostazioni S.p.A. Director of Olimpia S.p.A. Director of Telecom Italia S.p.A. Director of TAV - Treno Alta Velocità S.p.A.
Carlo Alessandro Puri Negri	Director	
Alberto Rossetti	Director	Chairman of Libya's Central Bank Chairman of Astaldi Group Chairman of Tosinvest Group Director of Enertad S.p.A. Director of Finmeccanica S.p.A. Chairman of Pirelli & C. Real Estate Opportunities SGR S.p.A. Chairman of Pirelli & C. Real Estate SGR S.p.A. Chairman of Pirelli & C. Real Estate Franchising Holding S.r.l. Chairman of Fratelli Puri Negri S.p.A. Chairman of Partecipazioni Finanziarie S.r.l. Chairman Partecipazioni Real Estate S.p.A. Deputy Chairman and Chief Executive Officer of Pirelli & C. Real Estate S.p.A. Deputy Chairman and Chief Executive Officer of Pirelli & C. Ambiente Holding S.p.A. Deputy Chairman of Pirelli & C. S.p.A. Deputy Chairman of Camfin S.p.A. Deputy Chairman of Sacra S.p.A. Chief Executive Officer of GPI – Gruppo Partecipazioni Industriali S.p.A. Director of Aon Italia S.p.A. Director of Eurostazioni S.p.A. Director of Olimpia S.p.A. Director of Telecom Italia S.p.A. Director of TAV - Treno Alta Velocità S.p.A.
Carlo Saggio	Director	
Giuliano Tagliavini	Director	
Pierluigi Toti	Director	

Conflicts of Interest

As highlighted above, the members of the Board of Directors hold similar offices in other companies, both within the Capitalia Group and in other companies.

Possible situations of conflicts of interest are reported by Capitalia to its own Board of Directors and resolved upon pursuant to Article 136 of Legislative Decree No. 385 of 1 September 1993, as amended from time to time (the **Banking Act 1993**).

Board of Statutory Auditors

Capitalia's Bylaws provide that the Board of Statutory Auditors is composed of three auditors and three substitute auditors. The members are elected for a term of three financial years.

The current Board of Statutory Auditors, which was appointed at the shareholders' meeting of 30 April 2004, will conclude its term of office upon the approval of the financial statement at 31 December 2006.

The table below sets out the name and position of the members of Capitalia's Board of Statutory Auditors. The business address of the members of Capitalia's Board of Statutory Auditors is Via Marco Minghetti 17, 00187 Rome, Italy.

<u>Name</u>	<u>Position</u>
Umberto Bertini	Chairman
Franco Luciano Tutino	Auditor
Michele Galeotti	Auditor
Francesco Colombi	Substitute Auditor
Stefano Ciccioriccio	Substitute Auditor
Marcello Mingrone	Substitute Auditor

The members of the Board of Statutory Auditors hold similar offices in other companies, both within the Capitalia Group and in other companies.

Possible situations of conflict of interest are reported by Capitalia to its own Board of Directors and resolved upon pursuant to Article 136 of the Banking Act 1993.

Senior Management

The table below sets out the name and position of Capitalia's senior management. The business address of the members of Capitalia's Senior Management is Via Marco Minghetti 17, 00187 Rome, Italy.

<u>Name</u>	<u>Position</u>
Matteo Arpe	Chief Executive Officer
Carmine Lamanda	General Manager
Fabio Gallia	Co-General Manager
Alberto Giordano	Co-General Manager
Carmine De Robbio	Deputy General Manager

The members of Senior Management hold similar offices in other companies, both within the Capitalia Group and in other companies.

Possible situations of conflict of interest are reported by Capitalia to its own Board of Directors and resolved upon pursuant to Article 136 of the Banking Act 1993.

Authorities Delegated by the Capitalia S.p.A. Board of Directors

In accordance with Consob recommendation No. 97001574 of 20 February 1997, information on authorities delegated by the Board of Directors is set out below.

The authorities delegated to the Executive Committee essentially relate to lending, finance and operating expenses.

Under article 17 of the Bylaws of Capitalia (the **Bylaws**), in urgent circumstances the Executive Committee may take decisions normally taken by the Board of Directors; upon a recommendation of the Chief Executive Officer, the Chairman may take decisions usually taken by the Executive Committee or Board of Directors when these bodies are unable to meet. Any decisions so taken shall be reported to the normally competent body at its next meeting.

The Board of Directors has delegated joint decision-making authority to the Chairman and the Chief Executive Officer in relation to the acquisition and disposal of equity investments, i.e. shareholdings classified as “available-for-sale financial assets” and “financial assets at fair value”. Such decision-making authority relates to equity investments recorded in the last approved financial statements at a book value lower than 0.60 per cent. of Capitalia’s book equity, excluding the acquisition of any shareholdings which would be recognised at a book value above this threshold, and includes any acts connected to the management of such equity investments. The Board of Directors also delegated joint decision-making authority to the Chairman and the Chief Executive Officer with respect to the acquisition and disposal of businesses and/or business lines with value lower than 0.60 per cent. of Capitalia book equity.

In addition to the powers conferred upon him under article 17 of the Bylaws, the Chief Executive Officer has authorities in relation to the direction, coordination and control of the Company and the Group delegated to him by the Board of Directors.

The Chief Executive Officer also:

- submits general management guidelines, the budget and the strategic plan of the Bank and the Group to the Board of Directors;
- oversees business performance and progress in the achievement of the targets set out in the business plan at Group level, and proposes budget policy to the Board;
- oversees lending and management of doubtful loans;
- takes decisions with respect to lending, finance, current business and expenditures in the manner and within the limits of the authorities delegated to him by the Board of Directors; and
- proposes nominees for positions on the management and control teams of subsidiaries.

The Chief Executive Officer regularly reports to the Board of Directors on business performance and compliance with the targets set out in the budget and the strategic plan. The CEO also reports to the Board of Directors on a quarterly basis on actions taken in the exercise of the authorities conferred upon him.

SHAREHOLDERS’ PACT

On 16 February 2006, certain Shareholders of Capitalia signed a new contractual document (the **Shareholders’ Pact**) which incorporated modifications in the composition of the Shareholders’ Pact arising from operations carried out and foreseen in the “Addendum”, which was signed on 19 January 2006. In particular:

- Toro Assicurazioni Group reduced its participation to 1.01 per cent.;
- the shares that the Toro Assicurazioni Group sold (equivalent to 1.094 per cent.) were purchased by the following, in proportion with their respective holdings: Fondiaria-Sai Group (0.51 per cent.), Pirelli & C. S.p.A. (0.30 per cent.), Cinecittà Centro Commerciale S.p.A. (0.20 per cent.), Colacem S.p.A. (0.01 per cent.) and Fininvest S.p.A. (0.08 per cent.);
- Fininvest S.p.A. increased its participation further (by 0.52 per cent.) through purchases on the market; and
- Fondiaria-Sai Group purchased a further 0.06 per cent. on the market.

The new Shareholders' Pact also incorporates the Toro Assicurazioni Group's waiver of its right to appoint a member to Capitalia's Board of Directors.

With the signing of the new Shareholders' Pact, the Addendum is no longer considered effective.

Fonditaria-Sai Group has restated its intention to increase its participation and pledged up to 3.50 per cent. to the Shareholders' Pact. The matter will be examined at the next Shareholders' Pact meeting.

On 1 June 2006, Colacem S.p.A. transferred shares locked up in the Shareholders' Pact to its parent company Financo S.r.l.

On 28 June 2006, Italmobiliare S.p.A. sold 6,456,343 Capitalia ordinary shares, which are locked in the Pact, to its subsidiary Franco Tosi S.r.l. The settlement of the transaction was completed on 30 June 2006.

Considering all previous modifications and the stock options which have been exercised in the meantime, the shares pledged to the Shareholders' Pact at 30 June 2006 amount to 31.02 per cent. of Capitalia's capital. The Foundation of Banco di Sicilia continues to hold shares outside the Shareholders' Pact for a total of 1.02 per cent.

The following is a description of the Shareholders' Pact.

Type of Shareholders' Pact: The purpose of the Shareholders' Pact is to create a voting and lock-up agreement.

Shareholders' Pact Members: The following table illustrates the members of the Shareholders' Pact.

Shareholder	Number of shares	Percentage of capital
ABN AMRO Bank (Luxembourg) S.A.	117,133,575	4.52
ABN AMRO Bank N.V.	53,365,351	2.06
ALGEMENE BANK NEDERLAND B.V.	28,114,964	1.08
FONDAZIONE MANODORI.	100,459,893	3.87
FONDIARIA-SAI S.p.A.	60,411,042	2.33
MILANO ASSICURAZIONI S.p.A.	20,642,448	0.80
REGIONE SICILIANA	73,746,225	2.84
TOSINVEST S.A.	54,633,051	2.11
PIRELLI & C. S.p.A.	49,689,476	1.92
CINECITTÀ CENTRO COMMERCIALE S.p.A.	47,364,976	1.83
FONDAZIONE BANCO DI SICILIA	44,332,264	1.71
FINANCO S.r.l.	25,864,919	1.00
FININVEST S.p.A.	25,864,918	1.00
NUOVA TIRRENA S.p.A.	16,250,000	0.63
AUGUSTA ASSICURAZIONI S.p.A.	7,083,629	0.27
TORO TARGA ASSICURAZIONI S.p.A.	2,949,883	0.11
OMNIAHOLDING S.p.A.	11,186,739	0.43
IMMSI S.p.A.	11,138,789	0.43
ALFIO MARCHINI.	20,035,507	0.77
FINELDO S.p.A.	10,453,051	0.40
ELLE FIN S.A.	9,930,700	0.38
FRANCO TOSI S.r.l.	6,456,343	0.25
SIREFID S.p.A.	4,000,000	0.15
ANGELINI PARTECIPAZIONI FINANZIARIE	3,484,349	0.13
Total Shareholders' Pact members.....	804,592,092	31.02

Term: expires 3 July 2008. The parties shall meet three months prior to the expiry date to discuss the extension of or amendment to the Shareholders' Pact. The shareholder ABN AMRO shall be entitled to withdraw from the Shareholders' Pact beginning on 22 October 2006. In that event ABN AMRO shall preemptively offer its shares to the other Shareholders' Pact members at a price calculated on the basis of the market performance prior to ABN AMRO's notice of withdrawal (the higher of the weighted average price of the last month and the weighted average price of the last quarter). The Shareholders' Pact members shall have the right to designate third-parties to buy any unsubscribed portion of the shares offered by ABN AMRO. Those third-parties, if any, shall join the Shareholders' Pact upon their purchase of those shares.

Possibility that a member of the Shareholders' Pact gains effective control of the Bank through the operation of the Shareholders' Pact itself: no shareholders may obtain effective control of Capitalia through the operation of the Shareholders' Pact.

Shareholding restrictions: each member of the Shareholders' Pact undertakes not to increase its shareholding or voting rights in Capitalia, neither directly nor indirectly (i.e. through parent companies, subsidiaries or other intermediaries). Trading in Capitalia shares is excluded from this restriction to the extent that the amount of shares traded is within the limits established by Consob and Bank of Italy regulations. In no event trading in Capitalia shares may exceed a maximum of 0.1 per cent. for any shareholder, or 0.2 per cent. in the case of ABN AMRO, and shall always remain below the compulsory take-over bid threshold established by article 106 paragraph 3, letter b of Legislative Decree No. 58 of 24 February 1998 and article 46 of Consob Regulation No. 11971/1999.

Restrictions on sales of shares held by Shareholders' Pact members: Shareholders' Pact members undertake not to transfer, either fully or partially, any shares included in the Shareholders' Pact. Transfers of Shareholders' Pact shares between members of the same group are, however, permitted. The Shareholders' Pact meeting may, by unanimous vote and subject to authorisation by the competent Supervisory Authority, authorise sales of shares to a Shareholders' Pact member for a consideration. The other Shareholders' Pact members shall have a pro rata right of pre-emption.

Filing of Shareholders' Pact shares: shares covered under the Shareholders' Pact shall be filed with Capitalia or with Capitalia Group banks or with ABN AMRO.

Shareholders' Pact Bodies, events requiring meetings, duties and procedures: the Shareholders' Pact's bodies are the Chairman, appointed by the Shareholders' Pact meeting, and the Shareholders' Pact meeting itself. The meeting shall, among other things, convene prior to any Capitalia shareholders' meetings called for the appointment of Board Directors and statutory auditors; prior to any meetings of the Capitalia Board of Directors called for the purposes of resolving increases in capital; non-group mergers and spin-offs, acquisitions or disposals of equity investments or businesses, any of which with a value in excess of €350 million; the implementation of any defence strategies in the event of take-over bids issued by third parties; as well as for the appointment of a replacement Shareholders' Pact Chairman.

Shareholders' Pact members undertake to assure that the Capitalia Board of Directors shall be comprised of twenty-one members to be appointed in the following manner. The current Chairman Cesare Geronzi and the current Chief Executive Officer Matteo Arpe are confirmed in their respective positions. Three Directors shall be designated by ABN AMRO, eleven by Shareholders' Pact members with shareholdings of not less than 0.75 per cent. (except Toro Assicurazioni Group who have waived such right), four independent Directors (one of whom to be designated by ABN AMRO) by majority vote of the Shareholders' Pact members, and one by the serving Capitalia Chairman.

Resolutions of the Shareholders' Pact meeting require a simple majority of shares included in the Shareholders' Pact. Furthermore, resolutions relating to increases in share capital, non-group mergers and spin-offs, acquisitions or disposals of equity investments or businesses with a value as set out above or strategies relating to take-over bids issued by third parties, require a 65 per cent. majority. Directors shall be free to vote independently in Board meetings notwithstanding any resolutions passed by the Shareholders' Pact meeting with a majority of less than 75 per cent. Shareholders' Pact members undertake to vote in favour of Board proposals at Capitalia shareholders' meetings, to the extent that such proposals were not opposed by at least one third of the Directors.

Penalties in the event of default of the Shareholders' Pact's undertakings: exclusion from the Shareholders' Pact to be resolved by a 65 per cent. majority of the number of Shareholders' Pact members.

Special clauses: the voting Shareholders' Pact is in compliance with the existing shareholders' pact between Capitalia and the Region of Sicily establishing certain safeguards for the Region, particularly in the event of Capitalia's disposal of its shares in Banco di Sicilia. These safeguards shall remain in effect.

Arbitration clause: any dispute between two or more Shareholders' Pact members relating to efficacy, validity, enforcement, construction as well as any compensation for damages shall be referred to a panel of arbitrators comprised of three members, all appointed by the Chief Judge of the Rome Court, whose decisions shall be based on law in compliance with the code of civil procedure with respect to arbitration.

The Shareholders' Pact shall be filed with the Rome Register of Companies within the time limits established by statute, and with Consob, according to existing laws and regulations.

SIGNIFICANT RECENT EVENTS AND OTHER INFORMATION

In 2006, following the partial non-proportional spin-off of MCC into Capitalia as well as the exercise of certain warrants under the stock option plan, the Parent Company undertook several share capital increases. Specifically, Capitalia's share capital at 31 December 2005 amounted to €2,511,134,376 divided into a corresponding number of shares with a par value of €1 each, and at 31 March 2006 it amounted to €2,587,989,335 divided into 2,587,989,335 ordinary shares with a par value of €1 each.

As outlined above in the section entitled "*Shareholders' Pact*", on 16 February 2006 the Capitalia Shareholders' Pact members signed a Shareholders' Pact which contains amendments relating to its members.

Following the decrease in the Toro Assicurazioni Group's stake locked in the Capitalia Shareholders' Pact (from 2.1 per cent. to 1.01 per cent.) and Toro's subsequent waiver of its right to be represented on the Board of Directors, Antonio Belloni resigned from Capitalia's Board of Directors effective on 10 February 2006.

On 21 February 2006, Chairman Cesare Geronzi was served an order issued by the Office of the Judge for Preliminary Investigations of the Court of Parma whereby the Court temporarily suspended him from any management positions. The next day the Board of Directors, the Board of Statutory Auditors and the Shareholders' Pact members expressed their solidarity, esteem and confidence to the Chairman.

On 10 March 2006, Capitalia communicated that it had notified both Consob and Banca Intesa, as required by law, of the acquisition of 2.02 per cent. of Banca Intesa ordinary shares.

On 20 March 2006, the Capitalia's Board of Directors co-opted Pasquale Cannatelli, Chief Executive of Fininvest S.p.A., as new a Board Director.

As of 12 April 2006, Capitalia's share capital, which is fully subscribed and paid up, amounted to €2,589,061,035 divided into 2,589,061,035 ordinary shares with a par value of €1 each.

On 20 April 2006, the Ordinary Shareholders' Meeting of Capitalia confirmed the appointment to the Board of Pasquale Cannatelli, who replaces Director Antonio Belloni.

On 7 September 2006, the Board of Directors approved the consolidated first-half report as at 30 June 2006. The 2005-2007 Business Plan targets were revised upwards.

New 2005-2007 Business Plan Targets

After three quarters of results which surpassed the targets outlined in the 2005-2007 Business Plan, and due to the strong growth of revenues (which resulted in part from the impact of the new service model, the Delta2 initiative, not included in the 2005-2007 Business Plan), strict cost control and improvement in credit management, the Board unanimously approved an upward revision of the 2007 targets: EPS was raised from €0.51 to €0.55 and ROE from 16 per cent. (the original target had been achieved 18 months in advance) to 18 per cent.

The 2007 targets were revised upward in light of:

- the revenues generated by the success of the Delta2 initiative, which immediately after launch imparted an acceleration to growth in terms of acquisition of new customers, commercial indicators and revenues of participating branches;
- the lower cost of funding which benefited from the strategy to issue own notes and the September 2005 upgrade by the international agency Fitch Ratings;
- the more favourable macroeconomic scenario in terms of interest rates, wider long-term spreads and loan demand; and
- the lower cost of credit, which has consistently been below the 2005-2007 Business Plan target, as a result of the progressive improvements of asset quality achieved through rigorous credit management as well as the positive development of write-backs.

Further Delta2 progress

In the first half of the year the new service model, Delta2, continued to produce satisfactory results at the about 400 Group branches which participate in the initiative. Specifically:

- Delta2 had a positive impact in terms of acquisition of new customers: since its launch, the number of accountholders in participating branches has grown by 2.4 per cent., twice as much as in non-participating branches;
- Delta2 branches demonstrate a very positive commercial performance: from the fourth quarter of 2005 (when the Project was launched) to the second quarter of 2006, the differences with respect to traditional branches are noteworthy: an increase of 9 percentage points in the placement of bancassurance, an increase of 45 percentage points in the disbursement of consumer credit and an increase of 14 percentage points in credit card sales; and
- during the tax payment season, the CAF tax advice service was particularly appreciated by the public: 6,319 clients used the service during the period May-June 2006.

First half of 2006 Income Statement Data

In the first half of 2006 net interest income hit a record high of €1,391.5 million, displaying a strong acceleration (10.4 per cent.) in comparison with the same period of 2005. That development was helped by the growth of customer loans, which was supported by the intense commercial efforts of the entire network, as well as the positive impact of rising interest rates on spreads. Net interest income included about €124 million interest, which reflects the time value effect of the application of amortised cost primarily relating to impaired loans (slightly below the level recorded in 2005).

Driven by the commercial activities, net commissions reached €862.1 million growing 5.1 per cent. from €820.2 million in the first half of 2005. In the second quarter of 2006 net commission grew 11.1 per cent. over the first quarter.

Net gains on assets and liabilities measured at fair value amounted to €193.6 million (an increase of 0.8 per cent.). The figure includes the net impact of fair value measurement of assets and liabilities and the partial sale of equity holdings, in part hedged with derivatives. The second quarter result of this line item (€52.4 million) includes valuation changes with respect to Generali (with a net increase of €73 million), Mediobanca (a net decrease of €39 million) and Bank of Valletta (a net decrease of €34 million).

Dividends and profits from investments accounted for by the equity method in the aggregate amounted to €115.8 million, benefiting from non-recurring income generated from Consortium Srl's sale of Mediobanca shares. Other operating income declined 30.6 per cent. to €134.1 million, essentially in connection with non-recurring income recognised in 2005.

As a result, total revenues hit an all-time high of €2,697.0 million, an increase of 6.7 per cent. compared with June 2005.

Operating expenses increased by 4.2 per cent. to €1,601.8 million. Staff expenses increased by 4.1 per cent. to €978.4 million, partly in connection with the increased headcount of 28,314 employees, up from 27,876. Other administrative expenses increased by 3.9 per cent. to €526.8 million, mostly due to the greater business volumes with customers and advanced expenses relating to Delta2. Compared with the second half of 2005 the decrease was of 0.8 per cent. By year-end expense trends are expected to be substantially flat. Depreciation and amortisation of tangible and intangible assets rose 7.2 per cent. to €96.6 million as a result of new investments, especially in information technology.

Gross operating profit reached €1,095.2 million, an increase of 10.5 per cent. compared to the first half of 2005. The cost/income ratio improved by 1.4 percentage points over 30 June 2005, to 59.4 per cent., a figure which is essentially in line with the 2005-2007 Business Plan target set for 2006 year end.

Write-downs and provisions increased by 47.0 per cent. to €328.2 million. Specifically, provisions for liabilities and risks grew to €86.4 million from €47.7 million in the first half of 2005, also as a result of provisions set aside to cover residual commitments connected to the shareholding in IPSE (€40 million). Write-downs of impaired loans increased by 49.7 per cent. to €230.9 million, impacted by the prudential provisions related to strong business growth. Write-downs of financial assets amounted to €11.0 million. As a result, net operating profit remained stable at €767.0 million.

Gains from disposal of investments amounted to €93.6 million (as compared to €23.9 million in the first half of 2005) and included €49.9 million relating to the sale of a 51 per cent. stake in Fineco Assicurazioni, €10.3 million relating to the sale of Banca Italo Albanese and €12.2 million relating to S.I. Holding. Pre-tax profit amounted to €860.6 million (an increase of 8.7 per cent.).

After €297.7 million in income taxes for the period and €2.4 million of minority interests, consolidated net profit increased 27.0 per cent. to €563.1 million.

Balance Sheet Data as at 30 June 2006

Customer funding reached €87,792 million (a decrease of 0.4 per cent. as compared to the 30 June 2005 figure). Customer loans amounted to €89,800 million, recording an 11.6 per cent. increase. The growth was driven by retail customer loans (€3,083 million, up 41.7 per cent. over the first half 2005), consumer credit products (an increase of 37.0 per cent.) amounting to €721 million, and long-term corporate loans (increase of 97 per cent.) amounting to €1,434 million.

Doubtful loans (“watchlist” and non-performing loans) remained under control. At 30 June 2006, they were down 3.2 per cent. when compared to 30 June 2005, to €4,320 million, due primarily to the further reduction of “watchlist” loans (€1,013 million, down 12.2 per cent. as compared to June 2005). Net non-performing loans remained essentially stable (down 0.06 per cent. to €3,307 million). Coverage of doubtful loans remained substantially stable at 63.3 per cent. (as compared to 63.4 per cent. at 30 June 2005). Specifically, coverage of non-performing loans was 68.1 per cent. and coverage of “watchlist” loans was 27.4 per cent.

In the first half of 2006 credit recoveries relating to the Trevi securitised portfolios managed by Capitalia Service JV recorded further significant progress, with cumulative collections increasing by 23.4 per cent. over the same period of 2005. Profitability of recoveries is rising remarkably as it stands at 67 per cent. of gross value as compared to 62 per cent. in the same period of 2005 and an historical average of 58 per cent.

Tier 1 ratio stood at 6.3 per cent. despite considerable customer loan growth recorded in the first half of the year.

Sales of Wealth Management products amounted to €3,243 million (down 12.4 per cent. over the first half of 2005). The figure reflects the negative performance of asset management products (–€451 million), which reflects the performance of the Italian banking system. On the other hand, sales of bancassurance products progressed by 11 per cent. when compared to the same period of the prior year, supported by the good performance of all Group networks.

In the first half of the year, the growth trend for Capitalia credit cards was confirmed. In fact, as at 30 June 2006, the amount of credit cards sold was more than 510,000 pieces; as compared to 390,000 pieces sold as at 31 December 2005. At 30 June 2006, the total volume of transactions was close to €900 million.

First Half significant events and main successive events

On 1 January 2006, the Group's organisational and corporate rationalisation undertaken from the second half of 2005 took full effect. In addition, to bring a sharper focus of the various companies on their respective mission and further streamline governance, in the first half of the current year the Group reorganised its equity investment portfolio by centralising the management of equity investments into two dedicated companies which are wholly-owned by Capitalia S.p.A. Specifically, the management of non-Group strategic investments including Mediobanca, Assicurazioni Generali, RCS and Gemina was assigned to Capitalia Partecipazioni S.p.A., while the management of non-strategic investments was assigned to Capitalia Merchant S.p.A.

On 25 July 2006 Capitalia and 14 Consumer Associations signed an addendum to the 2005 Memorandum of Understanding for the adoption of a Charter of Commitments and Procedures of Conciliation which will apply to the customers of all Group banks. These two initiatives strengthen the collaboration with Consumer Associations, which had started in 2004 with "Protezione Investimento" and continues with the Delta2 project.

On 27 July 2006 Capitalia Merchant acquired a 19.19 per cent. interest in Speed S.p.A., a company owned by Banca Intesa, Mediobanca, Banca Leonardo, JP Morgan and Lehman Brothers, which acquired a 39 per cent. stake in Pirelli Tyre for a consideration of €740 million.

On 25 August 2006 Fitch Ratings announced an upgrade of the special servicer ratings of Capitalia Service JV residential and commercial mortgage loans from "RSS-(minus)IT" and "CSS2-(minus)IT" to "RSS2IT" and "CSS2IT" respectively. This rating places Capitalia first among the Italian banks as a servicer of non-performing Loans.

Following the exercise of warrants under the 2002/2008 and 2003/2009 stock option plans, as of 1 September 2006 Capitalia S.p.A.'s share capital stood at €2,594,692,435, represented by the same number of ordinary shares with a par value of €1 each.

Legal proceedings involving Capitalia

In the 12 months prior to the date of this document, Capitalia has not been a party to any administrative, legal or arbitration proceedings (including any pending or future proceedings of which Capitalia is aware) which, according to Capitalia's judgment, may have, or have had in the recent past, significant effects on the financial position or profitability of Capitalia and/or the Group.

Notwithstanding the foregoing, information is provided below on significant criminal proceedings involving certain Directors and managers of the Bank.

Capitalia/Cirio: Court of Rome

Certain members of the Board of Directors and managers of the former Banca di Roma (now Capitalia) are defendants in pending criminal proceedings before the Court of Rome relating to the Cirio Group's default. Those individuals are charged with fraud and contribution to bankruptcy. The Public Prosecutor has formalised a request for committal for trial. The Judge for the preliminary hearing shall decide on whether they will be committed for trial or dismissed.

Capitalia/Cirio: Court of Milan

Certain members of the Board of Directors of the former Banca di Roma (now Capitalia) were put under investigation by the Milan Public Prosecutor for alleged fraud in connection with the issue of Cirio bonds. The Public Prosecutor has not formalised any request to date.

Court of Parma. Declaration of insolvency of the Parmalat Group

Certain members of the Board of Directors and managers of the former Banca di Roma (now Capitalia) were put under investigation by the Parma Public Prosecutor as part of the inquiry into the Parmalat Group's default. The investigation resulted in two different proceedings which relate to two transactions made by Parmalat, i.e. the "Eurolat" proceeding which relates to the acquisition of the Cirio Group's dairy business and the "Ciappazzi" proceeding which relates to the acquisition of Ciappazzi's mineral water business. The charges are contribution to bankruptcy in the first case and contribution to bankruptcy and usury in the second case.

In relation to "Eurolat" the Public Prosecutor has formalised a request for dismissal concerning some individuals involved.

In relation to "Ciappazzi" the Public Prosecutor has formalised a request for committal for trial. The Judge for the preliminary hearing shall decide on committal for trial or charge dismissal.

Court of Brescia. Declaration of Insolvency of Italcasse Bertelli Group

Certain members of the Board of Directors and managers of the former Banca di Roma (now Capitalia) are defendants in a pending criminal proceeding relating to Italcasse Bertelli Group default before the Court of Brescia. Those individuals are charged with contribution to "preferential" bankruptcy and "simple" bankruptcy. During the trial, the Public Prosecutor has formalised a request for conviction. The Judge shall decide on its acceptance or dismissal.

CONSOLIDATED FINANCIAL AND OPERATING INFORMATION OF THE BANK

Set out below is consolidated financial information relating to the Bank, which is derived from the consolidated financial statements of the Bank as at and for the six months ended 30 June 2005 and 30 June 2006.

CAPITALIA GROUP
CONSOLIDATED INCOME STATEMENT

Item	1st Half 2006	1st Half 2005 ⁽¹⁾
	(€ thousands)	
Interest income and similar revenues	2,620,013	2,504,542
Interest expense and similar charges	(1,352,697)	(1,377,461)
Net interest income	1,267,316	1,127,081
Commission income	984,093	939,584
Commission expense	(121,973)	(106,905)
Net commissions	862,120	832,679
Dividends and other similar income	57,099	45,827
Income/loss on financial assets and liabilities held for trading (net).	68,822	146,139
Income/loss from hedging activities (net)	(10,095)	39,629
Income/loss on disposal of:	162,217	25,970
<i>a) loans</i>	564	1
<i>b) available-for-sale financial assets</i>	155,974	25,969
<i>c) held-to-maturity investments</i>	(5)	–
<i>d) financial liabilities</i>	5,684	–
Net balance of financial assets held at fair value	3,270	6,231
Total revenues	2,410,749	2,223,556
Net value adjustments/writebacks relating to:	(117,718)	(48,805)
<i>a) loans</i>	(78,852)	(17,549)
<i>b) available-for-sale financial assets</i>	(13,094)	(23,095)
<i>c) held-to-maturity investments</i>	2,092	1,688
<i>d) other financial operations</i>	(27,864)	(9,849)
Net income from financial operations	2,293,031	2,174,751
Net premiums	–	6,171
Net income/loss from insurance operations	–	(5,082)
Net income from financial and insurance operations	2,293,031	2,175,840
General and administrative expenses:	(1,505,193)	(1,457,891)
<i>a) staff costs</i>	(978,429)	(945,878)
<i>b) other administrative expenses</i>	(526,764)	(512,013)
Provisions for risks and charges	(86,375)	(47,897)
Amortisation and depreciation of tangible assets	(50,186)	(68,299)
Amortisation and depreciation of intangible assets	(46,426)	(22,254)
Other income/loss	134,050	194,518
Operating expenses	(1,554,130)	(1,401,823)
Income/loss from equity investments	71,078	21,192
Income/loss from disposal of investments	50,583	(2,070)
Income/loss before taxes from continuing operations	860,562	793,139
Tax expense (income) related to profit or loss from continuing operations	(297,699)	(290,760)
Income/loss after taxes from continuing operations	562,863	502,379
Profit/loss after taxes from discontinued assets being sold	2,696	–
Net profit/loss for the period	565,559	502,379
Minority interests	(2,449)	(62,129)
Net profit/loss	563,110	440,250

(1) Data revised in compliance with the requirements set out in the Bank of Italy's Notice No. 262 of 22 December 2005.

CAPITALIA GROUP
CONSOLIDATED RECLASSIFIED INCOME STATEMENT

	1st Half 2006	1st Half 2005 ^(*)	Change amount	%
	<i>(€ thousands)</i>			
Net interest income	1,391,472	1,260,960	130,512	10.4
Gains/losses on assets/liabilities at fair value	193,605	192,016	1,589	0.8
Dividends & income from participations valued on equity method	115,799	61,915	53,884	87.0
Net commissions	862,120	820,166	41,954	5.1
Other income, net	134,050	193,048	(58,998)	(30.6)
Income from insurance operations	—	—	—	—
Total revenues	2,697,046	2,528,105	168,941	6.7
Staff expenses	(978,429)	(939,916)	(38,513)	4.1
General and administrative expenses	(526,764)	(507,056)	(19,708)	3.9
Depreciation of tangible and intangible assets	(96,612)	(90,104)	(6,508)	7.2
Total operating expenses	(1,601,805)	(1,537,076)	(64,729)	4.2
Gross operating profit	1,095,241	991,029	104,212	10.5
Provisions for liabilities and risks	(86,375)	(47,725)	(38,650)	81.0
Value adjustments on impairment of credits and other financial operations	(230,872)	(154,178)	(76,694)	49.7
Value adjustments on financial assets	(11,002)	(21,407)	10,405	(48.6)
Total provisions and value adjustments	(328,249)	(223,310)	(104,939)	47.0
Net operating profit	766,992	767,719	(727)	(0.1)
Profit/loss from divestments and from participations ..	93,570	23,900	69,670	291.5
Profit before tax	860,562	791,619	68,943	8.7
Income taxes for the current fiscal period	(297,699)	(290,215)	(7,484)	2.6
Income/loss pertaining to minority interests	(2,449)	(60,619)	58,170	(96.0)
Profit or loss after tax from discontinued operations	2,696	2,549	147	5.8
Net profit/loss	563,110	443,334	119,776	27.0

(*) Reconstructed on the basis of the Group's perimeter as of 30 June 2006.

CAPITALIA GROUP
CONSOLIDATED BALANCE SHEET

Assets	30 June 2006	30 June 2005⁽¹⁾
	<i>(€ thousands)</i>	
Cash and highly liquid assets	741,239	988,032
Financial assets held for trading	11,319,650	15,544,593
Financial assets designated at fair value	108,450	322,708
Available-for-sale financial assets	4,804,971	5,033,150
Held-to-maturity investments	1,072,353	1,501,560
Loans to banks	11,088,372	16,917,372
Loans to customers	89,800,050	80,444,840
Derivatives used for hedging	352,501	910,200
Fair value changes of generically hedged items	(14,690)	25,652
Investments in associates, subsidiaries and joint ventures	733,135	654,192
Technical reserves reassured with third parties	—	1,942
Tangible assets	2,844,198	2,549,176
Intangible assets	1,742,907	706,719
<i>Of which:</i>		
<i>Goodwill</i>	1,507,850	490,657
Tax assets	3,897,691	4,118,596
<i>a) current</i>	1,879,334	1,870,075
<i>b) advanced</i>	2,018,357	2,248,521
Non-current assets and groups of assets being disposed	125,822	203,399
Other assets	3,423,366	4,601,235
Total assets	132,040,015	134,523,366

Liabilities and Shareholders' Equity	30 June 2006	30 June 2005⁽¹⁾
	<i>(€ thousands)</i>	
Due to banks	22,054,762	20,808,060
Due to customers	59,710,025	60,536,985
Debt securities issued	28,082,532	27,601,414
Financial liabilities held for trading	4,533,907	8,841,776
Derivatives used for hedging	176,008	247,384
Tax liabilities	460,040	723,653
<i>Current</i>	124,587	151,242
<i>Deferred</i>	335,453	572,411
Liabilities associated with activities being sold	39,526	
Other liabilities	5,750,274	5,966,852
Staff severance pay provision	831,543	837,947
Provision for liabilities and contingencies	1,460,263	1,465,118
<i>Retirement and similar obligations</i>	774,808	816,185
<i>Other funds</i>	685,455	648,933
Technical reserves	—	12,836
Revaluation reserves (*):	630,900	1,304,459
Reserves	1,842,336	(228,652)
Share premium account	3,376,871	3,119,687
Share Capital	2,593,537	2,216,613
Treasury stock (-)	(108,301)	(2,442)
Minority interest (+/-)	42,682	631,426
Income (loss) for the period	563,110	440,250
Total liabilities and Shareholders' Equity	132,040,015	134,523,366

(1) Data revised in compliance with the requirements set out in the Bank of Italy's Notice No. 262 of 22 December 2005.

(*) Includes minority shares.

CAPITALIA GROUP

RECONCILIATION OF INCOME STATEMENT WITH RECLASSIFIED INCOME STATEMENT

Reclassified consolidated income statement	Headings established in Bank of Italy circular no. 262 of 22 December 2005
Interest net income	10; 20; 130 a,b,c,d (part of write-backs for interests deterioration);
Gains/losses on assets/liabilities at fair value	80; 90; 100b (portion of sale of listed company); 100d; 110
Dividends & income from participations valued on equity method	70; 240 (exclusively gain/loss for participations valued at net equity)
Net commissions	40; 50
Other operating income, net	220
Income from insurance operations	150;160
Total income	
Staff expenses	180 a
General and administrative expenses	180 b
Depreciation of tangible and intangible assets (net of goodwill)	200;210
Total operating expenses	
Gross operating profit	
Provisions for liabilities and risks	190
Value adjustments on loans)	130 a, d (net of part of write-backs for interests deterioration)
Value adjustments on financial assets	130 b, c (net of part of write-backs for interests deterioration)
Value adjustments of goodwill	260
Total provisions and value adjustments	
Net operating profit	
Realised gains and losses on sales of assets and participations	100 a, b (net of sale of listed companies); c; 240 (net of gain/loss for participations valued at net equity); 270
Net results from fair value of tangible and intangible assets	250
Profit before tax	
Income taxes	290
Income/loss pertaining to minority interests	330
Profit or loss after tax from discontinued operations	310
Group Net (loss) profit	340

TAXATION

The statements herein regarding taxation summarise the principal Italian and Luxembourg tax consequences of the purchase, the ownership and the disposal of the Notes. They apply to a holder of Notes only if such holder purchases its Notes in this offering. It is a general summary that does not apply to certain categories of investors and does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to purchase, own or dispose of the Notes. It does not discuss every aspect of Italian taxation that may be relevant to a holder of Notes if such holder is subject to special circumstances or if such holder is subject to special treatment under applicable law.

This summary also assumes that the Issuer is organised, and that the Bank's business will be conducted in the manner outlined in this Base Prospectus. Changes in the Issuer's organisational structure, tax residence or the manner in which the Issuer conducts its business may invalidate this summary.

The statements herein regarding taxation are based on the laws in force in the Republic of Italy as of the date of this Base Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The Issuer will not update this summary to reflect changes in laws and if such a change occurs the information in this summary could become invalid.

The following will not describe the tax regime of the Notes issued by the Issuer through a branch located outside of Italy.

Prospective purchasers of the Notes are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Notes.

Italian Taxation

1. Tax treatment of Notes qualifying as Bonds or similar securities with a maturity of at least 18 months

Legislative Decree No. 239 of 1 April 1996, as amended, (**Decree 239**) regulates the tax treatment of interest, premiums and other income (including the difference between the redemption amount and the issue price, hereinafter collectively referred to as **Interest**) from notes issued, *inter alia*, by Italian resident banks. The provisions of Decree 239 only apply to those Notes issued by the Issuer with a maturity of eighteen months or more which qualify as bonds (*obbligazioni*) or securities similar to bonds (*titoli similari alle obbligazioni*) pursuant to Article 44, paragraph 2(c) of Presidential Decree No. 917 of 22 December 1986, as amended.

For this purpose, securities similar to bonds are securities that incorporate an unconditional obligation to pay, at maturity, an amount not lower than the nominal value thereof and that do not allow any direct or indirect participation in the management of the Issuer.

1.1 Italian Resident Noteholders

Where the Italian resident Noteholders, who are the beneficial owners of the Notes, are (a) individuals holding Notes not in connection with a business activity; (b) non-commercial partnerships, *de facto* partnerships not carrying out business activities and professional associations; (c) public and private entities, other than companies, not carrying out business activities; or (d) entities exempt from corporate income tax, Interest payments relating to the Notes are subject to a tax, referred to as *imposta sostitutiva*, levied at the rate of 12.5 per cent. (either when the Interest is paid by the Bank, or when payment therefor is obtained by the Noteholder on a sale of the relevant Notes). The *imposta sostitutiva* may not be recovered as a deduction from the income then due.

In case the Notes are held by an individual engaged in a business activity and are effectively connected with same business activity, the Interest will be subject to the *imposta sostitutiva* and will be included in the relevant income tax return. As a consequence, the Interest will be subject to the ordinary income tax and the *imposta sostitutiva* may be recovered as a deduction from the income tax due.

Pursuant to Decree 239, *imposta sostitutiva* is applied by banks, *società di intermediazione mobiliare* (**SIMs**), *società di gestione del risparmio* (**SGRs**), fiduciary companies, stock exchange agents and other qualified entities identified by the relevant decrees of the Ministry of Finance (each an **Intermediary**).

An Intermediary must satisfy the following conditions: (i) it must be (a) resident in Italy or (b) a permanent establishment in Italy of an Intermediary resident outside Italy or (c) an organisation or company non-resident in Italy, acting through a system of centralised administration of securities and directly connected with the Department of Revenue of the Ministry of Finance (which include Euroclear and Clearstream, Luxembourg) having appointed an Italian representative for the purposes of the Decree 239; and (ii) it must intervene, in any way, in the collection of Interest or in the transfer of the Notes. For the purpose of the application of the *imposta sostitutiva*, a transfer of Notes includes any assignment or other act, either with or without consideration, which results in a change of the ownership of the relevant Notes.

In order to apply *imposta sostitutiva*, an Intermediary opens an account (the **single account**) to which it credits *imposta sostitutiva* in proportion to Interest accrued. In the event that more than one Intermediary participates in an investment transaction, *imposta sostitutiva* in respect of the transaction is credited to or debited from the single account of the Intermediary having the deposit or investment management relationship with the Noteholder.

Where the Notes are not deposited with an Intermediary, the *imposta sostitutiva* is applicable and withheld by any Italian bank or any Italian intermediary paying Interest to a Noteholder.

The *imposta sostitutiva* regime described herein does not apply in cases where the Notes are held in a discretionary investment portfolio managed by an authorised intermediary pursuant to the so-called discretionary investment portfolio regime (“Risparmio Gestito” regime as described under the paragraph “*Capital Gains*”, below). In such a case, Interest will not be subject to *imposta sostitutiva* but will contribute to determine the annual net accrued result of the portfolio, which is subject to an ad-hoc substitutive tax of 12.5 per cent.

The *imposta sostitutiva* also does not apply to the following subjects to the extent that the Notes are deposited in a timely manner, directly or indirectly, with an Intermediary:

- (a) *Corporate investors* – Where an Italian resident Noteholder is a corporation or a similar commercial entity (including a permanent establishment in Italy of a foreign entity to which the Notes are effectively connected), Interest accrued on the Notes must be included in: (i) the relevant Noteholder’s yearly taxable income for corporate income tax purposes (**IRES**), applying at the rate of 33 per cent. ; and (ii) in certain circumstances, depending on the status of the Noteholder, also in its net value of production for the purposes of regional tax on productive activities (**IRAP**), generally applying at the rate of 4.25 per cent. Said Interest is therefore subject to general Italian corporate taxation according to the ordinary rules;
- (b) *Funds* – Italian investment funds (including a Fondo Comune d’Investimento, or a SICAV), as well as Luxembourg investment funds regulated by article 11-bis of Law Decree No. 512 of 30 September 1983 (collectively, the **Funds**) are subject to a 12.5 per cent. substitutive tax on their annual net accrued result. Interest will be included in the calculation of said annual net accrued result;
- (c) *Pension funds* – Pension funds (subject to the tax regime set forth by articles 14, 14-ter and 14-quarter(1) of Legislative Decree No. 124 of 21st April 1993, the **Pension Funds**) are subject to an 11 per cent. substitutive tax on their annual net accrued result. Interest will be included in the calculation of said annual net accrued result; and
- (d) *Real estate funds* – Under the current regime provided by Law Decree No. 351 of 25 September 2001, converted into law, with amendments, by Law No. 410 of 23 November 2001, as clarified by Ministerial Circular No. 47/E of 8 August 2003, payments of Interest in respect of the Notes to Italian resident real estate investment funds established pursuant to Article 37 of Legislative

Decree No. 58 of 24 February 1998 (the **Real Estate Investment Funds**) are generally subject neither to *imposta sostitutiva* nor to any other income tax in the hands of the same Real Estate Investment Funds.

1.2 Non-Italian resident Noteholders

An exemption from *imposta sostitutiva* is provided with respect to certain beneficial owners of the Notes resident outside of Italy. In particular, pursuant to Decree 239, the aforesaid exemption will apply to any beneficial owner of a payment of any Interest relating to the Notes who (i) is resident, for tax purposes, in a country which allows for a satisfactory exchange of information, (ii) is an international body or entity set up in accordance with international agreements which have entered into force in Italy, (iii) is the Central Bank or an entity also authorised to manage the official reserves of a State, or (iv) is an institutional investor which is established in a country which allows for a satisfactory exchange of information, even if it does not possess the status of taxpayer in its own country of establishment.

The exemption procedure for Noteholders who are non-resident in Italy and are resident in qualifying countries identifies two categories of intermediaries:

- (i) an Italian or foreign bank or financial institution (there is no requirement for the bank or financial institution to be EU resident) (the **First Level Bank**), acting as intermediary in the deposit of the Notes held, directly or indirectly, by the Noteholder with a Second Level Bank (as defined below); and
- (ii) an Italian resident bank or SIM, or a permanent establishment in Italy of a non-resident bank or SIM, acting as depositary or sub-depositary of the Notes appointed to maintain direct relationships, via telematic link, with the Italian Tax authorities (the **Second Level Bank**). Organisations and companies non-resident in Italy, acting through a system of centralised administration of securities and directly connected with the Department of Revenue of the Ministry of Finance (which include Euroclear and Clearstream, Luxembourg) are treated as Second Level Banks, provided that they appoint an Italian representative (an Italian resident bank or SIM, or permanent establishment in Italy of a non-resident bank or SIM or a central depository of financial instruments pursuant to Article 80 of Legislative Decree No. 58 of 24 February 1998) for the purposes of the application of the Decree 239.

In the event that a non-Italian resident Noteholder deposits the Notes directly with a Second Level Bank, the latter shall be treated both as First Level Bank and Second Level Bank.

The exemption from the *imposta sostitutiva* for Noteholders who are non-resident in Italy is conditional upon:

- (i) the deposit of the Notes and the relevant coupons, either directly or indirectly, with an institution which qualifies as a Second Level Bank; and
- (ii) the submission to the First Level Bank or the Second Level Bank of a statement of the relevant Noteholder, to be provided only once, in which it declares that it is eligible to benefit from the exemption from *imposta sostitutiva*. Such statement must comply with the requirements set forth by a Ministerial Decree dated 12 December 2001, is valid until withdrawn or revoked and needs not to be submitted where a certificate or other document for the same or equivalent purposes was previously submitted to the same depository. The above statement is not required for non-Italian resident investors that are international bodies or entities set up in accordance with international agreements entered into force in Italy or Central Banks or entities also authorised to manage the official reserves of a State.

The First Level Bank is obliged to send the above statement to the Second Level Bank within 15 days from receipt, together with any necessary affidavit in the event that other intermediaries intervene between the Noteholder and the First Level Bank.

The Second Level Bank files the data relating to the non-resident Noteholder together with the data relating to the First Level Bank and of the transactions carried out, via telematic link, to the Italian tax authorities within the first transmission period after receipt of such data. Transmission periods are two-week periods per month during which the Second Level Bank transmits to the Italian tax authorities data relating to bond transactions carried out during the preceding month. The Italian tax authorities monitor and control such data and any discrepancies thereof.

Failure to comply with the above exemption procedure will result in the application of *imposta sostitutiva* on proceeds payable to non-resident Noteholders (increased by 1.5 per cent. for each month or fraction of a month of delay after the month in which payment of *imposta sostitutiva* should have been made) pursuant to the ordinary rules applicable for the payment of *imposta sostitutiva* by Italian resident investors.

For Noteholders who are non-resident in Italy, the Second Level Bank acts as the Intermediary responsible for assessing the applicability of *imposta sostitutiva* and, consequently, for levying and paying it to the Italian tax authorities in accordance with the procedure described above.

1.3 Early Redemption

Without prejudice to the above provisions, if the Notes issued with an original maturity of eighteen months or longer are subject to an early redemption within eighteen months from the date of issue, an additional tax is due by the Issuer at the rate of 20 per cent. in respect of Interest accrued on the Notes from the date of issue up to the date of the early redemption pursuant to Article 26, 1st paragraph, of Presidential Decree No. 600 of 29 September 1973, as amended (**Decree 600**). According to one interpretation of Italian law, the above 20 per cent. additional tax may also be due in the event that the Issuer were to purchase the Notes and subsequently cancel them prior to eighteen months from the date of issue.

2. Tax Treatment of Notes qualifying as Bonds or similar securities with a maturity of less than eighteen months

Pursuant to article 26 of Decree 600, Notes issued by the Issuer qualifying as bonds (*obbligazioni*) or securities similar to bonds (*titoli similari alle obbligazioni*), having an original maturity of less than eighteen months are subject to a withholding tax levied at the rate of 27 per cent.

Where the Noteholder is (i) an individual carrying out a business activity to which the Notes are effectively connected, (ii) an Italian corporation or a similar Italian commercial entity (including a permanent establishment in Italy of a foreign entity to which the Notes are effectively connected), (iii) a commercial partnership; or, (iv) a commercial private or public institution such withholding tax is an advance withholding tax. In all other cases, the withholding tax is a final withholding tax.

3. Tax Treatment of Notes qualifying as Atypical Securities

Interest payments relating to Notes that are not deemed to fall within the category of bonds (*obbligazioni*) or securities similar to bonds (*titoli similari alle obbligazioni*) may be subject to a withholding tax, levied at the rate of 27 per cent.

Where the Noteholder is (i) a non-Italian resident person, (ii) an individual not holding the Notes for the purpose of carrying out a business activity, (iii) a non-commercial partnership, (iv) a noncommercial private or public institution, (v) a Fund, (vi) a Real Estate Investment Fund, (vii) a Pension Fund, (viii) an investor exempt from Italian corporate income taxation, such withholding tax is a final withholding tax.

Where the Noteholder is (i) an individual carrying out a business activity to which the Notes are effectively connected, (ii) an Italian corporation or a similar Italian commercial entity (including a permanent establishment in Italy of a foreign entity to which the Notes are effectively connected), such withholding tax is an advance withholding tax.

4. Capital Gains

4.1 Italian resident Noteholders

In general, Capital Gains tax (referred to as **CGT**) is applicable at 12.5 per cent. rate to capital gains realised by Italian resident individuals not engaged in a business activities to which the Notes are effectively connected on any sale or transfer of the Notes for consideration or on redemption thereof.

For the purposes of determining the taxable capital gain, any Interest on the Notes accrued and unpaid up to the time of the purchase and the sale of the Notes must be deducted from the purchase and the sale price respectively.

Taxpayers can opt for one of the three following regimes in order to pay the CGT:

- (a) **Tax return regime** (*Regime della Dichiarazione*): the Noteholder will have to assess the overall capital gains realised in a certain fiscal year, net of any incurred capital losses, in his annual income tax return and pay the CGT so assessed together with the income tax due for the same fiscal year. Losses exceeding gains can be carried forward in the following fiscal years up to the fourth. As such regime constitutes the ordinary regime, the taxpayer must apply it whenever he does not opt for any of the two other regimes;
- (b) **Non-discretionary Investment Portfolio Regime** (*Risparmio amministrato*): the Noteholders may elect to pay CGT separately on capital gains realised on each sale or transfer or redemption of the Notes. Such separate taxation of capital gains is allowed subject to (i) the Notes being deposited with banks, SIMs or other authorised intermediaries and (ii) an express election for the *Risparmio Amministrato* regime being timely made in writing by the relevant Noteholder. The *Risparmio Amministrato* regime lasts for the entire fiscal year and unless revoked prior to the end of such year will be deemed valid also for the subsequent one. The intermediary is responsible for accounting for the CGT in respect of capital gains realised on each sale or transfer or redemption of the Notes, as well as on capital gains realised as at revocation of its mandate, and is required to pay the relevant amount to the Italian tax authorities by the 16th day of the second month following the month in which the CGT is applied, by deducting a corresponding amount from the proceeds to be credited to the Noteholder. Where a particular sale, transfer or redemption of the Notes results in a net loss, the intermediary is entitled to deduct such loss from gains subsequently realised on assets held with the same intermediary and within the same deposit relationship in the same fiscal year as well as in the following fiscal years up to the fourth. Under the *Risparmio Amministrato* regime the Noteholder is not required to declare the gains in its annual income tax return.
- (c) **Discretionary investment portfolio regime** (*Risparmio Gestito*): if the Notes are part of a portfolio managed by an Italian asset management company, capital gains will not be subject to the CGT, but will contribute to determine the annual net accrued result of the portfolio. Said annual net accrued result of the portfolio, even if not realised, is subject to an ad-hoc 12.5 per cent. substitutive tax, required to be applied on behalf of the Noteholder by the asset management company. Any losses of the investment portfolio accrued at year end may be carried forward against net profits accrued in each of the following fiscal years, up to the fourth. Under such regime the Noteholder is not required to declare the gains in its annual income tax return.

The aforementioned regime does not apply to the following subjects:

- (A) **Corporate investors** (including banks and insurance companies) – Capital gains realised by Italian resident corporate entities (including a permanent establishment on Italy of a foreign entity to which the Notes are effectively connected) on the disposal or redemption of the Notes will form part of their aggregate income subject to IRES. In certain cases, capital gains may also be included in the taxable net value of production of Italian resident corporate entities (including a permanent establishment in Italy of a foreign entity to which the Notes are effectively connected) for IRAP purposes. The capital gains are calculated as the difference

between the sale price and the relevant tax basis of the Notes. If certain conditions are satisfied, the capital gain may be taxed in equal instalments over up to five fiscal years for the purposes of both IRES and IRAP.

- (B) *Funds* – Capital gains realised by the Funds on the Notes contribute to determine their annual net accrued result, which is subject to a 12.5 per cent. substitutive tax (see under paragraph 1.1. “*Italian Resident Noteholders*”, above).
- (C) *Pension Funds* – Capital gains realised by Pension Funds on the Notes contribute to determine their annual net accrued result, which is subject to an 11 per cent. substitutive tax (see under paragraph 1.1, “*Italian Resident Noteholders*”, above).
- (D) *Real Estate Investment Funds* – Capital gains realised by Real Estate Investment Funds on the Notes are not taxable at the level of same Real Estate Investment Funds (see under paragraph 1.1, “*Italian Resident Noteholders*”, above) even if the Notes are held in Italy and regardless of the provisions set forth by any applicable double tax treaty.

4.2 Non-Italian resident Noteholders

Any capital gains realised by non-Italian resident individuals and corporations (without a permanent establishment in Italy to which the Notes are effectively connected), through the sale, transfer or redemption of the Notes, are exempt from taxation in Italy to the extent that the Notes are traded on a regulated market, in Italy or abroad (e.g. Luxembourg Stock Exchange).

Capital gains realised by non-Italian resident Noteholders on Notes not listed in a regulated market are subject to tax in Italy, provided that the relevant Notes are held in Italy. However, pursuant to Article 5 of Legislative Decree No. 461 of 21 November 1997, the aforesaid capital gains are not subject to tax in Italy, provided that the same conditions described under 1.4 (*Non-Italian Resident Noteholders*), above, are met.

If none of the conditions above are met, capital gains realised by non-Italian resident Noteholders from the sale or redemption of Notes issued by an Italian resident Issuer not traded on regulated markets are subject to the *imposta sostitutiva* at the current rate of 12.5 per cent.

In any event, non-Italian resident individuals or entities without a permanent establishment in Italy to which the Notes are connected, that may benefit from a double taxation treaty with Italy providing that capital gains realised upon the sale or redemption of Notes are to be taxed only in the country of tax residence of the recipient, will not be subject to *imposta sostitutiva* in Italy on any capital gains realised upon the sale or redemption of Notes.

5. Transfer tax

Pursuant to Royal Decree No. 3278 of 30 December 1923, Legislative Decree No. 435 of 21 November 1997, and Ministerial Circular No. 106/E of 21 December 2001, the transfer of the Notes (either (a) by or between Italian residents or (b) by or between non-Italian residents) may be subject to stamp duty tax (*tassa sui contratti di borsa*) as described below:

- (i) Contracts entered into directly between private parties or with the participation of entities other than banks and persons who are authorised to perform investment services pursuant to Legislative Decree No. 415 of 23 July 1996, as superseded by Legislative Decree No. 58 of 24 February 1998, or stockbrokers (hereinafter referred to as the **Authorised Intermediaries**) €0.0083 for every €51.65, or part of €51.65, of the price of the Notes.
- (ii) Contracts between private parties, with the participation of Authorised Intermediaries, or between private parties and Authorised Intermediaries: €0.00465 for every €51.65, or part of €51.65, of the price of the Notes.

- (iii) Contracts between Authorised Intermediaries: €0.00465 for every €51.65, or part of €51.65, of the price of the Notes.

Further, in cases under (ii) and (iii) above, the amount of transfer tax payable cannot exceed €929.62 for each transaction or repurchase agreement.

However, transfer tax is not levied in the following cases:

- (i) contracts entered into on regulated markets;
- (ii) contracts relating to securities which are admitted to listing in the regulated markets and finalised outside such markets and entered into:
 - (a) between Authorised Intermediaries;
 - (b) between Authorised Intermediaries and non-residents;
 - (c) between Authorised Intermediaries, also non-resident, and undertakings for collective investments in transferable securities;
- (iii) contracts relating to public offers for the admission to listing in regulated markets or relating to securities already admitted to listing on such markets;
- (iv) contracts having a consideration not higher than €206.58; and
- (v) securities lending transactions and any contracts having the same economic purpose.

The change in depository not involving a transfer of ownership of the Notes is not subject to Italian transfer tax.

6. Inheritance and Gift Tax

Pursuant to Law No. 383 of 18 October 2001, inheritance and gift tax has been repealed. Transfers by reason of gift to persons other than the spouse, siblings or relatives within the 4th degree will be subject to transfer taxes ordinarily applicable for transfers for consideration, provided that the value of the gift received by each person exceeds €180,759.91 and limited to such excess. In this respect, the Italian tax authorities have expressed the view that the stamp duty tax mentioned above cannot be considered as a “transfer tax ordinarily applicable” to transfers for consideration.

7. Tax Monitoring

Pursuant to Law Decree No. 167 of 28 June 1990, converted by Law No. 227 of 4 August 1990, as amended, individuals resident in Italy who, at the end of the fiscal year, hold investments abroad or have financial activities abroad must, in certain circumstances, disclose the aforesaid and related transactions to the Italian tax authorities in their income tax return (or, in case the income tax return is not due, in an *ad-hoc* form that must be fixed within the same time as prescribed for the income tax return). This obligation does not exist if, (i) each of the overall value of the foreign investments or financial activities at the end of the fiscal year, and the overall value of the transactions carried out during the relevant fiscal year, does not exceed euro 12,500; as well as in case (ii) the financial assets are given in administration or management to Italian banks, SIMs, fiduciary companies or other professional intermediaries, indicated in Article 1 of the aforementioned Law Decree No. 167, or if one of such intermediaries intervenes, also as a counterparty, in their transfer, provided that income deriving from such financial assets is collected through the intervention of such an intermediary.

8. European Union Savings Directive

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (**EU Savings Directive**), Member States are required, from 1 July 2005, 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) with effect from the same date.

Implementation in Italy of the EU Savings Directive

Italy has implemented the EU Savings Directive through Legislative Decree No. 84 of 18 April 2005 (**Decree 84**). Under Decree 84, subject to a number of important conditions being met, in the case of interest paid starting from 1 July 2005 to individuals which qualify as beneficial owners of the interest payment and are resident for tax purposes in another Member State, Italian qualified paying agents shall not apply the withholding tax and shall 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.

9. Luxembourg Taxation

The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy, impost or other charge or withholding of a similar nature refers to Luxembourg tax law and/or concepts only. Also, please note that a reference to Luxembourg income tax encompasses corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communal*), a solidarity surcharge (*impôt de solidarité*) as well as personal income tax (*impôt sur le revenu*) generally. Investors may further be subject to net wealth tax (*impôt sur la fortune*) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge invariably apply to most corporate taxpayers resident of Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

9.1 Withholding Tax

(i) Non-resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the laws of 21 June 2005 (the **Laws**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

Under the Laws implementing the Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the **Territories**), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which are resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying

agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Where withholding tax is applied, it will be levied at a rate of 15 per cent. during the first three-year period starting 1 July 2005, at a rate of 20 per cent. for the subsequent three-year period and at a rate of 35 per cent. thereafter. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Laws would at present be subject to withholding tax of 15 per cent.

(ii) Resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 (the **Law**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner who is resident of Luxembourg will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Law would be subject to withholding tax of 10 per cent.

9.2 Income Taxation

(i) Non-resident holders of Notes

A non-resident corporate holder of Notes or an individual holder of Notes acting in the course of the management of a professional or business undertaking, who has a permanent establishment or permanent representative in Luxembourg to which such Notes are attributable, is subject to Luxembourg income tax on interest accrued or received, redemption premiums or issue discounts, under the Notes and on any gains realised upon the sale or disposal, in any form whatsoever, of the Notes.

(ii) Resident holders of Notes

A corporate holder of Notes must include any interest accrued or received, any redemption premium or issue discount, as well as any gain realised on the sale or disposal, in any form whatsoever, of the Notes, in its taxable income for Luxembourg income tax assessment purposes. The same inclusion applies to an individual holder of Notes, acting in the course of the management of a professional or business undertaking.

A holder of Notes that is governed by the law of 31 July 1929, on pure holding companies, as amended, or by the laws of 30 March 1988 and 20 December 2002 on undertakings for collective investment, as amended, is neither subject to Luxembourg income tax in respect of interest accrued or received, any redemption premium or issue discount, nor on gains realised on the sale or disposal, in any form whatsoever, of the Notes.

An individual holder of Notes, acting in the course of the management of his/her private wealth, is subject to Luxembourg income tax in respect of interest received, redemption premiums or issue discounts, under the Notes, except if withholding tax has been levied on such payments in accordance with the Law. A gain realised by an individual holder of Notes, acting in the course of the management of his/her private wealth, upon the sale or disposal, in

any form whatsoever, of Notes is not subject to Luxembourg income tax, provided this sale or disposal took place more than six months after the Notes were acquired. However, any portion of such gain corresponding to accrued but unpaid interest income is subject to Luxembourg income tax, except if withholding tax has been levied on such interest in accordance with the Law.

9.3 Net Wealth Taxation

A corporate holder of Notes, whether it is resident of Luxembourg for tax purposes or, if not, it maintains a permanent establishment or a permanent representative in Luxembourg to which such Notes are attributable, is subject to Luxembourg wealth tax on such Notes, except if the holder of Notes is governed by the law of 31 July 1929 on pure holding companies, as amended, or by the laws of 30 March 1988 and 20 December 2002 on undertakings for collective investment, as amended, or is a securitisation company governed by the law of 22 March 2004 on securitisation, or a capital company governed by the law of 15 June 2004 on venture capital vehicles.

An individual holder of Notes, whether he/she is resident of Luxembourg or not, is not subject to Luxembourg wealth tax on such Notes.

9.4 Other Taxes

Neither the issuance nor the transfer of Notes will give rise to any Luxembourg stamp duty, value added tax, issuance tax, registration tax, transfer tax or similar taxes or duties.

Where a holder of Notes is a resident of Luxembourg for tax purposes at the time of his/her death, the Notes are included in his/her taxable estate for inheritance tax assessment purposes.

Gift tax may be due on a gift or donation of Notes if embodied in a Luxembourg deed or recorded in Luxembourg.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Bank to any one or more of ABN AMRO Bank N.V., Banca IMI S.p.A., Banc of America Securities Limited, Capitalia S.p.A., Credit Suisse Securities (Europe) Limited, Goldman Sachs International, HSBC Bank plc, J.P. Morgan Securities Ltd., Lehman Brothers International (Europe), Merrill Lynch International, Morgan Stanley & Co. International Limited and UBS Limited (the **Dealers**). The arrangements under which Notes may from time to time be agreed to be issued by the Bank to, and subscribed by, Dealers are set out in an Amended and Restated Dealer Agreement dated 4 October 2006 (the **Dealer Agreement**) and made between the Bank and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be subscribed by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Bank in respect of such subscription. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

United States of America: *Regulation S Category 2; TEFRA D or TEFRA C as specified in the relevant Final Terms or neither if TEFRA is specified as not applicable in the relevant Final Terms.*

The Notes 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.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes 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 under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms.

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 Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer Notes to the public in that Relevant Member State:

- (a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those Notes 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, and ending on the date which is 12 months after the date of such publication;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time 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 turnover of more than €50,000,000, all as shown in its last annual or consolidated accounts; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression **offer of Notes to the public** in relation to any Notes 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 Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, 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

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) **No deposit-taking:** in relation to any Notes having a maturity of less than one year:
 - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and;
 - (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:
 - (1) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
 - (2) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (**FSMA**) by the Bank;

- (b) **Financial promotion:** 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 Notes in circumstances in which section 21(1) of the FSMA does not apply to the Bank; and
- (c) **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Republic of Italy

To the extent that the offering of the Notes has not been registered with CONSOB (the Italian Securities Exchange Commission) pursuant to Italian securities legislation, no Notes may be offered, sold or delivered,

nor may copies of the Base Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except:

- (i) to professional investors (*operatori qualificati*), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1 July 1998, as amended (**Regulation No. 11522**); or
- (ii) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the **Financial Services Act**) and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999, as amended.

Any offer, sale or delivery of the Notes or distribution of copies of the Base Prospectus or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, Regulation No. 11522 and Legislative Decree No. 385 of 1 September 1993, as amended (the **Banking Act**); and
- (b) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the issue or the offer of securities in the Republic of Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy depending, *inter alia*, on the aggregate value of the securities issued or offered in the Republic of Italy and their characteristics; and
- (c) in compliance with any other applicable laws and regulations.

Please note that, in connection with the subsequent distribution of the Notes in the Republic of Italy, Article 100 bis of the Financial Services Act is expected to require, in certain cases, to comply also on the secondary market with the public offering rules and the disclosure requirements under the Financial Services Act and the relevant CONSOB regulations.

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan and, accordingly, each Dealer has undertaken, and each further Dealer appointed under the Programme will be required to undertake, that it will not offer or sell any Notes directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law of Japan and any other applicable laws, regulations and ministerial guidelines of Japan. For the purposes of this paragraph, **Japanese Person** shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

Netherlands

Each Dealer has represented and agreed that any Notes with a maturity of less than 12 months and a denomination of less than €50,000 will only be offered in The Netherlands in circumstances where another exemption or a dispensation from the requirement to make a prospectus publicly available has been granted under Article 4 of the Securities Transaction Supervision Act 1995 (“*Wet toezicht effectenverkeer 1995*”).

France

Each Dealer has represented and agreed that it has not offered or sold and will not offer or sell, directly or indirectly, Notes to the public in France, and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Base Prospectus, the relevant Final Terms or any other offering material relating to the Notes and such offers, sales and distributions have been and will be made in France only to (a) providers of investment services relating to portfolio management for the account of third parties, and/or (b) qualified investors (*investisseurs qualifiés*), other than individuals, all as defined in, and in accordance with, articles L.411-1, L.411-2, D.411-1, D.411-2 and D.411-3 of the French *Code monétaire et financier*.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer, the Trustee nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer, the Trustee and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

GENERAL INFORMATION

In March 2003 the European Commission published a proposal for a Directive of the European Parliament and of the Council on the harmonisation of transparency requirements with regard to information about issuers whose securities are admitted to trading on a regulated market in the European Union ((2003/0045(COD) (the **Transparency Directive**). If the Transparency Directive enters into force in a form which would require the Issuer to publish financial information either more regularly than it otherwise would be required to or according to accounting principles which are materially different from the accounting principles which it would otherwise use to prepare its published financial information, the Issuer may seek an alternative admission to listing, trading and/or quotation for the Notes by such other listing authority, stock exchange and/or quotation system outside the European Union as it may decide.

Listing and Admission to Trading

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Investment Services Directive (Directive 93/22/EEC).

Authorisations

The establishment of the Programme described in this Base Prospectus was authorised by written resolutions of the Board of Directors of the Bank dated 17 April 2003. The update of the Programme and the increase of the aggregate nominal amount of Notes that may be outstanding at any time were authorised by written resolutions of the Board of Directors of the Bank dated 25 May 2005 and 7 September 2006, respectively. The Bank has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.

Clearing of the Notes

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Series will be specified in the Final Terms relating thereto. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

Use of proceeds

The net proceeds of the issue of each Series of Notes will be applied by the Bank to its general financing requirements or as otherwise indicated in the Final Terms.

Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Litigation

Save as disclosed in this Base Prospectus, neither the Bank nor any other member of the Capitalia Group is or has been involved with governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) during the 12 months before the date of this Base Prospectus which may have, or have had in the recent past, significant effect on the financial position or profitability of the Bank or its subsidiaries taken as a whole.

No significant change

Save as disclosed in this Base Prospectus, there has been no material adverse change in the financial position or prospects of the Capitalia Group since 31 December 2005, and there has been no significant change in the financial position or prospects of the Capitalia Group since 30 June 2006.

Documents available

For so long as the Programme remains in effect or any Notes shall be outstanding, copies and, where appropriate, English translations of the following documents may be inspected (except the Final Terms referred to in sub-clause (e), which shall be obtainable) during normal business hours at the specified offices of the Principal Paying Agent and the Luxembourg Paying Agent, namely:

- (a) the Agency Agreement;
- (b) the Trust Deed (which contains the forms of the Notes in global and definitive form);
- (c) the Dealer Agreement;
- (d) the Operating and Administrative Procedures Memorandum dated 4 October 2006;
- (e) the Base Prospectus and any supplements thereto and any Final Terms relating to Notes which are admitted to listing, trading and/or quotation by any other stock exchange, listing authority and/or quotation system. (In the case of Notes not admitted to listing, trading and/or quotation by any other stock exchange, listing authority and/or quotation system, copies of the relevant Final Terms will only be available for inspection by the relevant Noteholders.);
- (f) the Issuer – ICSDs Agreement dated 4 October 2006 between the Issuer, Euroclear and Clearstream, Luxembourg; and
- (g) the By-laws of the Bank.

In addition, copies of this Base Prospectus, each Final Terms relating to Notes which are admitted to trading on the Luxembourg Stock Exchange's regulated market and each document incorporated by reference are available on the Luxembourg Stock Exchange's website at www.bourse.lu.

Financial statements available

For the twelve month period following the date of this Base Prospectus, copies and, where appropriate, English translations of the following documents may be obtained during normal business hours at the specified offices of the Principal Paying Agent and the Luxembourg Paying Agent, namely:

- (a) the audited consolidated and unconsolidated financial statements of the Bank for the year ended 31 December 2004; and
- (b) the audited consolidated and unconsolidated financial statements of the Bank for the year ended 31 December 2005,

in each case, together with the audit reports or auditors' review reports, as applicable, prepared in connection therewith.

The Bank produces annual audited non consolidated financial statements and annual audited consolidated financial statements for the Capitalia Group.

Auditors

Under Italian law, companies whose shares are listed on a stock exchange in Italy are required to have their annual accounts audited, and their interim semi-annual financial statements reviewed, by a firm of independent auditors.

The independent auditing firm of the Issuer is Reconta Ernst & Young S.p.A., Via G.D. Romagnosi, 18/A, 00196 Rome, Italy. The financial statements of the Issuer as of and for the two years ended on 31 December 2004 and 2005 were audited without qualification and in accordance with generally accepted auditing standards in Italy.

The consolidated interim financial statements of the Issuer for the six months ended 30 June 2005 were subject to a review in accordance with the auditing standards governing the review of interim financial statements recommended by CONSOB in its resolution No. 10867 of 31 July 1997 in conformity with the criteria for the presentation of consolidated interim financial statements, envisaged under Article 81 of Consob Regulation No. 11971 of 14 May 1999 and subsequent modifications as set forth in their review report thereon issued on 28 September 2005.

Reconta Ernst & Young S.p.A. is registered under No. 2 in the Special Register (*Albo Speciale*) maintained by CONSOB and set out at article 161 of the Unified Text of the Rules for the Capital Markets (*Testo Unico delle Disposizioni in materia di mercati finanziari*) and under No. 70945 in the Register of Accountancy Auditors (*Registro dei Revisori Contabili*), in compliance with the provisions of the Legislative Decree of 27 January 1992, No. 88. Reconta Ernst & Young S.p.A. is also a member of Assirevi, the Italian association of auditing firms.

The auditors of the Issuer have no material interest in the Issuer.

The reports of the auditors of the Issuer are included or incorporated in the form and context in which they are included or incorporated, with the consent of the auditors who have authorised the contents of that part of this Base Prospectus.

Post Issuance Information

The Bank does not at this time intend to provide any post issuance information in relation to any securities, index or other product underlying any Notes.

ISSUER

CAPITALIA S.p.A.

Registered Office

Via Marco Minghetti 17
00187 Rome

TRUSTEE

Deutsche Trustee Company Limited

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London EC2N 2DB

ARRANGER

Lehman Brothers International (Europe)

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London E14 5LE

DEALERS

ABN AMRO Bank N.V.

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London EC2M 4AA

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Banc of America Securities Limited

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London E14 5AQ

Capitalia S.p.A.

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London E14 4QJ

Goldman Sachs International

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133 Fleet Street
London E14 5HQ

HSBC Bank plc

8 Canada Square
London E14 5HQ

J.P. Morgan Securities Ltd.

125 London Wall
London EC2Y 5AJ

Lehman Brothers International (Europe)

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London E14 5LE

Merrill Lynch International

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London EC1A 1HQ

Morgan Stanley & Co. International Limited

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Canary Wharf
London E14 4QA

UBS Limited

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London EC2M 2PP

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London EC2N 2DB

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Italy

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AUDITORS

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