



BANCO POPOLARE DI VERONA E NOVARA S.C.A R.L.

(incorporated with limited liability under the laws of the Republic of Italy)

€350,000,000 6.156 per cent. Perpetual Step-Up Subordinated Fixed/Floating Rate Notes

€300,000,000 6.756 per cent. Perpetual Non Step-Up Subordinated Fixed/Floating Rate Notes

The €350,000,000 6.156 per cent. perpetual step-up subordinated fixed/floating rate notes (the “**Step-Up Notes**”) and the €300,000,000 6.756 per cent. perpetual non step-up subordinated fixed/floating rate notes (the “**Non Step-Up Notes**”) and, together with the Step-Up Notes, the “**Notes**”) are issued by Banco Popolare di Verona e Novara S.C.a r.l. (the “**Issuer**”). The Issue Price of the Step-Up Notes is 100 per cent. and the Issue Price of the Non Step-Up Notes is 100 per cent.

The Step-Up Notes will bear interest on a non-cumulative basis (i) from and including 21 June 2007 to and excluding 21 June 2017 (the “**Step-Up Reset Date**”) at a rate of 6.156 per cent. per annum, payable annually in arrear on 21 June in each year and (ii) from and including the Step-Up Reset Date at a rate of three month Euribor plus 228 basis points, payable quarterly in arrear on 21 June, 21 September, 21 December and 21 March of each year, beginning 21 June 2017. The Non Step-Up Notes will bear interest on a non-cumulative basis (i) from and including 21 June 2007 to and excluding 21 June 2017 (the “**Non Step-Up Reset Date**”) at a rate of 6.756 per cent. per annum, payable annually in arrear on 21 June in each year and (ii) from and including the Non Step-Up Reset Date at a rate of three month Euribor plus 188 basis points, payable quarterly in arrear on 21 June, 21 September, 21 December and 21 March of each year, beginning 21 June 2017.

The Notes will be redeemed on the date on which voluntary or involuntary winding up proceedings are instituted in respect of the Issuer as described in Condition 7 (*Redemption and Purchase*) of the Terms and Conditions of the Step-Up Notes and the Terms and Conditions of the Non Step-Up Notes, respectively. The Issuer may, at its option, also redeem the Notes in whole, but not in part, on the relevant “**Reset Date**” (which, in the case of the Step-Up Notes means the Step-Up Reset Date and, in the case of the Non Step-Up Notes means the Non Step-Up Reset Date) and on any Interest Payment Date (as defined herein) of the Notes thereafter at an amount equal to their principal amount, together with any accrued interest and any additional amounts due pursuant to Condition 9(a) (*Taxation – Gross up*), as described in Condition 7(a) (*Redemption and Purchase – Redemption at the option of the Issuer*) of the Terms and Conditions of the Step-Up Notes and the Terms and Conditions of the Non Step-Up Notes, respectively. In addition, the Issuer may, at its option, redeem the Notes in whole, but not in part, at any time before the Reset Date following the occurrence of a Regulatory Event (which, in the case of the Step-Up Notes means the Step-Up Regulatory Event and, in the case of the Non Step-Up Notes means the Non Step-Up Regulatory Event) or a Tax Event (all as defined herein) at a redemption price equal to the greater of (i) the principal amount and (ii) the Make Whole Amount (as defined herein) together with any accrued interest and any additional amounts due pursuant to Condition 9(a) (*Taxation – Gross up*) as described in Conditions 7(b) (*Redemption and Purchase – Redemption due to a Regulatory Event*) and Condition 7(c) (*Redemption and Purchase – Redemption due to a Tax Event*) of the Terms and Conditions of the Step-Up Notes and the Terms and Conditions of the Non Step-Up Notes, respectively. Any redemption of the Notes, save in accordance with the first sentence of this paragraph, is subject to the prior approval of the Lead Regulator (as defined herein).

Interest will accrue on a non-cumulative basis and under certain circumstances described in Condition 5 (*Interest suspension*) of the Terms and Conditions of the Step-Up Notes and the Terms and Conditions of the Non Step-Up Notes, respectively, the Issuer may elect or even be required to suspend interest payments on the Notes.

The Notes will be rated Baa1 by Moody’s Investors Service Limited (“**Moody’s**”), BBB+ by Standard & Poor’s Rating Services, a division of The McGraw Hill Companies Inc. (“**S&P**”) and A by Fitch Ratings Limited (“**Fitch**”). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

This document constitutes a prospectus (the “**Prospectus**”) for the purposes of Article 5 of Directive 2003/71/EC (the “**Prospectus Directive**”). Application has been made to the *Commission de Surveillance du Secteur Financier* (the “**CSSF**”) in its capacity as competent authority in Luxembourg to approve this document as a prospectus under the Luxembourg Law of 10 July 2005 on Prospectuses for Securities (the “**Luxembourg Prospectus Law**”), which implements the Prospectus Directive in Luxembourg. Application has also been made to the Luxembourg Stock Exchange for the Step-Up Notes and the Non Step-Up Notes issued under this Prospectus to be listed on the official list of the Luxembourg Stock Exchange and to be admitted to trading on the regulated market (the “**Regulated Market**”) of the Luxembourg Stock Exchange. The Regulated Market of the Luxembourg Stock Exchange is a regulated market for the purposes of the Market and Financial Instruments Directive 2004/39/EC.

An investment in Notes involves certain risks. For a discussion of certain of these risks, see “Risk Factors” on page 12.

The Notes have a denomination of €50,000.

Joint Lead Managers

Goldman Sachs International

HSBC

JPMorgan

Co-Lead Manager

Banca Aletti & C.

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

This Prospectus should be read and construed together with any documents incorporated by reference herein.

The Issuer has confirmed to the Managers named under “Subscription and Sale” below (the “**Managers**”) that this Prospectus contains all information regarding the Issuer, the BPVN Group, the BPI Group (each as defined herein) and the Notes that is (in the context of the issue 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 Prospectus does not omit to state any fact necessary to make such information, opinions, predictions or intentions (in such context) 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 Prospectus or any other document entered into in relation to the Notes or any information supplied by the Issuer 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 Issuer or any of the Managers.

No representation or warranty is made or implied by the Managers or any of their respective affiliates, and none of the Managers 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 Prospectus. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Prospectus is true subsequent to the date hereof or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) business or prospects of the Issuer, the Issuer and its Group or the BPI Group since the date hereof or that any other information supplied in connection with the Notes 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.

This Prospectus may only be used for the purposes for which it has been published. The distribution of this Prospectus and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Managers 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 Prospectus 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. In addition, this Prospectus has not been submitted to the clearance procedure of *Commissione Nazionale per le Società e la Borsa* (the Italian Securities and Exchange Commission or “**CONSOB**”) and may not be used in connection with any offering of the Notes in Italy other than to professional investors, as defined by and in accordance with applicable Italian securities laws and regulations.

This Prospectus does not constitute an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Managers or any of them that any recipient of this Prospectus should subscribe for or purchase any Notes. Each recipient of this Prospectus shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) business and prospects of each of the Issuer, the BPVN Group and the BPI Group.

In this Prospectus, unless otherwise specified, references to “**EUR**”, “**euro**”, “**Euro**” or “**€**” 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; references to “**GBP**”, “**Sterling**” or “**£**” are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland; references to “**US Dollars**” are to the lawful currency of the United States of America. Unless otherwise specified or where the context requires, references to laws and regulations are to the laws and regulations of Italy.

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

FORWARD-LOOKING STATEMENTS

This Prospectus includes forward-looking statements. These include statements relating to, among other things, the future financial performance of the Issuer and the Issuer's consolidated subsidiaries (the "**BPVN Group**"), Banca Popolare Italiana Soc. Coop. ("**BPI**") and its consolidated subsidiaries (the "**BPI Group**") and Banco Popolare Soc. Coop. ("**Banco Popolare**") plans and expectations regarding developments in the business, growth and profitability of the BPVN Group and the BPI Group and general industry and business conditions applicable to the BPVN Group and the BPI Group. The Issuer has based these forward-looking statements on its current expectations, assumptions, estimates and projections about future events. These forward-looking statements are subject to a number of risks, uncertainties and assumptions that may cause the actual results, performance or achievements of the BPVN Group and the BPI Group or those of its industry to be materially different from or worse than these forward-looking statements. The Issuer does not assume any obligation to update such forward-looking statements and to adapt them to future events or developments except to the extent required by law.

MARKET STATISTICS

Information and statistics presented in this Prospectus regarding business trends, market trends, market volumes and the market share of the Issuer, the BPVN Group, the BPI Group or Banco Popolare are either derived from, or are based on, internal data or publicly available data from various independent sources. Although the Issuer believes that the external sources used are reliable, the Issuer has not independently verified the information provided by such sources. This Prospectus also contains statements by the Issuer relating to its competitive position, on the basis of its specific knowledge and experience of the sector in which it operates and other publicly available data.

STABILISATION

In connection with the issue of the Step-Up Notes, Goldman Sachs International (the "Step-Up Stabilising Manager") (or persons acting on behalf of the Step-Up Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Step-Up Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Step-Up Stabilising Manager (or persons acting on behalf of the Step-Up Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Step-Up 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 Step-Up Notes and 60 days after the date of the allotment of the Step-Up Notes. Any stabilisation action or over-allotment must be conducted by the Step-Up Stabilising Manager (or persons acting on behalf of the Step-Up Stabilising Manager) in accordance with all applicable laws and rules.

In connection with the issue of the Non Step-Up Notes, Goldman Sachs International (the "Non Step-Up Stabilising Manager") (or persons acting on behalf of the Non Step-Up Stabilising Manager) may over-allot Non Step-Up Notes or effect transactions with a view to supporting the market price of the Non Step-Up Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Non Step-Up Stabilising Manager (or persons acting on behalf of the Non Step-Up Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Non Step-Up 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 Non Step-Up Notes and 60 days after the date of the allotment of the Non Step-Up Notes. Any stabilisation action or over-allotment must be conducted by the Non Step-Up Stabilising Manager (or persons acting on behalf of the Non Step-Up Stabilising Manager) in accordance with all applicable laws and rules.

TABLE OF CONTENTS

SUMMARY	5
RISK FACTORS	12
DOCUMENTS INCORPORATED BY REFERENCE	21
TERMS AND CONDITIONS OF THE STEP-UP NOTES	23
TERMS AND CONDITIONS OF THE NON STEP-UP NOTES	41
SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM	59
USE OF PROCEEDS	61
DESCRIPTION OF BANCO POPOLARE DI VERONA E NOVARA.....	62
SUMMARY FINANCIAL INFORMATION OF BANCO POPOLARE DI VERONA E NOVARA	131
SUMMARY FINANCIAL INFORMATION OF BANCA POPOLARE ITALIANA.....	135
SUMMARY PRO FORMA FINANCIAL INFORMATION OF BANCO POPOLARE DI VERONA E NOVARA	138
TAXATION	141
SUBSCRIPTION AND SALE	149
GENERAL INFORMATION	151

SUMMARY

This summary must be read as an introduction to this Prospectus and any decision to invest in the Notes should be based on a consideration of the Prospectus as a whole, including the documents incorporated by reference. No civil liability attaches to the Issuer in any Member State of the European Economic Area which has implemented the Prospectus Directive solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated.

Words and expressions defined in the “Terms and Conditions of the Step-Up Notes” and the “Terms and Conditions of the Non Step-Up Notes” below or elsewhere in this Prospectus have the same meanings in this summary and references to a “Condition” is to such numbered condition in the Terms and Conditions of the Step-Up Notes and the Terms and Conditions of the Non Step-Up Notes, as appropriate.

Summary in respect of the Notes

Issuer:	Banco Popolare di Verona e Novara S.C.a r.l.
Joint Lead Managers:	Goldman Sachs International HSBC Bank plc J.P. Morgan Securities Ltd.
Co-Lead Manager:	Banca Aletti & C. S.p.A.
Principal Amount:	€350,000,000 of Step-Up Notes €300,000,000 of Non Step-Up Notes
Issue Price:	100 per cent. of the principal amount of the Step-Up Notes. 100 per cent. of the principal amount of the Non Step-Up Notes.
Issue Date:	21 June 2007 for each of the Step-Up Notes and the Non Step-Up Notes.
Form and Denomination:	The Notes will be issued in bearer form in a denomination of €50,000 each.
Status of the Notes:	The Notes will constitute direct, unsecured and subordinated obligations of the Issuer ranking: <ul style="list-style-type: none">(i) <i>pari passu</i> without any preference among themselves and <i>pari passu</i> with any Parity Securities;(ii) junior in right of payment to the payment of any present or future claims of all unsubordinated creditors of the Issuer and to all Less Deeply Subordinated Obligations; and(iii) senior in right of payments to any Junior Securities.
Redemption:	The Notes will mature and be redeemed on the date on which voluntary or involuntary winding up proceedings are instituted in respect of the Issuer, in accordance with, as the case may be, (i) a resolution of the shareholders’ meeting of the Issuer, (ii) any provision of the by-laws of the Issuer (currently, maturity of the

Issuer is set at 31 December 2100 though if this is extended, redemption of the Notes will be equivalently adjusted), or (iii) any applicable legal provision, or any decision of any jurisdictional or administrative authority.

The Issuer may, at its option, also redeem the Notes in whole, but not in part, on the Reset Date and on any Interest Payment Date (as defined herein) thereafter at an amount equal to their principal amount, together with any accrued interest and any additional amounts due pursuant to Condition 9(a) (*Taxation - Gross up*), as described in Condition 7(a) (*Redemption and Purchase - Redemption at the option of the Issuer*).

In addition, the Issuer may, at its option, redeem the Notes in whole, but not in part, at any time before the Reset Date following the occurrence of a Regulatory Event or a Tax Event (each as defined herein) at a redemption price equal to the greater of (i) the principal amount and (ii) the Make Whole Amount (as defined herein) together, in each case, with any accrued interest and any additional amounts due pursuant to Condition 9(a) (*Taxation - Gross up*) as described in Conditions 7(b) (*Redemption and Purchase - Redemption due to a Regulatory Event*) and 7(c) (*Redemption and Purchase - Redemption due to a Tax Event*).

Any redemption of the Notes, save in accordance with the first paragraph of this section “*Redemption*”, is subject to the prior approval of the Lead Regulator (as defined herein).

“**Regulatory Event**” means, in relation to the Step-Up Notes, the Step-Up Regulatory Event and, in relation to the Non Step-Up Notes, the Non Step-Up Regulatory Event.

“**Non Step-Up Regulatory Event**” means that the Issuer is not permitted under the applicable rules and regulations adopted by the Lead Regulator, or an official application or interpretation of those rules and regulations including a decision of any court or tribunal, at any time whilst any of the Non Step-Up Notes are outstanding to treat the Non Step-Up Notes as own funds for the purposes of (a) Tier 1 Capital or (b) in case of future amendments to the Bank of Italy Regulations, up to such other fraction of the regulatory capital as will apply to non-cumulative perpetual instruments or similar instruments or liabilities pursuant to which the Issuer has a call option which is not linked to an increase in the amount of payment due in respect of such instruments or liabilities or to any other incentive to redemption, (save where any inability to so treat the Non Step-Up Notes is solely as a result of any applicable limitation on the amount of such regulatory capital).

“**Step-Up Regulatory Event**” means that the Issuer is not permitted under the applicable rules and regulations adopted by the Lead Regulator, or an official application or interpretation of those rules and regulations including a decision of any court or tribunal, at any time whilst any of the Step-Up Notes are outstanding to treat the Step-Up Notes as own funds for the purposes of (a) Tier 1 Capital or (b) in case of future

amendments to the Bank of Italy Regulations, up to such other fraction of the regulatory capital as will apply to non-cumulative perpetual instruments or similar instruments or liabilities pursuant to which the Issuer has a call option linked to an increase in the amount of payment due in respect of such instruments or liabilities, (save where any inability to so treat the Step-Up Notes is solely as a result of any applicable limitation on the amount of such regulatory capital).

“**Tax Event**” means:

- (A) (1) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Republic of Italy 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 Notes and (2) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or
- (B) (1) interest payable by the Issuer in respect of the Notes is no longer, or will no longer be, fully deductible by the Issuer for Italian income tax purposes as a result of any change in, or amendment to, the laws or regulations or applicable accounting standards of the Republic of Italy, 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, which change or amendment becomes effective on or after the date of issue of the Notes; and (2) such obligation cannot be avoided by the Issuer taking reasonable measures available to it.

Interest:

The Step-Up Notes will bear interest on a non-cumulative basis (i) from and including 21 June 2007 to and excluding 21 June 2017 (the “**Step-Up Reset Date**”) at a rate of 6.156 per cent. per annum, payable annually in arrear on 21 June in each year and (ii) from and including the Step-Up Reset Date at a rate of Euribor plus 21 basis points, payable quarterly in arrear on 21 June, 21 September, 21 December and 21 March of each year beginning 21 June 2017.

The Non Step-Up Notes will bear interest on a non-cumulative basis (i) from and including 21 June 2007 to and excluding 21 June 2017 (the “**Non Step-Up Reset Date**”) at a rate of 6.756 per cent. per annum, payable annually in arrear on 21 June in each year and (ii) from and including the Non Step-Up Reset Date at a rate of Euribor plus 188 basis points, payable quarterly

in arrear on 21 June, 21 September, 21 December and 21 March of each year beginning 21 June 2017.

“**Reset Date**” means, in relation to the Step-Up Notes, the Step-Up Reset Date and, in relation to the Non Step-Up Notes, the Non Step-Up Reset Date.

Optional suspension of interest:

The Issuer may elect, by giving notice to the Noteholders pursuant to Condition 15 (*Notices*), not to pay all (or part only) of the interest accrued to an Interest Payment Date if (A) the Issuer does not have Distributable Profits, according to its Latest Accounts; and/or (B) since the Issuer’s AGM in respect of the financial statements for the financial year immediately preceding the year in which such Interest Payment Date falls, no dividend or other distribution has been declared, made, approved or set aside for payment in respect of any Junior Securities.

“**Distributable Profits**” means net profits of the Issuer that are stated as being available for the payment of a dividend or the making of a distribution on any class of the Issuer’s share capital.

Where the Issuer elects not to pay interest pursuant to Condition 5(a) (*Interest suspension - Optional suspension of interest*) it shall not have any obligation to make such interest payment on the relevant Interest Payment Date, and the failure to pay such interest shall not constitute a default of the Issuer or any other breach of obligations under the Conditions or for any purpose.

Interest on the Notes will not be cumulative and interest that the Issuer elects not to pay pursuant to Condition 5(a) (*Interest suspension - Optional suspension of interest*) will not accumulate or compound and all rights and claims in respect of any such amounts shall be fully and irrevocably cancelled and forfeited.

Mandatory suspension of interest:

The Issuer will be prohibited from (A) paying all (or part only) of the interest accrued to an Interest Payment Date if and to the extent that a Capital Deficiency Event regarding the Issuer would occur if the Issuer made the payment of interest on such Interest Payment Date; or (B) paying all (but not part only) of the interest accrued to an Interest Payment Date if (i) a Capital Deficiency Event regarding the Issuer has occurred and is continuing on such Interest Payment Date; or (ii) the Issuer is prohibited under applicable Italian legislation or regulation from declaring a dividend or making a distribution on all classes of its share capital, other than in the case of a Capital Deficiency Event, except in each case that where Condition 5(c) (*Interest suspension - Mandatory payment of interest*) applies, the Issuer shall be required to pay interest notwithstanding Condition 5(b) (*Interest suspension - Mandatory suspension of interest*).

“**Capital Deficiency Event**” means (A) as a result of losses incurred by the Issuer, on a consolidated or non-consolidated basis, the total risk-based capital ratio (*coefficiente patrimoniale complessivo*) of the Issuer, on a consolidated or non-consolidated basis as calculated in accordance with applicable

Italian banking laws and regulations, and either (1) reported in the Issuer's reporting to the Lead Regulator (currently *Matrice dei Conti*) or (2) determined by the Lead Regulator and communicated to the Issuer, in either case, falls below the then minimum requirements of the Lead Regulator specified in applicable regulations (currently equal to five per cent. pursuant to the *Nuove Disposizioni di Vigilanza Prudenziale per le Banche*, set out in the Bank of Italy's *Circolare n. 263*, dated 27 December 2006); or (B) the Lead Regulator, in its sole discretion, notifies the Issuer that it has determined that the Issuer's financial condition is deteriorating such that an event specified in (A) above is likely to occur in the short term.

Where the Issuer is prohibited from paying interest pursuant to Condition 5(b) (*Interest suspension - Mandatory suspension of interest*) it shall not have any obligation to make such interest payment on the relevant Interest Payment Date, and the failure to pay such interest shall not constitute a default of the Issuer or any other breach of obligations under the Conditions or for any purpose.

Interest on the Notes will not be cumulative and interest that the Issuer is prohibited from paying pursuant to Condition 5(b) (*Interest suspension - Mandatory suspension of interest*) will not accumulate or compound and all rights and claims in respect of any such amounts shall be fully and irrevocably cancelled and forfeited.

Mandatory payment of interest:

The Issuer is required to pay interest (including, without limitation, in the event of a Capital Deficiency Event) on any Interest Payment Date (A) in part, *pari passu* and *pro rata*, if and to the extent that during the 12-month (or 6-month or 3-month for securities (other than shares) where remuneration is paid, respectively, every 6 or 3 months) period prior to such Interest Payment Date the Issuer or any Subsidiary has declared, made, approved or set aside for payment a partial distribution in respect of any Parity Securities; and/or (A) in full if and to the extent that during the 12-month (or 6-month or 3-month for securities (other than shares) where remuneration is paid, respectively, every 6 or 3 months) period prior to such Interest Payment Date (i) the Issuer or any Subsidiary has declared or paid dividends or other distributions on any Junior Securities or Parity Securities (other than pursuant to (i)); and/or (ii) the Issuer or any Subsidiary has redeemed, repurchased or acquired any Junior Securities (other than a Permitted Repurchase) or Parity Securities, save in each case that the Issuer shall not be required to make any payment of interest on the Notes with reference to any declaration, payment or distribution on, or redemption, repurchase or acquisition of, any other security which is itself mandatory in accordance with the terms and conditions of such security.

“**Permitted Repurchase**” means (1) any redemption, repurchase or other acquisition of such Junior Securities held by any member of the Group, (2) a reclassification of the equity share capital of the Issuer or any of its Subsidiaries or the

exchange or conversion of one class or series of equity share capital for another class or series of equity share capital, (3) the purchase of fractional interests in the share capital of the Issuer or any of its Subsidiaries pursuant to the conversion or exchange provisions of such security being converted or exchanged, (4) any redemption or other acquisition of Junior Securities in connection with a levy of execution for the satisfaction of a claim by the Issuer or any of its Subsidiaries, (5) any redemption or other acquisition of Junior Securities in connection with the satisfaction by the Issuer or any of its Subsidiaries of its obligations under any employee benefit plan or similar arrangement, or (6) any redemption or other acquisition of Junior Securities in connection with transactions effected by or for the account of customers of the Issuer or any Subsidiary or in connection with the distribution, trading or market-making in respect of such securities.

Loss absorption:

To the extent that the Issuer at any time suffers losses (also considering profits and losses relating to previous financial years) which would result in a Capital Deficiency Event, the obligations of the Issuer relating to the principal amount of the Notes will be suspended to the extent necessary to enable the Issuer to continue to carry on its activities in accordance with applicable regulatory requirements. In any such case, but always subject to the provisions set out in Condition 5(b) (*Interest suspension - Mandatory suspension of interest*), interest will continue to accrue on the nominal value of the Notes. The obligations of the Issuer to make payments in respect of principal amount of the Notes, will be reinstated (in priority to any Junior Securities and on a *pari passu* basis with any Parity Securities), as if such obligations of the Issuer had not been so suspended:

- (i) in whole, in the event of winding up, dissolution, liquidation or bankruptcy (including, *inter alia*, *Liquidazione Coatta Amministrativa*) of the Issuer and with effect immediately prior to the commencement of such winding up, dissolution, liquidation or bankruptcy (including, *inter alia*, *Liquidazione Coatta Amministrativa*); and
- (ii) in whole, in the event of early redemption of the Notes pursuant to Conditions 7(a) (*Redemption and Purchase – Redemption at the option of the Issuer*), 7(b) (*Redemption and Purchase – Redemption due to a Regulatory Event*) or 7(c) (*Redemption and Purchase – Redemption due to a Tax Event*); and
- (iii) in whole or in part, from time to time, to the extent that the Capital Deficiency Event is no longer continuing.

Taxation:

All payments in respect of Notes will be made free and clear of withholding taxes of the Republic of Italy, as the case may be (and subject to certain customary exceptions), unless the withholding is required by law. In that event, the Issuer will (subject as provided in Condition 9 (*Taxation*)) pay such

additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.

Substitution:

Upon the merger (*fusione mediante costituzione*) of Banco Popolare di Verona e Novara S.C.a r.l. with BPI, certain assets and liabilities of Banco Popolare di Verona e Novara S.C.a r.l. and BPI (including the Notes) will be transferred to Banco Popolare Soc. Coop. (or to such other company into which or with which Banco Popolare di Verona e Novara S.C.a r.l. and BPI may be merged), which will on the Merger Date, without the consent of the Noteholders, assume liability as principal debtor in respect of the Notes in place of the Issuer, as further described in Condition 13 (*Meetings of Noteholders; Modification and Waiver; Substitution*).

Governing Law:

The Notes will be governed by English law.

Listing and Trading:

Application has been made to the Luxembourg Stock Exchange for the Notes 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. Total expenses related to admission to trading are estimated to be €2,600.

Rating:

The Step-Up Notes and the Non Step-Up Notes will be rated Baa1 by Moody's, BBB+ by S&P and A by Fitch.

A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

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 United Kingdom and Italy see, "Subscription and Sale" below.

Clearing Systems:

Euroclear and Clearstream, Luxembourg.

ISIN:

Step-Up Notes: XS0304963290

Non Step-Up Notes: XS0304963373

Common Code:

Step-Up Notes: 030496329

Non Step-Up Notes: 030496337

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

References to the “BPVN Group” are to the Issuer and each of its subsidiaries. Otherwise, words and expressions defined in “Terms and Conditions of the Step-Up Notes” and “Terms and Conditions of the Non Step-Up Notes,” as appropriate, or elsewhere in this Prospectus have the same meaning in this section. References to a “Condition” is to such numbered condition in the Terms and Conditions of the Step-Up Notes and the Terms and Conditions of the Non Step-Up Notes, as appropriate. Prospective investors should read the entire Prospectus.

Risk Factors in relation to the Notes

An investment in the Notes involves certain risks associated with the characteristics of the Notes. Such risks could result in principal or interest not being paid by the Issuer and/or a material impairment of the market price of the Notes. The following is a description of certain risk factors in relation to the Notes.

The Notes may not be a suitable investment for all investors

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 Prospectus;
- (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 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 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 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, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the 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.

Perpetual Securities

The Issuer is under no obligation to redeem the Notes at any time before the date on which voluntary or involuntary winding up proceedings are instituted in respect of the Issuer and the Noteholders have no right to call for their redemption.

Redemption risk

The Notes will be redeemed on the date on which voluntary or involuntary winding up proceedings are instituted in respect of the Issuer or as described in Condition 7 (*Redemption and Purchase*). The Issuer may, at its option, also redeem the Notes in whole, but not in part, on the Reset Date and on any Interest Payment Date thereafter at an amount equal to their principal amount, together with any accrued interest and any additional amounts due pursuant to Condition 9(a) (*Taxation - Gross up*), as described in Condition 7(a) (*Redemption and Purchase - Redemption at the option of the Issuer*). In addition, the Issuer may, at its option, redeem the Notes in whole, but not in part, at any time before the Reset Date following the occurrence of a Regulatory Event or a Tax Event at a redemption price equal to the greater of (i) the principal amount and (ii) the Make Whole Amount together, in each case, with any accrued interest and any additional amounts due pursuant to Condition 9(a) (*Taxation - Gross up*) as described in Conditions 7(b) (*Redemption and Purchase - Redemption due to a Regulatory Event*) and 7(c) (*Redemption and Purchase - Redemption due to a Tax Event*). Any redemption of the Notes, save in accordance with the first sentence of this paragraph, is subject to the prior approval of the Lead Regulator. If the Issuer redeems the Notes in any of the circumstances mentioned above, the Noteholders may only be able to reinvest the redemption proceeds in securities with a lower yield.

No limitation on issuing debt

There is no restriction on the amount of liabilities which the Issuer may issue or guarantee which rank senior to the Notes or on the amount of liabilities which the Issuer may issue or guarantee which rank *pari passu* with the Notes.

The occurrence of such issue or guarantee may reduce the amount recoverable by Noteholders on a liquidation, dissolution, insolvency, composition or other proceeding for the avoidance of insolvency of, or against, the Issuer.

Subordination

The Notes will be undated, unsecured, subordinated obligations of the Issuer. Upon the occurrence of any winding-up proceedings of the Issuer, payments on the Notes will be subordinated in right of payment to the prior payment in full of all other liabilities of the Issuer (including dated subordinated obligations), except those liabilities which rank *pari passu* with, or junior to, the Notes. In liquidation, dissolution, insolvency, composition or other proceedings for the avoidance of insolvency of, or against, the Issuer, the Noteholders may recover proportionally less than the holders of unsubordinated and Less Deeply Subordinated Obligations of the Issuer.

The Noteholders explicitly accept that, in the circumstances described above, payments in respect of the Notes will be made by the Issuer pursuant to the Notes only in accordance with the subordination described above.

Optional suspension of interest payments

Noteholders should be aware that the Issuer may, by giving not less than 15 days prior notice, elect in its discretion not to pay all (or part only) of the interest accrued to an Interest Payment Date if (A) the Issuer does not have Distributable Profits, according to its Latest Accounts; and/or (B) since the Issuer's AGM in respect of the financial statements for the financial year immediately preceding the year in which such

Interest Payment Date falls, no dividend or other distribution has been declared, made, approved or set aside for payment in respect of any Junior Securities. For further details see Condition 5(a) (*Interest suspension - Optional suspension of interest*).

Interest on the Notes will not be cumulative and interest that the Issuer elects not to pay pursuant to Condition 5(a) (*Interest suspension - Optional suspension of interest*) will not accumulate or compound and all rights and claims in respect of any such amounts shall be fully and irrevocably cancelled and forfeited. As a consequence, if interest is suspended, Noteholders will not receive, and will have no right to receive, such interest at any time, even if dividends or other distributions are subsequently declared made, approved or set aside for payment in respect of any Junior Securities.

Mandatory suspension of interest payments

Noteholders should be aware that the Issuer will be prohibited from (A) paying all (or part only) of the interest accrued to an Interest Payment Date if and to the extent that a Capital Deficiency Event regarding the Issuer would occur if the Issuer made the payment of interest on such Interest Payment Date; or (B) paying all (but not part only) of the interest accrued to an Interest Payment Date if (i) a Capital Deficiency Event regarding the Issuer has occurred and is continuing on such Interest Payment Date; or (ii) the Issuer is prohibited under applicable Italian legislation or regulation from declaring a dividend or making a distribution on all classes of its share capital, other than in the case of a Capital Deficiency Event. For further details see Condition 5(b) (*Interest suspension - Mandatory suspension of interest*).

Interest on the Notes will not be cumulative and interest that the Issuer elects not to pay pursuant to Condition 5(b) (*Interest suspension - Mandatory suspension of interest*) will not accumulate or compound and all rights and claims in respect of any such amounts shall be fully and irrevocably cancelled and forfeited. As a consequence, if interest is suspended, Noteholders will not receive, and will have no right to receive, such interest at any time, even if dividends or other distributions are subsequently declared made, approved or set aside for payment in respect of any Junior Securities.

The secondary market generally

The Notes have no established trading markets, and such markets may never develop. If markets do develop, they 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. Illiquidity may have a severely adverse effect on the market value of the Notes.

Fixed Rate Notes

Until the Reset Date in respect of the Notes, the Notes will carry fixed interest. A holder of a security with a fixed interest rate is exposed to the risk that the price of such security falls as a result of changes in the current interest rate on the capital market (the “**Market Interest Rate**”). While the nominal interest rate of a security with a fixed interest rate is fixed during the life of such security or during a certain period of time, the Market Interest Rate typically changes on a daily basis. As the Market Interest Rate changes, the price of such security changes in the opposite direction. If the Market Interest Rate increases, the price of such security typically falls, until the yield of such security is approximately equal to the Market Interest Rate. If the Market Interest Rate falls, the price of a security with a fixed interest rate typically increases, until the yield of such security is approximately equal to the Market Interest Rate. Investors should be aware that movements of the Market Interest Rate could adversely affect the market price of the Notes and lead to losses for Noteholders if they sell Notes before the Reset Date.

Qualification of the Notes under Italian taxation law

Italian tax law does not provide for any specific and proper definition of the categories of “bonds” and “debentures similar to bonds” referred to in Article 1 and following of Legislative Decree No. 239 of 1 April 1996 (“**Decree No. 239**”). The statements contained in the section “*Taxation - Italy*”, as for the applicability of the tax regime provided for by Decree No. 239 to the Notes, are based on the clarifications given by the

Italian Revenue Agency in Circular No. 4/E of 18 January 2006, according to which bonds may have a maturity which is not scheduled at a specific date, but it is linked to the maturity of the issuing company (as in the case of the Notes whose maturity is linked to the maturity of the Issuer) or to the liquidation thereof, if the company has been set-up with an undetermined maturity pursuant to Article 2328 (2), No. 13, of the Italian Civil Code. Prospective purchasers and holders of the Notes must take into account that the above clarifications (as well as the Italian tax provisions in effect as of the date of this Prospectus) are subject to changes, which could also have retroactive effects. Should, following a change in the Italian tax provisions or in the interpretation followed by the Italian tax authorities, the Notes be qualified as “atypical securities” pursuant to Article 5 of Law Decree No. 512 of 30 September 1983 (instead of being qualified as “bonds” or “debentures similar to bonds” subject to the tax regime described in the section “*Taxation - Italy*”), interest and other proceeds (including the difference between the redemption amount and the issue price) in respect of the Notes could be subject to an Italian withholding tax at a rate of 27 per cent. if owed to beneficial owners that are not resident of Italy for tax purposes or to certain categories of Italian resident beneficial owners, depending on the legal status of the beneficial owner of such interest and other proceeds. Reduced rates provided for by double taxation treaties entered into by Italy would be applicable in relation to interest and other proceeds paid to non-Italian resident beneficial owners, provided that the relevant requirements are met.

The applicability of such a withholding tax in relation to interest and other proceeds paid to non-Italian resident beneficial owners, which are resident for tax purposes in one of the countries or territories allowing the Italian tax authorities to obtain appropriate information in respect of the beneficiaries of payments made from the Republic of Italy (listed in Ministerial Decree of 4 September 1996, as subsequently amended and supplements), would give rise to an obligation of the Issuer to pay additional amounts pursuant to Condition 9(a) (*Taxation - Gross up*) and would, as a consequence, allow the Issuer to redeem the Notes at the greater of (x) the principal amount of the Notes and (y) the Make Whole Amount, together, in each case, with interest accrued (if any) up to, but excluding, the Tax Event Redemption Date and any additional amounts due pursuant to Condition 9(a) (*Taxation - Gross up*).

On the other hand, based on Condition 9(a)(ii) and (iii) (*Taxation - Gross up*), the above withholding tax, when levied in respect of interest and other proceeds paid to certain Italian resident beneficial owners and to non-Italian resident entities or individuals, which are not resident for tax purposes in one of the countries or territories allowing the Italian tax authorities to obtain appropriate information in respect of the beneficiaries of payments made from the Republic of Italy, would not give rise to any obligation of the Issuer to pay additional amounts.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland). If, following implementation of this 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 Issuer 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 payment made by a Paying Agent following implementation of this Directive, the Issuer 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 Directive.

Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer

The Notes are represented by Global Notes. Such Global Notes will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by a Global Note, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg. While the Notes are represented by one or more Global Notes the Issuer will discharge its payment obligations under the Notes by making payments to the common depository for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes. Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

Credit ratings may not reflect all risks

The credit ratings assigned to the Notes may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

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 (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to the purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Risk Factors in relation to the Issuer

Competition

In recent years the Italian banking sector has been characterised by ever increasing competition which, together with the level of interest rates, has caused a sharp reduction in the difference between borrowing and lending rates and subsequent difficulties in maintaining a positive growth trend in interest rate margin.

In particular, such competition had two main effects:

- (a) a progressive reduction in the differential between lending and borrower interest rates, which may result in the issuer facing difficulties in maintaining its actual rate of growth in interest rate margins; and
- (b) a progressive reduction in commissions and fees, particularly from dealing on behalf of third parties and orders collection, due to completion on prices.

Both of the above factors may adversely affect the Issuer's financial condition and result of operations.

In addition, downturns in the Italian economy could add to the competitive pressure through, for example, increased price pressure and lower business volumes for which to compete.

Changes in the Italian and European regulatory framework could adversely affect the Issuer's business

The Issuer is subject to extensive regulation and supervision by the Bank of Italy, CONSOB (the public authority responsible for regulating the Italian securities market), the European Central Bank, the European System of Central Banks and the CSSF in Luxembourg.

The banking laws to which the Issuer is subject govern the activities in which banks and foundations may engage and are designed to maintain the safety and soundness of banks, and limit their exposure to risk. In addition, the Issuer must comply with financial services laws, that govern its marketing and selling practices. Any changes in how such regulations are applied or the implementation of the New Basel Capital Accord (Basel II) on capital requirements for financial institutions, may have a material effect on the Issuer's business and operations.

As some of the banking laws and regulations affecting the Issuer have been recently adopted, the manner in which those laws and related regulations are applied to the operations of financial institutions is still evolving. No assurance can be given that laws and regulations will be adopted, enforced or interpreted in a manner that will not have an adverse effect on the business, financial condition, cash flows and results of operations of the Issuer.

Impact of events which are difficult to anticipate

The BPVN Group's earning and business are affected by general economic conditions, the performance of financial markets, interest rate levels, currency exchange rates, changes in laws and regulation, changes in the policies of central banks, particularly the Bank of Italy and the European Central Bank, and competitive factors, at a regional, national and international level. Each of these factors can change the level of demand for the BPVN Group's products and services, the credit quality of borrowers and counterparties, the interest rate margin of the BPVN Group between lending and borrowing costs and the value of the BPVN Group's investment and trading portfolios.

Credit and market risk

To the extent that any of the instruments and strategies used by the BPVN Group to hedge or otherwise manage its exposure to credit or market risk are not effective, the BPVN Group may not be able to mitigate effectively its risk exposure in particular market environments or against particular types of risk. The BPVN Group's trading revenues and interest rate risk are dependent upon its ability to identify properly, and mark to market, changes in the value of financial instruments caused by changes in market prices or interest rates. The BPVN Group's financial results also depend upon how effectively the BPVN Group determines and assesses the cost of credit and manages its own credit risk and market risk concentration.

Changes in interest rates

Fluctuations in interest rates in Italy influence the BPVN Group's financial performance. The results of the BPVN Group's banking operations are affected by the BPVN Group's management of interest rate sensitivity and, in particular, changes in market interest rates. A mismatch of interest-earning assets and interest-bearing liabilities in any given period, which tends to accompany changes in interest rates, may have a material effect on the BPVN Group's financial condition or results of operations.

Market declines and volatility

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

Protracted market declines and reduced liquidity in the markets

In some of the BPVN Group's businesses, protracted adverse market movements, particularly the decline of asset prices, can reduce market activity and market liquidity. These developments can lead to material losses if the BPVN Group cannot close out deteriorating positions in a timely way. This may especially be the case for assets that were initially in an illiquid market. The value of assets that are not traded on stock exchanges or other public trading markets, such as derivatives contracts between banks, may be calculated by the BPVN Group using models other than publicly quoted prices. Monitoring the deterioration of the prices of assets like these is difficult and failure to do so effectively could lead to unanticipated losses. This in turn could adversely affect the BPVN Group's results of operations and financial condition. In addition, protracted or steep declines in the stock or bond markets in Italy and elsewhere may adversely affect the BPVN Group's securities trading activities and its asset management services, as well as the BPVN Group's investments in and sales of products linked to the performance of financial assets.

Risk management and exposure to unidentified or unanticipated risks

The BPVN Group has devoted significant resources to developing policies, procedures and assessment methods to manage market, credit, liquidity and operating risks and intends to continue to do so in the future. Nonetheless, the BPVN Group's risk management techniques and strategies may not be fully effective in mitigating its risk exposure in all economic market environments or against all types of risks, including risks that the BPVN Group fails to identify or anticipate. If existing or potential customers believe that the BPVN Group's risk management policies and procedures are inadequate, the BPVN Group's reputation as well as its revenues and profits may be negatively affected.

Operational risk

The BPVN Group, like all financial institutions, is exposed to many types of operational risk, including the risk of fraud by employees and outsiders, unauthorised transactions by employees or operational errors, including errors resulting from faulty information technology or telecommunication systems. The BPVN Group's systems and processes are designed to ensure that the operational risks associated with the BPVN Group's activities are appropriately monitored. Any failure or weakness in these systems, however, could adversely affect the BPVN Group's financial performance and business activities.

Risk factors relating to the Merger

Integration of BPVN and BPI

On 13 December 2006, the board of directors of BPVN and the board of directors of Banca Popolare Italiana – Banca Popolare di Lodi Società Cooperativa (“**BPI**” and, together with its subsidiaries, the “**BPI Group**”) approved the plan to merge the two banks and create a new banking company (the “**Merger**”) named “Banco Popolare Soc. Coop.” (“**Banco Popolare**”). For further details see “*Merger between BPVN and BPI and incorporation of Banco Popolare*”.

The Merger will require the management, strategies and operational activities of the two banks and their relevant groups to be coordinated, with the aim of optimising and harmonising the operational structure, procedures and systems in accordance with the project approved by the BPVN and BPI Boards of Directors. Furthermore, the Merger will require the integration of the information systems and the operational models of the two banks into one system and one model. The integration process may incur some difficulties and may take time to be fully completed.

As at the date of this Prospectus, the Merger is expected to be completed on or around 1 July 2007. Integrating the operations of the BPVN Group with its merger partner will be a complicated and costly process and no assurance can be given that the two groups will achieve the hoped-for synergies and/or cost reductions within the proposed timeframe or at all and, more generally, that they will achieve the strategic aims through their combined operations.

Banco Popolare may be dependent on payments from its subsidiaries in order to be able to make payments under the Notes

Banco Popolare is expected to be a bank carrying out its own banking activities and acting as the parent company of the Banco Popolare Group exercising management and coordination control over the Banco Popolare Group. As at the date of this Prospectus, the majority of the banking activities carried out by the Issuer and BPI will be transferred to newly incorporated companies, as further described in “*Merger between BPVN and BPI and Incorporation of Banco Popolare - Merger Process*”. There is no assurance that Banco Popolare will successfully develop banking activities equivalent to the activities carried out by BPVN and BPI as at the date of this Prospectus, and therefore the revenue-generating operations of Banco Popolare may not develop or be limited. As a consequence, Banco Popolare's cash flow and ability to service its obligations under the Notes may be dependent upon the cash flow from its subsidiaries and the receipt of funds from them in the form of dividends, intercompany loans or otherwise. Banco Popolare's subsidiaries may not generate cash flow sufficient to enable Banco Popolare to meet its payment obligations. In addition, Banco Popolare's subsidiaries may be restricted from providing funds to Banco Popolare under certain circumstances, including restrictions arising from provisions of (i) Italian law or (ii) contracts to which Banco Popolare or its subsidiaries may be a party.

Risk relating to certain aggregate data

Certain information contained in this Prospectus under the heading “*Merger between BPVN and BPI and incorporation of Banco Popolare – Industrial Rationale and Operating Highlights of the Banco Popolare Group*” has been prepared by BPVN on the basis of aggregate unaudited consolidated data of BPI and BPVN and has not been reviewed by auditors. Because this information is based on unaudited data and has not been the subject of any review or audit, it does not purport to represent the position of Banco Popolare if the Merger had been carried out at an earlier date. This information is included for information purposes only in the light of its publication by BPVN and BPI in the merger document prepared for their respective shareholders in accordance with Italian regulatory requirements. Investors are advised not to place undue reliance on the information under the heading “*Merger between BPVN and BPI and incorporation of Banco Popolare – Industrial Rationale and Operating Highlights of the Banco Popolare Group*”.

Risks arising from pending legal proceedings of BPI

BPI and its subsidiaries are involved in various legal proceedings which, following the Merger, will be transferred to the Banco Popolare Group. For a description of the main legal proceedings carrying the most significant risks, see “*Merger between BPVN and BPI and incorporation of Banco Popolare - BPI - Litigation*”.

Net provisions for risks and charges set aside by the BPI Group during the year ended 31 December 2006 stood at Euro 261 million, representing a decrease of around Euro 104 on the previous year end. These were mainly accounted for by:

- legal risks in connection with the abortive takeover bid against Banca Antonveneta in the amount of approximately Euro 94 million;
- the Viatel dispute, in the sum of approximately Euro 17.4 million.

Although management of the BPI Group believes that it has made appropriate provision in its financial statements, a worse than expected outcome of any legal proceedings might cause such provisions to be insufficient to cover the BPI Group's liabilities and have a material adverse effect on the financial condition and results of operations of the BPI Group.

Risks arising from pending legal proceedings of BPVN

BPVN and its subsidiaries are involved in various legal proceedings which, following the Merger, will be transferred to the Banco Popolare Group. For a description of the main legal proceedings carrying the most

significant risks, see “*Description of Banco Popolare di Verona e Novara – Insolvency and Legal Proceedings*”.

Net provisions for risks and charges set aside by the BPVN Group during the year ended 31 December 2006 stood at Euro 243.1 million, representing an increase of around Euro 47.7 million on the previous year end. These were mainly accounted for by:

- the claw-back action brought by the extraordinary administrator of Parmalat to recover approximately Euro 185 million from the BPVN Group;
- the claw-back action brought by the bankruptcy receiver of Italgest to recover approximately Euro 129 million from the BPVN Group although this may be reduced depending on the amount of the insolvency estate which, on the basis of ongoing calculations, stands at €51.3 million.

Although management of the BPVN Group believes that it has made appropriate provision in its financial statements, a worse than expected outcome of any legal proceedings might cause such provisions to be insufficient to cover the BPVN Group’s liabilities and have a material adverse effect on the financial condition and results of operations of the BPVN Group.

Risks arising from pro forma financial information

The unaudited pro forma consolidated financial information incorporated by reference in this Prospectus and set forth in the section “*Summary Pro Forma Financial Information of Banco Popolare di Verona e Novara*” has been prepared for informational purposes. The unaudited pro forma consolidated financial information as at and for the year ended 31 December 2006 give retroactive effect (for the income statement as of 1 January 2006 and for the balance sheet as of 31 December 2006) to the merger between BPVN and BPI described in the section “*Merger between BPVN and BPI and incorporation of Banco Popolare*”. As a consequence, the balance sheet as at 31 December 2006 and the income statement for the period ended 31 December 2006 should be read and interpreted separately and independently.

The purpose of the unaudited pro forma consolidated financial information in this Prospectus is to present the financial position, results of operations and certain other selected information as if such merger had occurred at an earlier date. Because the pro forma financial information is based upon certain assumptions, it does not purport to represent what Banco Popolare’s financial condition and results of operations would actually have been if the merger had actually occurred on an earlier date, or to indicate what Banco Popolare’s results of operations will be for any future period.

In Italy, there are no standards governing preparation of pro forma financial statements. Although the unaudited pro forma consolidated financial information has been prepared using best practices as identified and disclosed by CONSOB, such financial statements may not take into account standards generally accepted in other jurisdictions. Accordingly, the presentation of, and the assumptions and adjustments used to prepare, the unaudited pro forma consolidated financial information may differ significantly from those used in other jurisdictions. Investors should not place undue reliance on the unaudited pro forma consolidated financial information contained herein.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be deemed to be incorporated in, and to form part of, this Prospectus:

- (1) english translation of the audited consolidated annual financial statements of the Issuer as at and for the years ended 31 December 2005 and 2006; and
- (2) english translation of the unaudited consolidated interim financial statements of the Issuer as at and for the three months ended 31 March 2006 and 2007;
- (3) english translation of the audited consolidated annual financial statements of Banca Popolare Italiana Soc. Coop. (“**BPI**”) as at and for the years ended 31 December 2005 and 2006;
- (4) english translation of the unaudited consolidated interim financial statements of BPI as at and for the three months ended 31 March 2006 and 2007; and
- (5) english translation of the unaudited pro forma consolidated financial information of the Issuer as at and for the year ended 31 December 2006,

in each case together with the accompanying notes and auditor’s reports where relevant.

The Issuer accepts responsibility for the english translation of the financial statements incorporated into this Prospectus.

The Issuer will provide, without charge to each person to whom a copy of this Prospectus has been delivered, upon the request of such person, a copy of any or all the documents deemed to be incorporated by reference herein. Request for such documents should be directed to the Issuer at its offices set out at the end of this Prospectus. In addition such documents will be available, without charge, at the principal office of the Fiscal Agent in Luxembourg and on the Luxembourg Stock Exchange’s website (www.bourse.lu).

The consolidated financial statements of the Issuer and BPI incorporated by reference herein as at and for the years ended 31 December 2005 and 2006 and the unaudited consolidated financial statements of the Issuer and BPI as at and for the three months ended 31 March 2006 and 2007 incorporated by reference herein have been prepared in accordance with international accounting standards IAS/IFRS (International Accounting Standards/ International Financial Reporting Standards) as referred to herein.

The consolidated financial statements of the Issuer as at and for the years ended 31 December 2005 and 2006 incorporated by reference herein have been audited by Reconta, Ernst & Young S.p.A. The unaudited consolidated financial statements of the Issuer as at and for the three months ended 31 March 2006 and 2007 incorporated by reference herein have not been audited or reviewed.

The consolidated financial statements of BPI as at and for the years ended 31 December 2005 and 2006 incorporated by reference herein have been audited by Deloitte & Touche S.p.A. The unaudited consolidated financial statements of BPI as at and for the three months ended 31 March 2006 and 2007 incorporated by reference herein have not been audited or reviewed.

The audit reports of Reconta, Ernst & Young S.p.A. described above in respect of the foregoing audited financial statements of the Issuer are included in such financial statements incorporated by reference herein.

The audit reports of Deloitte & Touche S.p.A. described above in respect of the foregoing audited financial statements of BPI are included in such financial statements incorporated by reference herein.

The unaudited pro forma consolidated financial information incorporated by reference herein has been obtained on the basis of:

- the audited consolidated financial statements of the Issuer and BPI as at and for the year ended 31 December 2006; and
- the pro forma adjustments reflecting the Merger.

Such unaudited pro forma consolidated financial information was prepared by making appropriate pro forma adjustments to the audited financial statements referred to above, to give theoretical retroactive effect, for

balance sheet and income statement purposes, to the merger of the Issuer and BPI, which is scheduled to take place on 1 July 2007, as if such transaction had occurred on 1 January 2006 for the income statement and 31 December 2006 for the balance sheet.

Cross reference list

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

BPVN - Consolidated annual financial statements

	2006	2005
Balance sheet	Page 114	Page 177
Statement of income	Page 116	Page 179
Cash flow statement.....	Page 120	Page 181
Accounting policies and explanatory notes.....	Page 122	Page 185
Auditors' review/reports	Page 111	Page 135

BPVN - Consolidated three monthly financial statements

	2007	2006
Balance sheet	Page 11	Page 15
Statement of income	Page 12	Page 16
Cash flow statement.....	Page 16	Page 19
Accounting policies and explanatory notes.....	Page 21	Page 23
Auditors' review/reports	Not applicable	Not applicable

BPI - Consolidated annual financial statements

	2006	2005
Balance sheet	Page 111	Page 92
Statement of income	Page 113	Page 93
Cash flow statement.....	Page 116	Page 96
Accounting policies and explanatory notes.....	Page 118	Page 97
Auditors' review/reports	Page 315	Page 390

BPI - Consolidated three monthly financial statements

	2007	2006
Balance sheet	Page 44	Page 22
Statement of income	Page 46	Page 23
Cash flow statement.....	Page 50	Page 26
Accounting policies and explanatory notes.....	Page 52	Page 29
Auditors' review/reports	Not applicable	Not applicable

BPVN pro forma consolidated financial information

	2006
Balance sheet	Page 8
Statement of income	Page 9
Cash flow statement	Not applicable
Notes concerning the preparation of pro forma figures	Page 10
Auditors' examination report	Page 21

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

TERMS AND CONDITIONS OF THE STEP-UP NOTES

The following is the text of the terms and conditions which will be endorsed on each Step-Up Note in definitive form.

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

The issue of the €350,000,000 Fixed/Floating Rate Perpetual Subordinated Step-Up Notes (the “**Step-Up Notes**”) issued by Banco Popolare di Verona e Novara S.C.a.r.l. (the “**Issuer**”) was authorised by a resolution of the board of directors of the Issuer passed on 23 January 2007. The Step-Up Notes are the subject of a fiscal agency agreement dated 21 June 2007 (as amended or supplemented from time to time, the “**Agency Agreement**”) between the Issuer, BNP Paribas Securities Services, Luxembourg branch as fiscal agent (the “**Fiscal Agent**”, which expression includes any successor fiscal agent appointed from time to time in connection with the Step-Up Notes) and the paying agents named therein (together with the Fiscal Agent, the “**Paying Agents**”, which expression includes any successor or additional paying agents appointed from time to time in connection with the Step-Up Notes). Certain provisions of these Conditions are a summary of the Agency Agreement and are subject to its detailed provisions. The holders of the Step-Up Notes (the “**Step-Up Noteholders**”) and the holders of the related interest coupons (the “**Couponholders**” and the “**Coupons**”, respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. Copies of the Agency Agreement are available for inspection during normal business hours at the Specified Offices of each of the Paying Agents, the initial Specified Offices of which are set out below.

1. Interpretation

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

“**AGM**” means the annual general meeting of shareholders convened for the approval of the non-consolidated annual financial statements of the Issuer;

“**Bank of Italy Regulations**” means the Regulations of the Bank of Italy relating to the capital adequacy of banks (*Nuove Disposizioni di Vigilanza Prudenziale per le Banche*, set out in the Bank of Italy’s *Circolare n. 263*, dated 27 December 2006) as amended and supplemented;

“**BPI**” means Banca Popolare Italiana Soc. Coop.;

“**Business Day**” means a TARGET Settlement Day;

“**Business Day Convention**”, in relation to any particular date 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;

“**Calculation Agent**” means the Fiscal Agent or any successor calculation agent appointed from time to time in connection with the Step-Up Notes;

“**Capital Deficiency Event**” means:

(A) as a result of losses incurred by the Issuer, on a consolidated or non-consolidated basis, the total risk-based capital ratio (*coefficiente patrimoniale complessivo*) of the Issuer, on a consolidated or non-consolidated basis as calculated in accordance with applicable Italian banking laws and regulations, and either (1) reported in the Issuer’s reporting to the Lead Regulator (currently *Matrice dei Conti*) or (2) determined by the Lead Regulator and communicated to the Issuer, in either case, falls below the then minimum requirements of the Lead Regulator specified in applicable regulations (currently equal to five per cent. pursuant to the *Nuove Disposizioni di Vigilanza Prudenziale per le Banche*, set out in the Bank of Italy’s *Circolare n. 263*, dated 27 December 2006); or

(B) the Lead Regulator, in its sole discretion, notifies the Issuer that it has determined that the Issuer's financial condition is deteriorating such that an event specified in (A) above is likely to occur in the short term;

"Comparable German Bund Issue" means the German Bund security selected by the Calculation Agent as having a maturity comparable to 21 June 2017 that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities having a maturity of 21 June 2017;

"Comparable German Bund Price" means (A) the average of five Reference German Bund Dealer Quotations for the relevant Make Whole Event Redemption Date, after excluding the highest and lowest such Reference German Bund Dealer Quotations; or (B) if the Calculation Agent obtains fewer than five such Reference German Bund Dealer Quotations, the average of all such Reference German Bund Dealer Quotations;

"Coupon Sheet" means, in respect of a Step-Up Note, a coupon sheet relating to the Step-Up Note;

"Decree No. 239" has the meaning given in Condition 9 (*Taxation*);

"Deed of Covenant" means the deed of covenant dated the Issue Date entered into by the Issuer in relation to the Step-Up Notes;

"Distributable Profits" means net profits of the Issuer that are stated as being available for the payment of a dividend or the making of a distribution on any class of the Issuer's share capital;

"Euro-zone" means the region comprised of member states of the European Union which adopt the Euro in accordance with the Treaty establishing the European Community, as amended;

"Extraordinary Resolution" has the meaning given in the Agency Agreement;

"Financial Year End Date" means 31 December in any year;

"Fixed Rate Day Count Fraction" means in respect of the calculation of an amount for any period of time in the Fixed Rate Interest Period (for the purposes of this definition, the "Calculation Period") the actual number of days in the Calculation Period divided by the actual number of days in the relevant calendar year;

"Fixed Rate Interest Payment Date" means 21 June of each year beginning on 21 June 2008 up to and including the Step-Up Reset Date;

"Fixed Rate Interest Period" means each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date for so long as Condition 4(a) (*Interest – Fixed Rate*) applies;

"Fixed Rate of Interest" has the meaning given in Condition 4(a) (*Interest – Fixed Rate*);

"Floating Rate Day Count Fraction" means in respect of the calculation of an amount for any period of time in the Floating Rate Interest Period (for the purposes of this definition, the "Calculation Period") the actual number of days in the Calculation Period divided by 360;

"Floating Rate Interest Determination Date" has the meaning given in Condition 4(b) (*Interest – Floating Rate*);

"Floating Rate Interest Payment Date" means 21 June, 21 September, 21 December and 21 March of each year beginning on 21 June 2017 up to and including the date of redemption of the Step-Up Notes;

"Floating Rate Interest Period" means each period beginning on (and including) the Step-Up Reset Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date when Condition 4(b) (*Interest – Floating Rate*) applies;

“**Floating Rate of Interest**” has the meaning given in Condition 4(b) (*Interest – Floating Rate*);

“**German Bund Rate**” means, with respect to the relevant Make Whole Event Redemption Date, the rate per annum equal to the equivalent yield to maturity of the Comparable German Bund Issue, assuming a price for the Comparable German Bund Issue (expressed as a percentage of its principal amount) equal to the Comparable German Bund Price calculated by the Calculation Agent;

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

“**Group**” means the Issuer and its Subsidiaries;

“**Interest Amount**” means, in relation to a Step-Up Note and an Interest Period, the amount of interest payable in respect of that Step-Up Note for that Interest Period;

“**Interest Payment Date**” means a Fixed Rate Interest Payment Date or a Floating Rate Interest Payment Date, as the case may be;

“**Interest Period**” means a Fixed Rate Interest Period or a Floating Rate Interest Period, as the case may be;

“**Issue Date**” means 21 June 2007;

“**Italian Banking Act**” means Italian Legislative Decree No. 385 of 1 September 1993, as amended from time to time;

“**Junior Securities**” means all classes of share capital (including preference shares – *azioni privilegiate* – and savings shares – *azioni di risparmio*) of the Issuer;

“**Latest Accounts**” means the non-consolidated accounts approved by the Issuer relating to the Financial Year End Date immediately preceding the financial year in which the relevant Interest Payment Date falls or, where such accounts are not available, the last set of non-consolidated financial statements as of and for a period ending on a Financial Year End Date approved by the Issuer prior to the relevant Interest Payment Date;

“**Lead Regulator**” means the Bank of Italy, or any successor entity of the Bank of Italy, or any other competent regulator to which the Issuer becomes subject as its lead regulator;

“**Less Deeply Subordinated Obligations**” means any obligation of the Issuer, whether or not having a fixed maturity date, which by its terms is, or is expressed to be, subordinated in the event of liquidation or insolvency of the Issuer to the claims of any unsubordinated creditors of the Issuer but senior to the Step-Up Notes including, but not limited to, Upper Tier 2 Liabilities and Lower Tier 2 Liabilities of the Issuer;

“**Liquidazione Coatta Amministrativa**” means *Liquidazione Coatta Amministrativa* as described in Articles 80 to 94 of the Italian Banking Act;

“**Lower Tier 2 Liabilities**” means *passività subordinate* as defined in Title I, Chapter 2, Section II, paragraph 4.2 of the Bank of Italy Regulations or in any provision which, from time to time, amends or replaces such definition;

“**Make Whole Amount**” in respect of each Step-Up Note means the principal amount of such Step-Up Note, assuming such Step-Up Note to be due on the Step-Up Reset Date, together with interest to be accrued from the relevant Make Whole Event Redemption Date to the Step-Up Reset Date, assuming all such to be due in full, in each case discounted to the relevant Make Whole Event Redemption Date on an annual basis (calculated on the basis of the actual number of days in the relevant calendar year and the actual number of days in such period), such discounting to be at the German Bund Rate plus 0.7835 per cent. calculated by the Calculation Agent;

“**Make Whole Event Redemption Date**” means a Step-Up Regulatory Event Redemption Date or a Tax Event Redemption Date, as the case may be;

“**Merger**” means the merger (*fusione mediante costituzione*) of Banco Popolare di Verona e Novara S.C.a r.l. with BPI into the New Issuer;

“**Merger Date**” means the date on which the Merger takes legal effect and all assets and liabilities of Banco Popolare di Verona e Novara S.C.a r.l. and BPI are transferred to the New Issuer, which shall be 1 July 2007 or such later date as may be notified by Banco Popolare di Verona e Novara S.C.a r.l. to the Step-Up Noteholders in accordance with Condition 15 (*Notices*);

“**New Issuer**” has the meaning given in Condition 13(c) (*Meetings of Step-Up Noteholders; Modification and Waiver; Substitution - Substitution*);

“**Parity Securities**” means (A) any obligations or instruments issued by the Issuer which rank equally with the Step-Up Notes, and (B) any guarantees or similar instruments of the Issuer which rank equally with the Step-Up Notes and which are granted for the benefit of preferred securities or preferred or preference shares issued by any Subsidiary of the Issuer;

“**Payment Business Day**” means:

- (i) 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
- (ii) in the case of payment by transfer to an account, a TARGET Settlement Day;

“**Permitted Repurchase**” has the meaning given in Condition 5(c) (*Interest suspension –Mandatory payment of interest*);

“**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

“**Rate of Interest**” means the Fixed Rate of Interest or the Floating Rate of Interest, as the case may be;

“**Reference German Bund Dealer**” means any German Bund dealer selected by the Calculation Agent after consultation with the Issuer;

“**Reference German Bund Dealer Quotations**” means, with respect to each Reference German Bund Dealer and the relevant Make Whole Event Redemption Date, the average, as determined by the Calculation Agent, of the bid and asked prices for the Comparable German Bund Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Calculation Agent by such Reference German Bund Dealer at 3:30 p.m., Frankfurt time, on the third German Business Day immediately preceding the relevant Make Whole Event Redemption Date;

“**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 by the Fiscal 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 Step-Up Noteholders;

“**Reserved Matter**” means any proposal to change any date fixed for payment of principal or interest in respect of the Step-Up Notes, to reduce the amount of principal or interest payable on any date in respect of the Step-Up Notes, to alter the method of calculating the amount of any payment in respect of the Step-Up Notes or the date for any such payment, to change the currency of any payment under the Step-Up Notes, to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution or to change the provisions contained in Condition 3 (*Status and Subordination of the Step-Up Notes*);

“**Specified Office**” has the meaning given in the Agency Agreement;

“**Step-Up Regulatory Event**” means in the case of the Step-Up Notes that the Issuer is not permitted under the applicable rules and regulations adopted by the Lead Regulator, or an official application or interpretation of those rules and regulations including a decision of any court or tribunal, at any time whilst any of the Step-Up Notes are outstanding to treat the Step-Up Notes as own funds for the purposes of (a) Tier 1 Capital or (b) in case of future amendments to the Bank of Italy Regulations, up to such other fraction of the regulatory capital as will apply to non-cumulative perpetual instruments or similar instruments or liabilities pursuant to which the Issuer has a call option linked to an increase in the amount of payment due in respect of such instruments or liabilities, (save where any inability to so treat the Step-Up Notes is solely as a result of any applicable limitation on the amount of such regulatory capital);

“**Step-Up Regulatory Event Redemption Date**” means the date fixed for redemption of the Step-Up Notes in a notice delivered by the Issuer pursuant to Condition 7(b) (*Redemption and Purchase – Redemption due to a Step-Up Regulatory Event*) following a Step-Up Regulatory Event;

“**Step-Up Reset Date**” has the meaning given in Condition 4(a) (*Interest – Fixed Rate*);

“**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) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

“**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;

“**Tax Event**” means:

- (A) (1) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Republic of Italy 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 Issue Date and (2) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or
- (B) (1) interest payable by the Issuer in respect of the Step-Up Notes is no longer, or will no longer be, fully deductible by the Issuer for Italian income tax purposes as a result of any change in, or amendment to, the laws or regulations or applicable accounting standards of the Republic of Italy, 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, which change or amendment becomes effective on or after the Issue Date; and (2) such obligation cannot be avoided by the Issuer taking reasonable measures available to it;

“**Tax Event Redemption Date**” means the date fixed for redemption of the Step-Up Notes in a notice delivered by the Issuer pursuant to Condition 7(c) (*Redemption and Purchase – Redemption due to a Tax Event*) following a Tax Event;

“**Tier 1 Capital**” means *patrimonio di base* as defined in Title I, Chapter 2, Section II, paragraph 1.1 of the Bank of Italy Regulations or in any provision which, from time to time, amends or replaces such definition;

“**Treaty**” means the Treaty establishing the European Communities, as amended; and

“**Upper Tier 2 Liabilities**” means *strumenti ibridi di patrimonializzazione* as defined in Title I, Chapter 2, Section II, paragraph 4.1 of the Bank of Italy Regulations or in any provision which, from time to time, amends or replaces such definition.

(b) *Interpretation*: In these Conditions:

- (i) any reference to principal shall be deemed to include the principal amount of the Step-Up Notes, any additional amounts in respect of principal which may be payable under Condition 9 (*Taxation*), any premium payable in respect of a Step-Up Note and any other amount in the nature of principal payable pursuant to these Conditions;
- (ii) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 9 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions; and
- (iii) references to Step-Up Notes being “outstanding” shall be construed in accordance with the Agency Agreement.

2. **Form, Denomination and Title**

The Step-Up Notes are in bearer form in denominations of €50,000 with Coupons and Talons attached at the time of issue. Title to the Step-Up Notes and the Coupons will pass by delivery. The holder of any Step-Up 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 the Step-Up Notes under the Contracts (Rights of Third Parties) Act 1999.

3. **Status and Subordination of the Step-Up Notes**

- (a) *Status of the Step-Up Notes*: The Step-Up Notes constitute direct, unsecured and subordinated obligations of the Issuer and rank:
 - (i) *pari passu* without any preference among themselves and *pari passu* with any Parity Securities;
 - (ii) junior in right of payment to the payment of any present or future claims of all unsubordinated creditors of the Issuer and to all Less Deeply Subordinated Obligations; and
 - (iii) senior in right of payments to any Junior Securities.
- (b) *Subordination*: By virtue of such subordination, payments to Step-Up Noteholders will, in the event of the winding up, dissolution, liquidation or bankruptcy (including, *inter alia*, *Liquidazione Coatta Amministrativa*) of the Issuer, only be made after, and any set-off by any Step-Up Noteholders shall be excluded until, the payment of any present or future claims of all unsubordinated creditors of the Issuer and of all Less Deeply Subordinated Obligations in any such winding up, dissolution, liquidation or bankruptcy (including, *inter alia*, *Liquidazione Coatta Amministrativa*) of the Issuer have been satisfied in full or after an arrangement or composition has been agreed between them pursuant to which they have given full discharge against receipt of part of their claim.

4. Interest

- (a) *Fixed Rate*: The Step-Up Notes bear interest on a non-cumulative basis from and including the Issue Date to but excluding the Interest Payment Date falling on 21 June 2017 (the “**Step-Up Reset Date**”) at the rate of 6.156 per cent. per annum (the “**Fixed Rate of Interest**”), payable, subject as provided in these Conditions, annually in arrear on each Fixed Rate Interest Payment Date. The first interest payment shall be made on 21 June 2008 in respect of the period from (and including) the Issue Date to (but excluding) 21 June 2008 and shall be in the amount of €3,078 per Step-Up Note of €50,000 denomination. The amount of interest payable in respect of each Step-Up Note for any period which is not equal to a Fixed Rate Interest Period shall be calculated by applying the Fixed Rate of Interest to the principal amount of such Step-Up Note, multiplying the product by the Fixed Rate Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).
- (b) *Floating Rate*:
- (i) If the Issuer does not redeem the Step-Up Notes in accordance with Condition 7(a) (*Redemption and Purchase – Redemption at the option of the Issuer*) on the Step-Up Reset Date, the Step-Up Notes will bear interest on a non-cumulative basis for each Floating Rate Interest Period at the Floating Rate of Interest (as defined below) payable, subject as provided in these Conditions, in arrear on each Floating Rate Interest Payment Date.
- (ii) The rate of interest applicable to the Step-Up Notes (the “**Floating Rate of Interest**”) for each Floating Rate Interest Period will be determined by the Calculation Agent on the following basis:
- (A) the Calculation Agent will determine the rate for deposits in Euro for a period equal to the relevant Floating Rate Interest Period which appears on the display page designated EURIBOR 01 on Reuters (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying comparable rates) as of 11.00 a.m. (Brussels time) on the second TARGET Settlement Day before the first day of the relevant Floating Rate Interest Period (the “**Floating Rate Interest Determination Date**”);
- (B) if such rate does not appear on that page, the Calculation Agent will:
- (1) request the principal Euro-zone office of each of four major banks in the Euro-zone interbank market to provide a quotation of the rate at which deposits in Euro are offered by it in the Euro-zone interbank market at approximately 11.00 a.m. (Brussels time) on the Floating Rate Interest Determination Date to prime banks in the Euro-zone interbank market for a period equal to the relevant Floating Rate Interest Period and in an amount that is representative for a single transaction in that market at that time; and
- (2) determine the arithmetic mean (rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, 0.000005 being rounded upwards) of such quotations; and
- (C) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean (rounded, if necessary, as aforesaid) of the rates quoted by major banks in the Euro-zone, selected by the Calculation Agent, at approximately 11.00 a.m. (Brussels time) on the first day of the relevant Interest Period for loans in Euro to leading European banks for a period equal to the relevant Floating Rate Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Floating Rate of Interest for such Floating Rate Interest Period shall be the sum of 2.28 per cent. per annum 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 Floating Rate Interest Period, the Floating Rate of Interest applicable to the Step-Up Notes during such Floating Rate Interest Period will be the sum of 2.28 per cent. per annum and the rate or (as the case may be) arithmetic mean last determined in relation to the Step-Up Notes in respect of a preceding Floating Rate Interest Period, or, where there has been no such previous determination, the Floating Rate of Interest shall be equal to the Fixed Rate of Interest plus 1 per cent. per annum.

- (iii) *Calculation of Interest Amount:* The Calculation Agent will, as soon as practicable after the time at which the Floating Rate of Interest is to be determined in relation to each Floating Rate Interest Period, calculate the Interest Amount payable in respect of each Step-Up Note for such Floating Rate Interest Period. The Interest Amount will be calculated by applying the Floating Rate of Interest for such Floating Rate Interest Period to the principal amount of such Step-Up Note during such Floating Rate Interest Period and multiplying the product by the relevant Floating Rate Day Count Fraction.
 - (iv) *Publication:* The Calculation Agent will cause each Floating Rate of Interest and Interest Amount determined by it, together with the relevant Floating Rate 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 Step-Up Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Floating Rate of Interest, Interest Amount and Floating Rate Interest Payment Date) in any event not later than the first day of the relevant Floating Rate Interest Period. Notice thereof shall also promptly be given to the Step-Up 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 Floating Rate Interest Period.
 - (v) *Notifications etc:* All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Step-Up 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.
- (c) *Interest accrual:* Each Step-Up Note will cease to bear interest from (but excluding) maturity or the due date for redemption pursuant to Conditions 7(a) (*Redemption and Purchase – Redemption at the option of the Issuer*), 7(b) (*Redemption and Purchase – Redemption due to a Step-Up Regulatory Event*) or 7(c) (*Redemption and Purchase – Redemption due to a Tax Event*) unless, upon due presentation, payment of principal in respect of the Step-Up Notes is improperly withheld or refused, in which case any such amounts of principal improperly withheld or refused will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Step-Up Note up to that day are received by or on behalf of the relevant Step-Up Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Step-Up Noteholders that it has received all sums due in respect of the Step-Up Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

5. **Interest suspension**

- (a) *Optional suspension of interest:* The Issuer may elect, by giving notice to the Step-Up Noteholders pursuant to Condition 15 (*Notices*) below, not to pay all (or part only) of the interest accrued to an Interest Payment Date if:
 - (i) the Issuer does not have Distributable Profits, according to its Latest Accounts; and/or

- (ii) since the Issuer's AGM in respect of the financial statements for the financial year immediately preceding the year in which such Interest Payment Date falls, no dividend or other distribution has been declared, made, approved or set aside for payment in respect of any Junior Securities,

except that where Condition 5(c) (*Interest suspension - Mandatory payment of interest*) applies, the Issuer shall be required to pay interest notwithstanding this Condition 5(a).

The Issuer shall give not more than 25 but not less than 15 days prior notice to the Paying Agents and to the Step-Up Noteholders in accordance with Condition 15 (*Notices*) of any Interest Payment Date on which, pursuant to the provisions of this Condition 5(a), it elects not to pay interest and such notice shall include a confirmation of the Issuer's entitlement not to pay interest, together with details of the amount of interest (if any) to be paid on such Interest Payment Date.

Where the Issuer elects not to pay interest pursuant to this Condition 5(a) it shall not have any obligation to make such interest payment on the relevant Interest Payment Date, and the failure to pay such interest shall not constitute a default of the Issuer or any other breach of obligations under these Conditions or for any purpose.

Interest on the Step-Up Notes will not be cumulative and interest that the Issuer elects not to pay pursuant to this Condition 5(a) will not accumulate or compound and all rights and claims in respect of any such amounts shall be fully and irrevocably cancelled and forfeited.

- (b) *Mandatory suspension of interest:* The Issuer will be prohibited from:

- (i) paying all (or part only) of the interest accrued to an Interest Payment Date if and to the extent that a Capital Deficiency Event regarding the Issuer would occur if the Issuer made the payment of interest on such Interest Payment Date; or
- (ii) paying all (but not part only) of the interest accrued to an Interest Payment Date if:
 - (1) a Capital Deficiency Event regarding the Issuer has occurred and is continuing on such Interest Payment Date; or
 - (2) the Issuer is prohibited under applicable Italian legislation or regulation from declaring a dividend or making a distribution on all classes of its share capital, other than in the case of a Capital Deficiency Event,

except that where Condition 5(c) (*Interest suspension - Mandatory payment of interest*) applies, the Issuer shall be required to pay interest notwithstanding this Condition 5(b).

The Issuer shall give not more than 25 but not less than 15 days prior notice to the Paying Agents and to the Step-Up Noteholders in accordance with Condition 15 (*Notices*) of any Interest Payment Date on which, pursuant to the provisions of this Condition 5(b), it is prohibited from paying interest and such notice shall include a confirmation of the Issuer's prohibition from paying interest, together with details of the amount of interest (if any) to be paid on such Interest Payment Date.

Where the Issuer is prohibited from paying interest pursuant to this Condition 5(b) it shall not have any obligation to make such interest payment on the relevant Interest Payment Date, and the failure to pay such interest shall not constitute a default of the Issuer or any other breach of obligations under these Conditions or for any purpose.

Interest on the Step-Up Notes will not be cumulative and interest that the Issuer is prohibited from paying pursuant to this Condition 5(b) will not accumulate or compound and all rights and claims in respect of any such amounts shall be fully and irrevocably cancelled and forfeited.

- (c) *Mandatory payment of interest:* The Issuer is required to pay interest (including, without limitation, in the event of a Capital Deficiency Event) on any Interest Payment Date:
 - (i) in part, *pari passu* and *pro rata*, if and to the extent that during the 12-month (or 6-month or 3-month for securities (other than shares) where remuneration is paid, respectively, every 6 or 3

months) period prior to such Interest Payment Date the Issuer or any Subsidiary has declared, made, approved or set aside for payment a partial distribution in respect of any Parity Securities; and/or

- (ii) in full if and to the extent that during the 12-month (or 6-month or 3-month for securities (other than shares) where remuneration is paid, respectively, every 6 or 3 months) period prior to such Interest Payment Date:
 - (1) the Issuer or any Subsidiary has declared or paid dividends or other distributions on any Junior Securities or Parity Securities (other than pursuant to Condition 5(c)(i) above); and/or
 - (2) the Issuer or any Subsidiary has redeemed, repurchased or acquired any Junior Securities (other than a Permitted Repurchase) or Parity Securities,

save that the Issuer shall not be required to make any payment of interest on the Step-Up Notes with reference to any declaration, payment or distribution on, or redemption, repurchase or acquisition of, any other security which is itself mandatory in accordance with the terms and conditions of such security.

“**Permitted Repurchase**” means (1) any redemption, repurchase or other acquisition of such Junior Securities held by any member of the Group, (2) a reclassification of the equity share capital of the Issuer or any of its Subsidiaries or the exchange or conversion of one class or series of equity share capital for another class or series of equity share capital, (3) the purchase of fractional interests in the share capital of the Issuer or any of its Subsidiaries pursuant to the conversion or exchange provisions of such security being converted or exchanged, (4) any redemption or other acquisition of Junior Securities in connection with a levy of execution for the satisfaction of a claim by the Issuer or any of its Subsidiaries, (5) any redemption or other acquisition of Junior Securities in connection with the satisfaction by the Issuer or any of its Subsidiaries of its obligations under any employee benefit plan or similar arrangement, or (6) any redemption or other acquisition of Junior Securities in connection with transactions effected by or for the account of customers of the Issuer or any Subsidiary or in connection with the distribution, trading or market-making in respect of such securities.

6. Loss absorption

To the extent that the Issuer at any time suffers losses (also considering profits and losses relating to previous financial years) which would result in a Capital Deficiency Event, the obligations of the Issuer relating to the principal amount of the Step-Up Notes will be suspended to the extent necessary to enable the Issuer to continue to carry on its activities in accordance with applicable regulatory requirements. In any such case, but always subject to the provisions set out in Condition 5(b) (*Interest suspension - Mandatory suspension of interest*), interest will continue to accrue on the nominal value of the Step-Up Notes. The obligations of the Issuer to make payments in respect of principal amount of the Step-Up Notes will be reinstated (in priority to any Junior Securities and on a *pari passu* basis with any Parity Securities), as if such obligations of the Issuer had not been so suspended:

- (i) in whole, in the event of winding up, dissolution, liquidation or bankruptcy (including, *inter alia*, *Liquidazione Coatta Amministrativa*) of the Issuer and with effect immediately prior to the commencement of such winding up, dissolution, liquidation or bankruptcy (including, *inter alia*, *Liquidazione Coatta Amministrativa*); and
- (ii) in whole, in the event of early redemption of the Step-Up Notes pursuant to Conditions 7(a) (*Redemption and Purchase – Redemption at the option of the Issuer*), 7(b) (*Redemption and Purchase – Redemption due to a Step-Up Regulatory Event*) or 7(c) (*Redemption and Purchase – Redemption due to a Tax Event*); and
- (iii) in whole or in part, from time to time, to the extent that the Capital Deficiency Event is no longer continuing.

The Issuer shall forthwith give notice of any such suspension and/or reinstatement to the Step-Up Noteholders in accordance with Condition 15 (*Notices*) below and such notice shall include a confirmation of the Issuer's entitlement to such suspension and/or reinstatement, together with details of the amounts to be so suspended and/or reinstated.

7. **Redemption and Purchase**

The Step-Up Notes will mature and be redeemed by the Issuer on the date on which voluntary or involuntary winding up proceedings are instituted in respect of the Issuer, in accordance with, as the case may be, (i) a resolution of the shareholders' meeting of the Issuer, (ii) any provision of the by-laws of the Issuer (currently, maturity of the Issuer is set at 31 December 2100 though if this is extended, redemption of the Step-Up Notes will be equivalently adjusted), or (iii) any applicable legal provision, or any decision of any jurisdictional or administrative authority, in each case with the exception of any such proceedings directly connected to or necessary for effecting the Merger. The Step-Up Notes may not be redeemed at the option of the Issuer except in accordance with the provisions of this Condition 7. Any redemption in accordance with this Condition 7, save in accordance with the first sentence of this paragraph, is subject to the prior approval of the Lead Regulator (if applicable). The Step-Up Notes may not be redeemed at the option of the Step-Up Noteholders.

- (a) *Redemption at the option of the Issuer:* The Step-Up Notes may be redeemed at the option of the Issuer in whole, but not in part, on the Step-Up Reset Date and on any Interest Payment Date thereafter at a redemption price equal to their principal amount together with interest accrued (if any) up to, but excluding, the date fixed for redemption and any additional amounts due pursuant to Condition 9(a) (*Taxation - Gross up*) on the Issuer's giving not less than 30 but not more than 60 days' notice to the Step-Up Noteholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable and shall oblige the Issuer to redeem the Step-Up Notes on the date specified therein).
- (b) *Redemption due to a Step-Up Regulatory Event:* The Step-Up Notes may be redeemed at the option of the Issuer on giving not less than 30 but not more than 60 days' notice to the Step-Up Noteholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable and shall oblige the Issuer to redeem the Step-Up Notes in the amount and on the date specified therein) in whole, but not in part, at any time before the Step-Up Reset Date following the occurrence of a Step-Up Regulatory Event at a redemption price equal to the greater of (x) the principal amount of the Step-Up Notes and (y) the Make Whole Amount together, in each case, with interest accrued (if any) up to, but excluding, the Step-Up Regulatory Event Redemption Date and any additional amounts due pursuant to Condition 9(a) (*Taxation - Gross up*).
- (c) *Redemption due to a Tax Event:* The Step-Up Notes may be redeemed at the option of the Issuer on giving not less than 30 but not more than 60 days' notice to the Step-Up Noteholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable and shall oblige the Issuer to redeem the Step-Up Notes in the amount and on the date specified therein) in whole, but not in part, at any time before the Step-Up Reset Date following the occurrence of a Tax Event at a redemption price equal to the greater of (x) the principal amount of the Step-Up Notes and (y) the Make Whole Amount, together, in each case, with interest accrued (if any) up to, but excluding, the Tax Event Redemption Date and any additional amounts due pursuant to Condition 9(a) (*Taxation - Gross up*), *provided, however, that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which interest starts accruing in respect of which the Issuer would be unable to deduct such amounts for Italian income tax purposes or obliged to pay such additional amounts if a payment in respect of the Step-Up Notes were then due, as the case may be.

Prior to the publication of any notice of redemption pursuant to Conditions 7(b) and (c), the Issuer shall deliver or procure that there is delivered to the Fiscal Agent (1) a certificate signed by a legal representative of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, (2) in the case of a Tax Event, an opinion of independent legal advisers of recognised standing to the effect that the Issuer is unable to deduct such amounts for Italian income tax purposes

as a result of such change or amendment or that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment, as the case may be.

Upon the expiry of any such notice as is referred to in this Condition 7, the Issuer shall be bound to redeem the Step-Up Notes in accordance with this Condition 7.

- (d) *No other redemption*: The Issuer shall not be entitled to redeem the Step-Up Notes otherwise than as provided in paragraphs (a) to (c) above or upon maturity.
- (e) *Purchase*: The Issuer or any of its Subsidiaries may at any time purchase Step-Up Notes in the open market or otherwise and at any price, *provided that* all unmatured Coupons are purchased therewith, subject to the prior approval of the Lead Regulator (if applicable).
- (f) *Cancellation*: All Step-Up Notes so redeemed or purchased and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

8. **Payments**

- (a) *Principal*: Payments of principal shall be made only against presentation and (*provided that* payment is made in full) surrender of Step-Up Notes at the Specified Office of any Paying Agent outside the United States by Euro cheque drawn on, or by transfer to a Euro account maintained by the payee with, a bank in the Euro-zone.
- (b) *Interest*: Payments of interest shall, subject to paragraph (f) (*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 at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) (*Principal*) above.
- (c) *Payments subject to fiscal laws*: All payments in respect of the Step-Up 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 9 (*Taxation*). No commissions or expenses shall be charged to the Step-Up Noteholders or Couponholders in respect of such payments.
- (d) *Unmatured Coupons void*: On the due date for redemption of any Step-Up Note upon maturity or pursuant to Conditions 7(a) (*Redemption and Purchase – Redemption at the option of the Issuer*), 7(b) (*Redemption and Purchase – Redemption due to a Step-Up Regulatory Event*) or 7(c) (*Redemption and Purchase – Redemption due to a Tax Event*) all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof. If the date on which the Step-Up Notes become due is not an Interest Payment Date, the interest accrued (if any) from the preceding Interest Payment Date (or the Issue Date, as the case may be) on any Step-Up Note shall be payable only against surrender or endorsement of the relevant Coupon, subject to the provisions of Conditions 4 (*Interest*) and 5 (*Interest suspension*) regarding the payment of interest.
- (e) *Payments on business days*: If the due date for payment of any amount in respect of any Step-Up 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.
- (f) *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 Step-Up Notes at the Specified Office of any Paying Agent outside the United States.
- (g) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Step-Up Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (h) *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 Step-Up 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 10 (*Prescription*). Upon the due date for redemption of any Step-Up Note, any unexchanged Talon relating to such Step-Up Note shall become void and no Coupon will be delivered in respect of such Talon.

9. Taxation

- (a) *Gross up*: All payments of principal and interest in respect of the Step-Up Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for, 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 or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Step-Up Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Step-Up Note or Coupon presented for payment:
- (i) in the Republic of Italy; or
 - (ii) by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Step-Up Note or Coupon by reason of its having some connection with the Republic of Italy other than the mere holding of such Step-Up Note or Coupon; or
 - (iii) to the extent that interest or any other amount payable is paid to a non-Italian resident where such withholding or deduction is required by Legislative Decree No. 239 of 1 April 1996, as subsequently amended, supplemented or replaced (“**Decree No. 239**”), unless this is due to the requirements or procedures set forth therein not being met or complied with due to the actions or omissions of the Issuer or its agents; or
 - (iv) by an Italian resident, to the extent that interest is paid to an Italian individual or an Italian legal entity not carrying out commercial activities (in particular (A) partnerships, de facto partnerships not carrying out commercial activities and professional associations, (B) public and private resident entities, other than companies, not carrying out commercial activities, and (C) certain other Persons exempt from corporate income tax) or to such other Italian resident entities which have been or may be identified by Decree No. 239; or
 - (v) 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 or any other Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any other law implementing or complying with, or introduced in order to conform to, such Directive; or
 - (vi) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Step-Up Note or Coupon to another Paying Agent in a Member State of the EU; or
 - (vii) 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 Step-Up Note or Coupon on the last day of such period of 30 days.
- (b) *Taxing jurisdiction*: If, in respect of payments it makes in relation to the Step-Up Notes, the Issuer becomes subject at any time to any taxing jurisdiction other than the Republic of Italy, references in these Conditions to the Republic of Italy shall be construed as references to such other jurisdiction.

10. Prescription

Claims for principal shall become void unless the relevant Step-Up 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.

11. Replacement of Step-Up Notes and Coupons

If any Step-Up Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent (and, if the Step-Up Notes are then admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Paying Agent having its Specified Office in the place required by such listing authority, stock exchange and/or quotation system), subject to all applicable laws and listing authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Step-Up Notes or Coupons must be surrendered before replacements will be issued.

12. Paying Agents

In acting under the Agency Agreement and in connection with the Step-Up Notes and the Coupons, the Paying Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Step-Up Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent or calculation agent and additional or successor paying agents; *provided, however, that:*

- (a) the Issuer shall at all times maintain a fiscal agent; and
- (b) the Issuer undertakes that it will ensure that it maintains a paying agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (c) the Issuer shall at all times maintain a calculation agent; and
- (d) if and for so long as the Step-Up Notes are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system the rules of which require the appointment of a paying agent in any particular place, the Issuer shall maintain a paying agent having its Specified Office in the place required by the rules of such listing authority, stock exchange and/or quotation system; and
- (e) there will at all times be a paying agent in a jurisdiction within continental Europe, other than the jurisdiction in which the Issuer is incorporated.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Step-Up Noteholders.

13. Meetings of Step-Up Noteholders; Modification and Waiver; Substitution

- (a) *Meetings of Step-Up Noteholders:* The Agency Agreement contains provisions for convening meetings of Step-Up Noteholders to consider matters relating to the Step-Up Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Step-Up Noteholders and Couponholders, whether present or not.

A meeting may be convened by the Issuer and shall be convened by the Issuer upon the request in writing of Step-Up Noteholders holding not less than one-tenth of the aggregate principal amount of

the outstanding Step-Up Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Step-Up Notes or, at any adjourned meeting, two or more persons being or representing Step-Up Noteholders whatever the principal amount of the Step-Up Notes held or represented; *provided, however, that* a Reserved Matter may only be sanctioned by an Extraordinary Resolution passed at a meeting of Step-Up Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Step-Up Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Step-Up Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Step-Up Noteholders who for the time being are entitled to receive notice of a meeting of Step-Up Noteholders under the Agency Agreement 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 Step-Up Noteholders.

- (b) *Modification and Waiver:* The Conditions may not be amended without the prior approval of the Lead Regulator (if applicable). The Step-Up Notes and these Conditions may be amended without the consent of the Step-Up Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree without the consent of the Step-Up Noteholders to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Step-Up Noteholders.
- (c) *Substitution:* Upon the Merger, certain assets and liabilities of Banco Popolare di Verona e Novara S.C.a r.l. and BPI (including the Notes) will be transferred to Banco Popolare Soc. Coop. (or to such other company into which or with which Banco Popolare di Verona e Novara S.C.a r.l. and BPI may be merged, hereinafter the “**New Issuer**”), which will on the Merger Date, without the consent of the Step-Up Noteholders, assume liability as principal debtor in respect of the Step-Up Notes in place of the Issuer.

As of and from the Merger Date:

- (i) the New Issuer shall be deemed to be named in the Step-Up Notes, the Deed of Covenant and the Agency Agreement as the principal debtor in place of Banco Popolare di Verona e Novara S.C.a r.l. as Issuer and the Step-Up Notes, the Deed of Covenant and the Agency Agreement shall thereupon be deemed to be amended to give effect to the substitution and “Issuer” shall mean the New Issuer;
- (ii) the definition of “**Parity Securities**” in these Conditions shall be replaced with the following definition:

“**Parity Securities**” means (A) any obligations or instruments issued by the Issuer which rank equally with the Step-Up Notes (including the obligations of the Issuer in its capacity as guarantor of €500,000,000 non-cumulative guaranteed fixed/floating rate perpetual trust preferred securities issued on 30 June 2005 (ISIN: XS0223454512), €75,000,000 floating rate perpetual trust preferred securities issued on 29 December 2000 (ISIN: XS0122427940) and €25,000,000 floating rate perpetual trust preferred securities issued on 22 September 2000 (ISIN: XS0108916718), and (B) any guarantees or similar instruments of the Issuer which rank equally with the Step-Up Notes and which are granted for the benefit of preferred securities or preferred or preference shares issued by any Subsidiary of the Issuer;
- (iii) the definition of “**Latest Accounts**” in these Conditions shall be replaced with the following definition only for the period starting on (and including) the Merger Date and ending on (but excluding) the date on which the New Issuer has available accounts approved by the New

Issuer as of and for the period beginning on the Merger Date and ending on the Financial Year End Date following the Merger Date:

“**Latest Accounts**” means the non-consolidated accounts approved by Banco Popolare di Verona e Novara S.C.a r.l. relating to the Financial Year End Date immediately preceding the financial year in which the relevant Interest Payment Date falls or, where such accounts are not available, the last set of non-consolidated financial statements as of and for a period ending on a Financial Year End Date approved by Banco Popolare di Verona e Novara S.C.a r.l. prior to the relevant Interest Payment Date;

- (iv) Condition 5(a)(ii) shall be replaced with the following paragraph only for the period starting on (and including) the Merger Date and ending on (but excluding) the date on which the New Issuer has held an AGM in respect of its non-consolidated annual financial statements as of and for the period beginning on the Merger Date and ending on the Financial Year End Date following the Merger Date:

“since Banco Popolare di Verona e Novara S.C.a r.l.’s AGM in respect of the financial statements for the financial year immediately preceding the year in which such Interest Payment Date falls, no dividend or other distribution has been declared, made, approved or set aside for payment by Banco Popolare di Verona e Novara S.C.a r.l. or the New Issuer in respect of any Junior Securities;”;

- (v) all references in Condition 5(c)(i) and (ii) to “the Issuer” shall be replaced with references to “Banco Popolare di Verona e Novara S.C.a r.l. and the New Issuer” only to the extent that the Merger Date falls within the relevant 12-month (or 6-month or 3-month for securities (other than shares) where remuneration is paid, respectively, every 6 or 3 months) period prior to an Interest Payment Date for the purposes of Condition 5(c);
- (vi) the definition of “**Permitted Repurchase**” in these Conditions shall be replaced with the following definition only to the extent that the Merger Date falls within the relevant 12-month (or 6-month or 3-month for securities (other than shares) where remuneration is paid, respectively, every 6 or 3 months) period prior to an Interest Payment Date for the purposes of Condition 5(c):

“**Permitted Repurchase**” means (1) any redemption, repurchase or other acquisition of such Junior Securities held by Banco Popolare di Verona e Novara S.C.a r.l. or the New Issuer or any of their respective Subsidiaries, (2) a reclassification of the equity share capital of Banco Popolare di Verona e Novara S.C.a r.l. or the New Issuer or any of their respective Subsidiaries or the exchange or conversion of one class or series of equity share capital for another class or series of equity share capital, (3) the purchase of fractional interests in the share capital of Banco Popolare di Verona e Novara S.C.a r.l. or the New Issuer or any of their respective Subsidiaries pursuant to the conversion or exchange provisions of such security being converted or exchanged, (4) any redemption or other acquisition of Junior Securities in connection with a levy of execution for the satisfaction of a claim by Banco Popolare di Verona e Novara S.C.a r.l. or the New Issuer or any of their respective Subsidiaries, (5) any redemption or other acquisition of Junior Securities in connection with the satisfaction by Banco Popolare di Verona e Novara S.C.a r.l. or the New Issuer or any of their respective Subsidiaries of their respective obligations under any employee benefit plan or similar arrangement, or (6) any redemption or other acquisition of Junior Securities in connection with transactions effected by or for the account of customers of Banco Popolare di Verona e Novara S.C.a r.l. or the New Issuer or any Subsidiary or in connection with the distribution, trading or market-making in respect of such securities; and

- (vii) Banco Popolare di Verona e Novara S.C.a r.l. shall be released from all of its obligations under or in respect of the Step-Up Notes, the Deed of Covenant and the Agency Agreement, which obligations shall then be of the New Issuer.

Not later than 20 days after the Merger Date, the New Issuer shall give notice thereof to the Step-Up Noteholders in accordance with Condition 15 (*Notices*) and notify the Step-Up Noteholders that it has assumed liability as principal debtor in respect of the Step-Up Notes, the Deed of Covenant, the Agency Agreement and confirming the Merger Date.

14. **Further Issues**

The Issuer may from time to time, without the consent of the Step-Up Noteholders or the Couponholders, create and issue further Step-Up Notes having the same terms and conditions as the Step-Up Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Step-Up Notes.

15. **Notices**

Notices to the Step-Up Noteholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) and, if the Step-Up Notes which are listed or admitted to trading on the Luxembourg Stock Exchange and the rules of that exchange so require, on the website of the Luxembourg Stock Exchange (*www.bourse.lu*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first 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 shall be deemed for all purposes to have notice of the contents of any notice given to the Step-Up Noteholders.

16. **Currency Indemnity**

If any sum due from the Issuer in respect of the Step-Up Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the “**first currency**”) in which the same is payable under these Conditions or such order or judgment into another currency (the “**second currency**”) for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Step-Up Notes, the Issuer shall indemnify each Step-Up Noteholder, on the written demand of such Step-Up Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Step-Up Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

17. **Rounding**

For the purposes of any calculations referred to in these Conditions, 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.).

18. **Governing Law and Jurisdiction**

- (a) *Governing law*: The Step-Up Notes are governed by, and shall be construed in accordance with, English law.
- (b) *Jurisdiction*: The Issuer agrees for the benefit of the Step-Up Noteholders that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Step-Up Notes (respectively, “**Proceedings**” and “**Disputes**”) and, for such purposes, irrevocably submits to the jurisdiction of such courts.

- (c) *Appropriate forum:* The Issuer irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum.
- (d) *Service of Process:* The Issuer 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 Banco Popolare di Verona e Novara S.C.a r.l. London Branch at its registered office at Bucklersbury House, Walbrook, London EC4N 8EL or, if different, its registered office for the time being or at any address of the Issuer in Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act 1985. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of any Step-Up Noteholder addressed to the Issuer and delivered to the Issuer, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Step-Up Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer. Nothing in this paragraph shall affect the right of any Step-Up Noteholder to serve process in any other manner permitted by law. This clause applies to Proceedings in England and to Proceedings elsewhere.
- (e) *Non-exclusivity:* The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of any Step-Up Noteholder to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

TERMS AND CONDITIONS OF THE NON STEP-UP NOTES

The following is the text of the terms and conditions which will be endorsed on each Non Step-Up Note in definitive form.

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

The issue of the €300,000,000 Fixed/Floating Rate Perpetual Subordinated Non Step-Up Notes (the “**Non Step-Up Notes**”) issued by Banco Popolare di Verona e Novara S.C.a r.l. (the “**Issuer**”) was authorised by a resolution of the board of directors of the Issuer passed on 23 January 2007. The Non Step-Up Notes are the subject of a fiscal agency agreement dated 21 June 2007 (as amended or supplemented from time to time, the “**Agency Agreement**”) between the Issuer, BNP Paribas Securities Services, Luxembourg branch as fiscal agent (the “**Fiscal Agent**”, which expression includes any successor fiscal agent appointed from time to time in connection with the Non Step-Up Notes) and the paying agents named therein (together with the Fiscal Agent, the “**Paying Agents**”, which expression includes any successor or additional paying agents appointed from time to time in connection with the Non Step-Up Notes). Certain provisions of these Conditions are a summary of the Agency Agreement and are subject to its detailed provisions. The holders of the Non Step-Up Notes (the “**Non Step-Up Noteholders**”) and the holders of the related interest coupons (the “**Couponholders**” and the “**Coupons**”, respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. Copies of the Agency Agreement are available for inspection during normal business hours at the Specified Offices of each of the Paying Agents, the initial Specified Offices of which are set out below.

1. Interpretation

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

“**AGM**” means the annual general meeting of shareholders convened for the approval of the non-consolidated annual financial statements of the Issuer;

“**Bank of Italy Regulations**” means the Regulations of the Bank of Italy relating to the capital adequacy of banks (*Nuove Disposizioni di Vigilanza Prudenziale per le Banche*, set out in the Bank of Italy’s *Circolare n. 263*, dated 27 December 2006) as amended and supplemented;

“**BPI**” means Banca Popolare Italiana Soc. Coop.;

“**Business Day**” means a TARGET Settlement Day;

“**Business Day Convention**”, in relation to any particular date 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;

“**Calculation Agent**” means the Fiscal Agent or any successor calculation agent appointed from time to time in connection with the Non Step-Up Notes;

“**Capital Deficiency Event**” means:

(A) as a result of losses incurred by the Issuer, on a consolidated or non-consolidated basis, the total risk-based capital ratio (*coefficiente patrimoniale complessivo*) of the Issuer, on a consolidated or non-consolidated basis as calculated in accordance with applicable Italian banking laws and regulations, and either (1) reported in the Issuer’s reporting to the Lead Regulator (currently *Matrice dei Conti*) or (2) determined by the Lead Regulator and communicated to the Issuer, in either case, falls below the then minimum requirements of the Lead Regulator specified in applicable regulations (currently equal to five per cent. pursuant to the *Nuove Disposizioni di Vigilanza Prudenziale per le Banche*, set out in the Bank of Italy’s *Circolare n. 263*, dated 27 December 2006); or

(B) the Lead Regulator, in its sole discretion, notifies the Issuer that it has determined that the Issuer's financial condition is deteriorating such that an event specified in (A) above is likely to occur in the short term;

"Comparable German Bund Issue" means the German Bund security selected by the Calculation Agent as having a maturity comparable to 21 June 2017 that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities having a maturity of 21 June 2017;

"Comparable German Bund Price" means (A) the average of five Reference German Bund Dealer Quotations for the relevant Make Whole Event Redemption Date, after excluding the highest and lowest such Reference German Bund Dealer Quotations; or (B) if the Calculation Agent obtains fewer than five such Reference German Bund Dealer Quotations, the average of all such Reference German Bund Dealer Quotations;

"Coupon Sheet" means, in respect of a Non Step-Up Note, a coupon sheet relating to the Non Step-Up Note;

"Decree No. 239" has the meaning given in Condition 9 (*Taxation*);

"Deed of Covenant" means the deed of covenant dated the Issue Date entered into by the Issuer in relation to the Non Step-Up Notes;

"Distributable Profits" means net profits of the Issuer that are stated as being available for the payment of a dividend or the making of a distribution on any class of the Issuer's share capital;

"Euro-zone" means the region comprised of member states of the European Union which adopt the Euro in accordance with the Treaty establishing the European Community, as amended;

"Extraordinary Resolution" has the meaning given in the Agency Agreement;

"Financial Year End Date" means 31 December in any year;

"Fixed Rate Day Count Fraction" means in respect of the calculation of an amount for any period of time in the Fixed Rate Interest Period (for the purposes of this definition, the "Calculation Period") the actual number of days in the Calculation Period divided by the actual number of days in the relevant calendar year;

"Fixed Rate Interest Payment Date" means 21 June of each year beginning on 21 June 2008 up to and including the Non Step-Up Reset Date;

"Fixed Rate Interest Period" means each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date for so long as Condition 4(a) (*Interest – Fixed Rate*) applies;

"Fixed Rate of Interest" has the meaning given in Condition 4(a) (*Interest – Fixed Rate*);

"Floating Rate Day Count Fraction" means in respect of the calculation of an amount for any period of time in the Floating Rate Interest Period (for the purposes of this definition, the "Calculation Period") the actual number of days in the Calculation Period divided by 360;

"Floating Rate Interest Determination Date" has the meaning given in Condition 4(b) (*Interest – Floating Rate*);

"Floating Rate Interest Payment Date" means 21 June, 21 September, 21 December and 21 March of each year beginning on 21 June 2017 up to and including the date of redemption of the Non Step-Up Notes;

"Floating Rate Interest Period" means each period beginning on (and including) the Non Step-Up Reset Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date when Condition 4(b) (*Interest – Floating Rate*) applies;

“**Floating Rate of Interest**” has the meaning given in Condition 4(b) (*Interest – Floating Rate*);

“**German Bund Rate**” means, with respect to the relevant Make Whole Event Redemption Date, the rate per annum equal to the equivalent yield to maturity of the Comparable German Bund Issue, assuming a price for the Comparable German Bund Issue (expressed as a percentage of its principal amount) equal to the Comparable German Bund Price calculated by the Calculation Agent;

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

“**Group**” means the Issuer and its Subsidiaries;

“**Interest Amount**” means, in relation to a Non Step-Up Note and an Interest Period, the amount of interest payable in respect of that Non Step-Up Note for that Interest Period;

“**Interest Payment Date**” means a Fixed Rate Interest Payment Date or a Floating Rate Interest Payment Date, as the case may be;

“**Interest Period**” means a Fixed Rate Interest Period or a Floating Rate Interest Period, as the case may be;

“**Issue Date**” means 21 June 2007;

“**Italian Banking Act**” means Italian Legislative Decree No. 385 of 1 September 1993, as amended from time to time;

“**Junior Securities**” means all classes of share capital (including preference shares – *azioni privilegiate* – and savings shares – *azioni di risparmio*) of the Issuer;

“**Latest Accounts**” means the non-consolidated accounts approved by the Issuer relating to the Financial Year End Date immediately preceding the financial year in which the relevant Interest Payment Date falls or, where such accounts are not available, the last set of non-consolidated financial statements as of and for a period ending on a Financial Year End Date approved by the Issuer prior to the relevant Interest Payment Date;

“**Lead Regulator**” means the Bank of Italy, or any successor entity of the Bank of Italy, or any other competent regulator to which the Issuer becomes subject as its lead regulator;

“**Less Deeply Subordinated Obligations**” means any obligation of the Issuer, whether or not having a fixed maturity date, which by its terms is, or is expressed to be, subordinated in the event of liquidation or insolvency of the Issuer to the claims of any unsubordinated creditors of the Issuer but senior to the Non Step-Up Notes including, but not limited to, Upper Tier 2 Liabilities and Lower Tier 2 Liabilities of the Issuer;

“**Liquidazione Coatta Amministrativa**” means *Liquidazione Coatta Amministrativa* as described in Articles 80 to 94 of the Italian Banking Act;

“**Lower Tier 2 Liabilities**” means *passività subordinate* as defined in Title I, Chapter 2, Section II, paragraph 4.2 of the Bank of Italy Regulations or in any provision which, from time to time, amends or replaces such definition;

“**Make Whole Amount**” in respect of each Non Step-Up Note means the principal amount of such Non Step-Up Note, assuming such Non Step-Up Note to be due on the Non Step-Up Reset Date, together with interest to be accrued from the relevant Make Whole Event Redemption Date to the Non Step-Up Reset Date, assuming all such to be due in full, in each case discounted to the relevant Make Whole Event Redemption Date on an annual basis (calculated on the basis of the actual number of days in the relevant calendar year and the actual number of days in such period), such discounting to be at the German Bund Rate plus 1.0835 per cent. calculated by the Calculation Agent;

“**Make Whole Event Redemption Date**” means a Non Step-Up Regulatory Event Redemption Date or a Tax Event Redemption Date, as the case may be;

“**Merger**” means the merger (*fusione mediante costituzione*) of Banco Popolare di Verona e Novara S.C.a r.l. with BPI into the New Issuer;

“**Merger Date**” means the date on which the Merger takes legal effect and all assets and liabilities of Banco Popolare di Verona e Novara S.C.a r.l. and BPI are transferred to the New Issuer, which shall be 1 July 2007 or such later date as may be notified by Banco Popolare di Verona e Novara S.C.a r.l. to the Non Step-Up Noteholders in accordance with Condition 15 (*Notices*);

“**New Issuer**” has the meaning given in Condition 13(c) (*Meetings of Non Step-Up Noteholders; Modification and Waiver; Substitution - Substitution*);

“**Non Step-Up Regulatory Event**” means in the case of the Non Step-Up Notes that the Issuer is not permitted under the applicable rules and regulations adopted by the Lead Regulator, or an official application or interpretation of those rules and regulations including a decision of any court or tribunal, at any time whilst any of the Non Step-Up Notes are outstanding to treat the Non Step-Up Notes as own funds for the purposes of (a) Tier 1 Capital or (b) in case of future amendments to the Bank of Italy Regulations, up to such other fraction of the regulatory capital as will apply to non-cumulative perpetual instruments or similar instruments or liabilities pursuant to which the Issuer has a call option which is not linked to an increase in the amount of payment due in respect of such instruments or liabilities or to any other incentive to redemption, (save where any inability to so treat the Non Step-Up Notes is solely as a result of any applicable limitation on the amount of such regulatory capital);

“**Non Step-Up Regulatory Event Redemption Date**” means the date fixed for redemption of the Non Step-Up Notes in a notice delivered by the Issuer pursuant to Condition 7(b) (*Redemption and Purchase – Redemption due to a Non Step-Up Regulatory Event*) following a Non Step-Up Regulatory Event;

“**Non Step-Up Reset Date**” has the meaning given in Condition 4(a) (*Interest – Fixed Rate*);

“**Parity Securities**” means (A) any obligations or instruments issued by the Issuer which rank equally with the Non Step-Up Notes, and (B) any guarantees or similar instruments of the Issuer which rank equally with the Non Step-Up Notes and which are granted for the benefit of preferred securities or preferred or preference shares issued by any Subsidiary of the Issuer;

“**Payment Business Day**” means:

- (i) 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
- (ii) in the case of payment by transfer to an account, a TARGET Settlement Day;

“**Permitted Repurchase**” has the meaning given in Condition 5(c) (*Interest suspension –Mandatory payment of interest*);

“**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

“**Rate of Interest**” means the Fixed Rate of Interest or the Floating Rate of Interest, as the case may be;

“**Reference German Bund Dealer**” means any German Bund dealer selected by the Calculation Agent after consultation with the Issuer;

“**Reference German Bund Dealer Quotations**” means, with respect to each Reference German Bund Dealer and the relevant Make Whole Event Redemption Date, the average, as determined by the Calculation Agent, of the bid and asked prices for the Comparable German Bund Issue (expressed in

each case as a percentage of its principal amount) quoted in writing to the Calculation Agent by such Reference German Bund Dealer at 3:30 p.m., Frankfurt time, on the third German Business Day immediately preceding the relevant Make Whole Event Redemption Date;

“**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 by the Fiscal 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 Non Step-Up Noteholders;

“**Reserved Matter**” means any proposal to change any date fixed for payment of principal or interest in respect of the Non Step-Up Notes, to reduce the amount of principal or interest payable on any date in respect of the Non Step-Up Notes, to alter the method of calculating the amount of any payment in respect of the Non Step-Up Notes or the date for any such payment, to change the currency of any payment under the Non Step-Up Notes, to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution or to change the provisions contained in Condition 3 (*Status and Subordination of the Non Step-Up Notes*);

“**Specified Office**” has the meaning given in the Agency Agreement;

“**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) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

“**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;

“**Tax Event**” means:

- (A) (1) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Republic of Italy 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 Issue Date and (2) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or
- (B) (1) interest payable by the Issuer in respect of the Non Step-Up Notes is no longer, or will no longer be, fully deductible by the Issuer for Italian income tax purposes as a result of any change in, or amendment to, the laws or regulations or applicable accounting standards of the Republic of Italy, 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, which change or amendment becomes effective on or after the Issue Date; and (2) such obligation cannot be avoided by the Issuer taking reasonable measures available to it;

“**Tax Event Redemption Date**” means the date fixed for redemption of the Non Step-Up Notes in a notice delivered by the Issuer pursuant to Condition 7(c) (*Redemption and Purchase – Redemption due to a Tax Event*) following a Tax Event;

“**Tier 1 Capital**” means *patrimonio di base* as defined in Title I, Chapter 2, Section II, paragraph 1.1 of the Bank of Italy Regulations or in any provision which, from time to time, amends or replaces such definition;

“**Treaty**” means the Treaty establishing the European Communities, as amended; and

“**Upper Tier 2 Liabilities**” means *strumenti ibridi di patrimonializzazione* as defined in Title I, Chapter 2, Section II, paragraph 4.1 of the Bank of Italy Regulations or in any provision which, from time to time, amends or replaces such definition.

(b) *Interpretation*: In these Conditions:

- (i) any reference to principal shall be deemed to include the principal amount of the Non Step-Up Notes, any additional amounts in respect of principal which may be payable under Condition 9 (*Taxation*), any premium payable in respect of a Non Step-Up Note and any other amount in the nature of principal payable pursuant to these Conditions;
- (ii) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 9 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions; and
- (iii) references to Non Step-Up Notes being “outstanding” shall be construed in accordance with the Agency Agreement.

2. **Form, Denomination and Title**

The Non Step-Up Notes are in bearer form in denominations of €50,000 with Coupons and Talons attached at the time of issue. Title to the Non Step-Up Notes and the Coupons will pass by delivery. The holder of any Non Step-Up 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 the Non Step-Up Notes under the Contracts (Rights of Third Parties) Act 1999.

3. **Status and Subordination of the Non Step-Up Notes**

- (a) *Status of the Non Step-Up Notes*: The Non Step-Up Notes constitute direct, unsecured and subordinated obligations of the Issuer and rank:
 - (i) *pari passu* without any preference among themselves and *pari passu* with any Parity Securities;
 - (ii) junior in right of payment to the payment of any present or future claims of all unsubordinated creditors of the Issuer and to all Less Deeply Subordinated Obligations; and
 - (iii) senior in right of payments to any Junior Securities.
- (b) *Subordination*: By virtue of such subordination, payments to Non Step-Up Noteholders will, in the event of the winding up, dissolution, liquidation or bankruptcy (including, *inter alia*, *Liquidazione Coatta Amministrativa*) of the Issuer, only be made after, and any set-off by any Non Step-Up Noteholders shall be excluded until, the payment of any present or future claims of all unsubordinated creditors of the Issuer and of all Less Deeply Subordinated Obligations in any such winding up, dissolution, liquidation or bankruptcy (including, *inter alia*, *Liquidazione Coatta Amministrativa*) of the Issuer have been satisfied in full or after an arrangement or composition has been agreed between them pursuant to which they have given full discharge against receipt of part of their claim.

4. Interest

- (a) *Fixed Rate:* The Non Step-Up Notes bear interest on a non-cumulative basis from and including the Issue Date to but excluding the Interest Payment Date falling on 21 June 2017 (the “**Non Step-Up Reset Date**”) at the rate of 6.756 per cent. per annum (the “**Fixed Rate of Interest**”), payable, subject as provided in these Conditions, annually in arrear on each Fixed Rate Interest Payment Date. The first interest payment shall be made on 21 June 2008 in respect of the period from (and including) the Issue Date to (but excluding) 21 June 2008 and shall be in the amount of €3,378 per Non Step-Up Note of €50,000 denomination. The amount of interest payable in respect of each Non Step-Up Note for any period which is not equal to a Fixed Rate Interest Period shall be calculated by applying the Fixed Rate of Interest to the principal amount of such Non Step-Up Note, multiplying the product by the Fixed Rate Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).
- (b) *Floating Rate:*
- (i) If the Issuer does not redeem the Non Step-Up Notes in accordance with Condition 7(a) (*Redemption and Purchase – Redemption at the option of the Issuer*) on the Non Step-Up Reset Date, the Non Step-Up Notes will bear interest on a non-cumulative basis for each Floating Rate Interest Period at the Floating Rate of Interest (as defined below) payable, subject as provided in these Conditions, in arrear on each Floating Rate Interest Payment Date.
- (ii) The rate of interest applicable to the Non Step-Up Notes (the “**Floating Rate of Interest**”) for each Floating Rate Interest Period will be determined by the Calculation Agent on the following basis:
- (A) the Calculation Agent will determine the rate for deposits in Euro for a period equal to the relevant Floating Rate Interest Period which appears on the display page designated EURIBOR 01 on Reuters (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying comparable rates) as of 11.00 a.m. (Brussels time) on the second TARGET Settlement Day before the first day of the relevant Floating Rate Interest Period (the “**Floating Rate Interest Determination Date**”);
- (B) if such rate does not appear on that page, the Calculation Agent will:
- (1) request the principal Euro-zone office of each of four major banks in the Euro-zone interbank market to provide a quotation of the rate at which deposits in Euro are offered by it in the Euro-zone interbank market at approximately 11.00 a.m. (Brussels time) on the Floating Rate Interest Determination Date to prime banks in the Euro-zone interbank market for a period equal to the relevant Floating Rate Interest Period and in an amount that is representative for a single transaction in that market at that time; and
- (2) determine the arithmetic mean (rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, 0.000005 being rounded upwards) of such quotations; and
- (C) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean (rounded, if necessary, as aforesaid) of the rates quoted by major banks in the Euro-zone, selected by the Calculation Agent, at approximately 11.00 a.m. (Brussels time) on the first day of the relevant Interest Period for loans in Euro to leading European banks for a period equal to the relevant Floating Rate Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Floating Rate of Interest for such Floating Rate Interest Period shall be the sum of 1.88 per cent. per annum 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 Floating Rate Interest Period, the Floating Rate of Interest applicable to the Non Step-Up Notes during such Floating Rate Interest Period will be the sum of 1.88 per cent. per annum and the rate or (as the case may be) arithmetic mean last determined in relation to the Non Step-Up Notes in respect of a preceding Floating Rate Interest Period, or, where there has been no such previous determination, the Floating Rate of Interest shall be equal to the Fixed Rate of Interest.

- (iii) *Calculation of Interest Amount:* The Calculation Agent will, as soon as practicable after the time at which the Floating Rate of Interest is to be determined in relation to each Floating Rate Interest Period, calculate the Interest Amount payable in respect of each Non Step-Up Note for such Floating Rate Interest Period. The Interest Amount will be calculated by applying the Floating Rate of Interest for such Floating Rate Interest Period to the principal amount of such Non Step-Up Note during such Floating Rate Interest Period and multiplying the product by the relevant Floating Rate Day Count Fraction.
 - (iv) *Publication:* The Calculation Agent will cause each Floating Rate of Interest and Interest Amount determined by it, together with the relevant Floating Rate 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 Non Step-Up Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Floating Rate of Interest, Interest Amount and Floating Rate Interest Payment Date) in any event not later than the first day of the relevant Floating Rate Interest Period. Notice thereof shall also promptly be given to the Non Step-Up 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 Floating Rate Interest Period.
 - (v) *Notifications etc:* All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Non Step-Up 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.
- (c) *Interest accrual:* Each Non Step-Up Note will cease to bear interest from (but excluding) maturity or the due date for redemption pursuant to Conditions 7(a) (*Redemption and Purchase – Redemption at the option of the Issuer*), 7(b) (*Redemption and Purchase – Redemption due to a Non Step-Up Regulatory Event*) or 7(c) (*Redemption and Purchase – Redemption due to a Tax Event*) unless, upon due presentation, payment of principal in respect of the Non Step-Up Notes is improperly withheld or refused, in which case any such amounts of principal improperly withheld or refused will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Non Step-Up Note up to that day are received by or on behalf of the relevant Non Step-Up Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Non Step-Up Noteholders that it has received all sums due in respect of the Non Step-Up Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

5. **Interest suspension**

- (a) *Optional suspension of interest:* The Issuer may elect, by giving notice to the Non Step-Up Noteholders pursuant to Condition 15 (*Notices*) below, not to pay all (or part only) of the interest accrued to an Interest Payment Date if:
 - (i) the Issuer does not have Distributable Profits, according to its Latest Accounts; and/or

- (ii) since the Issuer's AGM in respect of the financial statements for the financial year immediately preceding the year in which such Interest Payment Date falls, no dividend or other distribution has been declared, made, approved or set aside for payment in respect of any Junior Securities,

except that where Condition 5(c) (*Interest suspension - Mandatory payment of interest*) applies, the Issuer shall be required to pay interest notwithstanding this Condition 5(a).

The Issuer shall give not more than 25 but not less than 15 days prior notice to the Paying Agents and to the Non Step-Up Noteholders in accordance with Condition 15 (*Notices*) of any Interest Payment Date on which, pursuant to the provisions of this Condition 5(a), it elects not to pay interest and such notice shall include a confirmation of the Issuer's entitlement not to pay interest, together with details of the amount of interest (if any) to be paid on such Interest Payment Date.

Where the Issuer elects not to pay interest pursuant to this Condition 5(a) it shall not have any obligation to make such interest payment on the relevant Interest Payment Date, and the failure to pay such interest shall not constitute a default of the Issuer or any other breach of obligations under these Conditions or for any purpose.

Interest on the Non Step-Up Notes will not be cumulative and interest that the Issuer elects not to pay pursuant to this Condition 5(a) will not accumulate or compound and all rights and claims in respect of any such amounts shall be fully and irrevocably cancelled and forfeited.

- (b) *Mandatory suspension of interest:* The Issuer will be prohibited from:

- (i) paying all (or part only) of the interest accrued to an Interest Payment Date if and to the extent that a Capital Deficiency Event regarding the Issuer would occur if the Issuer made the payment of interest on such Interest Payment Date; or
- (ii) paying all (but not part only) of the interest accrued to an Interest Payment Date if:
 - (A) a Capital Deficiency Event regarding the Issuer has occurred and is continuing on such Interest Payment Date; or
 - (B) the Issuer is prohibited under applicable Italian legislation or regulation from declaring a dividend or making a distribution on all classes of its share capital, other than in the case of a Capital Deficiency Event,

except that where Condition 5(c) (*Interest suspension - Mandatory payment of interest*) applies, the Issuer shall be required to pay interest notwithstanding this Condition 5(b).

The Issuer shall give not more than 25 but not less than 15 days prior notice to the Paying Agents and to the Non Step-Up Noteholders in accordance with Condition 15 (*Notices*) of any Interest Payment Date on which, pursuant to the provisions of this Condition 5(b), it is prohibited from paying interest and such notice shall include a confirmation of the Issuer's prohibition from paying interest, together with details of the amount of interest (if any) to be paid on such Interest Payment Date.

Where the Issuer is prohibited from paying interest pursuant to this Condition 5(b) it shall not have any obligation to make such interest payment on the relevant Interest Payment Date, and the failure to pay such interest shall not constitute a default of the Issuer or any other breach of obligations under these Conditions or for any purpose.

Interest on the Non Step-Up Notes will not be cumulative and interest that the Issuer is prohibited from paying pursuant to this Condition 5(b) will not accumulate or compound and all rights and claims in respect of any such amounts shall be fully and irrevocably cancelled and forfeited.

- (c) *Mandatory payment of interest:* The Issuer is required to pay interest (including, without limitation, in the event of a Capital Deficiency Event) on any Interest Payment Date:
 - (i) in part, *pari passu* and *pro rata*, if and to the extent that during the 12-month (or 6-month or 3-month for securities (other than shares) where remuneration is paid, respectively, every 6 or 3

months) period prior to such Interest Payment Date the Issuer or any Subsidiary has declared, made, approved or set aside for payment a partial distribution in respect of any Parity Securities; and/or

- (ii) in full if and to the extent that during the 12-month (or 6-month or 3-month for securities (other than shares) where remuneration is paid, respectively, every 6 or 3 months) period prior to such Interest Payment Date:
 - (A) the Issuer or any Subsidiary has declared or paid dividends or other distributions on any Junior Securities or Parity Securities (other than pursuant to Condition 5(c)(i) above); and/or
 - (B) the Issuer or any Subsidiary has redeemed, repurchased or acquired any Junior Securities (other than a Permitted Repurchase) or Parity Securities,

save that the Issuer shall not be required to make any payment of interest on the Non Step-Up Notes with reference to any declaration, payment or distribution on, or redemption, repurchase or acquisition of, any other security which is itself mandatory in accordance with the terms and conditions of such security.

“**Permitted Repurchase**” means (1) any redemption, repurchase or other acquisition of such Junior Securities held by any member of the Group, (2) a reclassification of the equity share capital of the Issuer or any of its Subsidiaries or the exchange or conversion of one class or series of equity share capital for another class or series of equity share capital, (3) the purchase of fractional interests in the share capital of the Issuer or any of its Subsidiaries pursuant to the conversion or exchange provisions of such security being converted or exchanged, (4) any redemption or other acquisition of Junior Securities in connection with a levy of execution for the satisfaction of a claim by the Issuer or any of its Subsidiaries, (5) any redemption or other acquisition of Junior Securities in connection with the satisfaction by the Issuer or any of its Subsidiaries of its obligations under any employee benefit plan or similar arrangement, or (6) any redemption or other acquisition of Junior Securities in connection with transactions effected by or for the account of customers of the Issuer or any Subsidiary or in connection with the distribution, trading or market-making in respect of such securities.

6. Loss absorption

To the extent that the Issuer at any time suffers losses (also considering profits and losses relating to previous financial years) which would result in a Capital Deficiency Event, the obligations of the Issuer relating to the principal amount of the Non Step-Up Notes will be suspended to the extent necessary to enable the Issuer to continue to carry on its activities in accordance with applicable regulatory requirements. In any such case, but always subject to the provisions set out in Condition 5(b) (*Interest suspension - Mandatory suspension of interest*), interest will continue to accrue on the nominal value of the Non Step-Up Notes. The obligations of the Issuer to make payments in respect of principal amount of the Non Step-Up Notes will be reinstated (in priority to any Junior Securities and on a *pari passu* basis with any Parity Securities), as if such obligations of the Issuer had not been so suspended:

- (i) in whole, in the event of winding up, dissolution, liquidation or bankruptcy (including, *inter alia*, *Liquidazione Coatta Amministrativa*) of the Issuer and with effect immediately prior to the commencement of such winding up, dissolution, liquidation or bankruptcy (including, *inter alia*, *Liquidazione Coatta Amministrativa*); and
- (ii) in whole, in the event of early redemption of the Non Step-Up Notes pursuant to Conditions 7(a) (*Redemption and Purchase – Redemption at the option of the Issuer*), 7(b) (*Redemption and Purchase – Redemption due to a Non Step-Up Regulatory Event*) or 7(c) (*Redemption and Purchase – Redemption due to a Tax Event*); and
- (iii) in whole or in part, from time to time, to the extent that the Capital Deficiency Event is no longer continuing.

The Issuer shall forthwith give notice of any such suspension and/or reinstatement to the Non Step-Up Noteholders in accordance with Condition 15 (*Notices*) below and such notice shall include a confirmation of the Issuer's entitlement to such suspension and/or reinstatement, together with details of the amounts to be so suspended and/or reinstated.

7. **Redemption and Purchase**

The Non Step-Up Notes will mature and be redeemed by the Issuer on the date on which voluntary or involuntary winding up proceedings are instituted in respect of the Issuer, in accordance with, as the case may be, (i) a resolution of the shareholders' meeting of the Issuer, (ii) any provision of the by-laws of the Issuer (currently, maturity of the Issuer is set at 31 December 2100 though if this is extended, redemption of the Non Step-Up Notes will be equivalently adjusted), or (iii) any applicable legal provision, or any decision of any jurisdictional or administrative authority, in each case with the exception of any such proceedings directly connected to or necessary for effecting the Merger. The Non Step-Up Notes may not be redeemed at the option of the Issuer except in accordance with the provisions of this Condition 7. Any redemption in accordance with this Condition 7, save in accordance with the first sentence of this paragraph, is subject to the prior approval of the Lead Regulator (if applicable). The Non Step-Up Notes may not be redeemed at the option of the Non Step-Up Noteholders.

- (a) *Redemption at the option of the Issuer:* The Non Step-Up Notes may be redeemed at the option of the Issuer in whole, but not in part, on the Non Step-Up Reset Date and on any Interest Payment Date thereafter at a redemption price equal to their principal amount together with interest accrued (if any) up to, but excluding, the date fixed for redemption and any additional amounts due pursuant to Condition 9(a) (*Taxation - Gross up*) on the Issuer's giving not less than 30 but not more than 60 days' notice to the Non Step-Up Noteholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable and shall oblige the Issuer to redeem the Non Step-Up Notes on the date specified therein).
- (b) *Redemption due to a Non Step-Up Regulatory Event:* The Non Step-Up Notes may be redeemed at the option of the Issuer on giving not less than 30 but not more than 60 days' notice to the Non Step-Up Noteholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable and shall oblige the Issuer to redeem the Non Step-Up Notes in the amount and on the date specified therein) in whole, but not in part, at any time before the Non Step-Up Reset Date following the occurrence of a Non Step-Up Regulatory Event at a redemption price equal to the greater of (x) the principal amount of the Non Step-Up Notes and (y) the Make Whole Amount together, in each case, with interest accrued (if any) up to, but excluding, the Non Step-Up Regulatory Event Redemption Date and any additional amounts due pursuant to Condition 9(a) (*Taxation - Gross up*).
- (c) *Redemption due to a Tax Event:* The Non Step-Up Notes may be redeemed at the option of the Issuer on giving not less than 30 but not more than 60 days' notice to the Non Step-Up Noteholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable and shall oblige the Issuer to redeem the Non Step-Up Notes in the amount and on the date specified therein) in whole, but not in part, at any time before the Non Step-Up Reset Date following the occurrence of a Tax Event at a redemption price equal to the greater of (x) the principal amount of the Non Step-Up Notes and (y) the Make Whole Amount, together, in each case, with interest accrued (if any) up to, but excluding, the Tax Event Redemption Date and any additional amounts due pursuant to Condition 9(a) (*Taxation - Gross up*), *provided, however, that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which interest starts accruing in respect of which the Issuer would be unable to deduct such amounts for Italian income tax purposes or obliged to pay such additional amounts if a payment in respect of the Non Step-Up Notes were then due, as the case may be.

Prior to the publication of any notice of redemption pursuant to Conditions 7(b) and (c), the Issuer shall deliver or procure that there is delivered to the Fiscal Agent (1) a certificate signed by a legal representative of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, (2) in the case of a Tax Event, an opinion of independent legal advisers of recognised

standing to the effect that the Issuer is unable to deduct such amounts for Italian income tax purposes as a result of such change or amendment or that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment, as the case may be.

Upon the expiry of any such notice as is referred to in this Condition 7, the Issuer shall be bound to redeem the Non Step-Up Notes in accordance with this Condition 7.

- (d) *No other redemption*: The Issuer shall not be entitled to redeem the Non Step-Up Notes otherwise than as provided in paragraphs (a) to (c) above or upon maturity.
- (e) *Purchase*: The Issuer or any of its Subsidiaries may at any time purchase Non Step-Up Notes in the open market or otherwise and at any price, *provided that* all unmatured Coupons are purchased therewith, subject to the prior approval of the Lead Regulator (if applicable).
- (f) *Cancellation*: All Non Step-Up Notes so redeemed or purchased and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

8. **Payments**

- (a) *Principal*: Payments of principal shall be made only against presentation and (*provided that* payment is made in full) surrender of Non Step-Up Notes at the Specified Office of any Paying Agent outside the United States by Euro cheque drawn on, or by transfer to a Euro account maintained by the payee with, a bank in the Euro-zone.
- (b) *Interest*: Payments of interest shall, subject to paragraph (f) (*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 at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) (*Principal*) above.
- (c) *Payments subject to fiscal laws*: All payments in respect of the Non Step-Up 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 9 (*Taxation*). No commissions or expenses shall be charged to the Non Step-Up Noteholders or Couponholders in respect of such payments.
- (d) *Unmatured Coupons void*: On the due date for redemption of any Non Step-Up Note upon maturity or pursuant to Conditions 7(a) (*Redemption and Purchase – Redemption at the option of the Issuer*), 7(b) (*Redemption and Purchase – Redemption due to a Non Step-Up Regulatory Event*) or 7(c) (*Redemption and Purchase – Redemption due to a Tax Event*) all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof. If the date on which the Non Step-Up Notes become due is not an Interest Payment Date, the interest accrued (if any) from the preceding Interest Payment Date (or the Issue Date, as the case may be) on any Non Step-Up Note shall be payable only against surrender or endorsement of the relevant Coupon, subject to the provisions of Conditions 4 (*Interest*) and 5 (*Interest suspension*) regarding the payment of interest.
- (e) *Payments on business days*: If the due date for payment of any amount in respect of any Non Step-Up 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.
- (f) *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 Non Step-Up Notes at the Specified Office of any Paying Agent outside the United States.
- (g) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Non Step-Up Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

- (h) *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 Non Step-Up 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 10 (*Prescription*)). Upon the due date for redemption of any Non Step-Up Note, any unexchanged Talon relating to such Non Step-Up Note shall become void and no Coupon will be delivered in respect of such Talon.

9. **Taxation**

- (a) *Gross up*: All payments of principal and interest in respect of the Non Step-Up Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for, 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 or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Non Step-Up Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Non Step-Up Note or Coupon presented for payment:
- (i) in the Republic of Italy; or
 - (ii) by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Non Step-Up Note or Coupon by reason of its having some connection with the Republic of Italy other than the mere holding of such Non Step-Up Note or Coupon; or
 - (iii) to the extent that interest or any other amount payable is paid to a non-Italian resident where such withholding or deduction is required by Legislative Decree No. 239 of 1 April 1996, as subsequently amended, supplemented or replaced (“**Decree No. 239**”), unless this is due to the requirements or procedures set forth therein not being met or complied with due to the actions or omissions of the Issuer or its agents; or
 - (iv) by an Italian resident, to the extent that interest is paid to an Italian individual or an Italian legal entity not carrying out commercial activities (in particular (A) partnerships, de facto partnerships not carrying out commercial activities and professional associations, (B) public and private resident entities, other than companies, not carrying out commercial activities, and (C) certain other Persons exempt from corporate income tax) or to such other Italian resident entities which have been or may be identified by Decree No. 239; or
 - (v) 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 or any other Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any other law implementing or complying with, or introduced in order to conform to, such Directive; or
 - (vi) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Non Step-Up Note or Coupon to another Paying Agent in a Member State of the EU; or
 - (vii) 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 Non Step-Up Note or Coupon on the last day of such period of 30 days.
- (b) *Taxing jurisdiction*: If, in respect of payments it makes in relation to the Non Step-Up Notes, the Issuer becomes subject at any time to any taxing jurisdiction other than the Republic of Italy,

references in these Conditions to the Republic of Italy shall be construed as references to such other jurisdiction.

10. **Prescription**

Claims for principal shall become void unless the relevant Non Step-Up 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.

11. **Replacement of Non Step-Up Notes and Coupons**

If any Non Step-Up Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent (and, if the Non Step-Up Notes are then admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Paying Agent having its Specified Office in the place required by such listing authority, stock exchange and/or quotation system), subject to all applicable laws and listing authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Non Step-Up Notes or Coupons must be surrendered before replacements will be issued.

12. **Paying Agents**

In acting under the Agency Agreement and in connection with the Non Step-Up Notes and the Coupons, the Paying Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Non Step-Up Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent or calculation agent and additional or successor paying agents; *provided, however, that:*

- (a) the Issuer shall at all times maintain a fiscal agent; and
- (b) the Issuer undertakes that it will ensure that it maintains a paying agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (c) the Issuer shall at all times maintain a calculation agent; and
- (d) if and for so long as the Non Step-Up Notes are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system the rules of which require the appointment of a paying agent in any particular place, the Issuer shall maintain a paying agent having its Specified Office in the place required by the rules of such listing authority, stock exchange and/or quotation system; and
- (e) there will at all times be a paying agent in a jurisdiction within continental Europe, other than the jurisdiction in which the Issuer is incorporated.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Non Step-Up Noteholders.

13. **Meetings of Non Step-Up Noteholders; Modification and Waiver; Substitution**

- (a) *Meetings of Non Step-Up Noteholders:* The Agency Agreement contains provisions for convening meetings of Non Step-Up Noteholders to consider matters relating to the Non Step-Up Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Any Extraordinary Resolution duly passed at any such

meeting shall be binding on all the Non Step-Up Noteholders and Couponholders, whether present or not.

A meeting may be convened by the Issuer and shall be convened by the Issuer upon the request in writing of Non Step-Up Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Non Step-Up Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Non Step-Up Notes or, at any adjourned meeting, two or more persons being or representing Non Step-Up Noteholders whatever the principal amount of the Non Step-Up Notes held or represented; *provided, however, that* a Reserved Matter may only be sanctioned by an Extraordinary Resolution passed at a meeting of Non Step-Up Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Non Step-Up Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Non Step-Up Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Non Step-Up Noteholders who for the time being are entitled to receive notice of a meeting of Non Step-Up Noteholders under the Agency Agreement 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 Non Step-Up Noteholders.

- (b) *Modification and Waiver:* The Conditions may not be amended without the prior approval of the Lead Regulator (if applicable). The Non Step-Up Notes and these Conditions may be amended without the consent of the Non Step-Up Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree without the consent of the Non Step-Up Noteholders to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Non Step-Up Noteholders.
- (c) *Substitution:* Upon the Merger, certain assets and liabilities of Banco Popolare di Verona e Novara S.C.a r.l. and BPI (including the Notes) will be transferred to Banco Popolare Soc. Coop. (or to such other company into which or with which Banco Popolare di Verona e Novara S.C.a r.l. and BPI may be merged, hereinafter the “**New Issuer**”), which will on the Merger Date, without the consent of the Non Step-Up Noteholders, assume liability as principal debtor in respect of the Non Step-Up Notes in place of the Issuer.

As of and from the Merger Date:

- (i) the New Issuer shall be deemed to be named in the Non Step-Up Notes, the Deed of Covenant and the Agency Agreement as the principal debtor in place of Banco Popolare di Verona e Novara S.C.a r.l. as Issuer and the Non Step-Up Notes, the Deed of Covenant and the Agency Agreement shall thereupon be deemed to be amended to give effect to the substitution and “Issuer” shall mean the New Issuer;
- (ii) the definition of “**Parity Securities**” in these Conditions shall be replaced with the following definition:

“**Parity Securities**” means (A) any obligations or instruments issued by the Issuer which rank equally with the Non Step-Up Notes (including the obligations of the Issuer in its capacity as guarantor of €500,000,000 non-cumulative guaranteed fixed/floating rate perpetual trust preferred securities issued on 30 June 2005 (ISIN: XS0223454512), €75,000,000 floating rate perpetual trust preferred securities issued on 29 December 2000 (ISIN: XS0122427940) and €25,000,000 floating rate perpetual trust preferred securities issued on 22 September 2000 (ISIN: XS0108916718), and (B) any guarantees or similar instruments of the Issuer which rank equally with the Non Step-Up Notes and which are granted for the benefit of preferred securities or preferred or preference shares issued by any Subsidiary of the Issuer;

- (iii) the definition of “**Latest Accounts**” in these Conditions shall be replaced with the following definition only for the period starting on (and including) the Merger Date and ending on (but excluding) the date on which the New Issuer has available accounts approved by the New Issuer as of and for the period beginning on the Merger Date and ending on the Financial Year End Date following the Merger Date:

“**Latest Accounts**” means the non-consolidated accounts approved by Banco Popolare di Verona e Novara S.C.a r.l. relating to the Financial Year End Date immediately preceding the financial year in which the relevant Interest Payment Date falls or, where such accounts are not available, the last set of non-consolidated financial statements as of and for a period ending on a Financial Year End Date approved by Banco Popolare di Verona e Novara S.C.a r.l. prior to the relevant Interest Payment Date;

- (iv) Condition 5(a)(ii) shall be replaced with the following paragraph only for the period starting on (and including) the Merger Date and ending on (but excluding) the date on which the New Issuer has held an AGM in respect of its non-consolidated annual financial statements as of and for the period beginning on the Merger Date and ending on the Financial Year End Date following the Merger Date:

“since Banco Popolare di Verona e Novara S.C.a r.l.’s AGM in respect of the financial statements for the financial year immediately preceding the year in which such Interest Payment Date falls, no dividend or other distribution has been declared, made, approved or set aside for payment by Banco Popolare di Verona e Novara S.C.a r.l. or the New Issuer in respect of any Junior Securities,”;

- (v) all references in Condition 5(c)(i) and (ii) to “the Issuer” shall be replaced with references to “Banco Popolare di Verona e Novara S.C.a r.l. and the New Issuer” only to the extent that the Merger Date falls within the relevant 12-month (or 6-month or 3-month for securities (other than shares) where remuneration is paid, respectively, every 6 or 3 months) period prior to an Interest Payment Date for the purposes of Condition 5(c);

- (vi) the definition of “**Permitted Repurchase**” in these Conditions shall be replaced with the following definition only to the extent that the Merger Date falls within the relevant 12-month (or 6-month or 3-month for securities (other than shares) where remuneration is paid, respectively, every 6 or 3 months) period prior to an Interest Payment Date for the purposes of Condition 5(c):

“**Permitted Repurchase**” means (1) any redemption, repurchase or other acquisition of such Junior Securities held by Banco Popolare di Verona e Novara S.C.a r.l. or the New Issuer or any of their respective Subsidiaries, (2) a reclassification of the equity share capital of Banco Popolare di Verona e Novara S.C.a r.l. or the New Issuer or any of their respective Subsidiaries or the exchange or conversion of one class or series of equity share capital for another class or series of equity share capital, (3) the purchase of fractional interests in the share capital of Banco Popolare di Verona e Novara S.C.a r.l. or the New Issuer or any of their respective Subsidiaries pursuant to the conversion or exchange provisions of such security being converted or exchanged, (4) any redemption or other acquisition of Junior Securities in connection with a levy of execution for the satisfaction of a claim by Banco Popolare di Verona e Novara S.C.a r.l. or the New Issuer or any of their respective Subsidiaries, (5) any redemption or other acquisition of Junior Securities in connection with the satisfaction by Banco Popolare di Verona e Novara S.C.a r.l. or the New Issuer or any of their respective Subsidiaries of their respective obligations under any employee benefit plan or similar arrangement, or (6) any redemption or other acquisition of Junior Securities in connection with transactions effected by or for the account of customers of Banco Popolare di Verona e Novara S.C.a r.l. or the New Issuer or any Subsidiary or in connection with the distribution, trading or market-making in respect of such securities; and

- (vii) Banco Popolare di Verona e Novara S.C.a r.l. shall be released from all of its obligations under or in respect of the Non Step-Up Notes, the Deed of Covenant and the Agency Agreement, which obligations shall then be of the New Issuer.

Not later than 20 days after the Merger Date, the New Issuer shall give notice thereof to the Non Step-Up Noteholders in accordance with Condition 15 (*Notices*) and notify the Non Step-Up Noteholders that it has assumed liability as principal debtor in respect of the Non Step-Up Notes, the Deed of Covenant, the Agency Agreement and confirming the Merger Date.

14. **Further Issues**

The Issuer may from time to time, without the consent of the Non Step-Up Noteholders or the Couponholders, create and issue further Non Step-Up Notes having the same terms and conditions as the Non Step-Up Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Non Step-Up Notes.

15. **Notices**

Notices to the Non Step-Up Noteholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) and, if the Non Step-Up Notes which are listed or admitted to trading on the Luxembourg Stock Exchange and the rules of that exchange so require, on the website of the Luxembourg Stock Exchange (*www.bourse.lu*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first 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 shall be deemed for all purposes to have notice of the contents of any notice given to the Non Step-Up Noteholders.

16. **Currency Indemnity**

If any sum due from the Issuer in respect of the Non Step-Up Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the “**first currency**”) in which the same is payable under these Conditions or such order or judgment into another currency (the “**second currency**”) for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Non Step-Up Notes, the Issuer shall indemnify each Non Step-Up Noteholder, on the written demand of such Non Step-Up Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Non Step-Up Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

17. **Rounding**

For the purposes of any calculations referred to in these Conditions, 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.).

18. **Governing Law and Jurisdiction**

- (a) *Governing law*: The Non Step-Up Notes are governed by, and shall be construed in accordance with, English law.

- (b) *Jurisdiction*: The Issuer agrees for the benefit of the Non Step-Up Noteholders that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Non Step-Up Notes (respectively, “**Proceedings**” and “**Disputes**”) and, for such purposes, irrevocably submits to the jurisdiction of such courts.
- (c) *Appropriate forum*: The Issuer irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum.
- (d) *Service of Process*: The Issuer 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 Banco Popolare di Verona e Novara S.C.a r.l. London Branch at its registered office at Bucklersbury House, Walbrook, London EC4N 8EL or, if different, its registered office for the time being or at any address of the Issuer in Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act 1985. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of any Non Step-Up Noteholder addressed to the Issuer and delivered to the Issuer, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Non Step-Up Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer. Nothing in this paragraph shall affect the right of any Non Step-Up Noteholder to serve process in any other manner permitted by law. This clause applies to Proceedings in England and to Proceedings elsewhere.
- (e) *Non-exclusivity*: The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of any Non Step-Up Noteholder to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

The Step-Up Notes and the Non Step-Up Notes will initially be in the form of Temporary Global Notes which will be deposited on or around 21 June 2007 (the “**Closing Date**”) with a common depositary for Euroclear and Clearstream, Luxembourg. The Temporary Global Notes will be exchangeable in whole or in part for interests in Permanent Global Notes not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. No payments will be made under a Temporary Global Note unless exchange for interests in the relevant 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.

The Permanent Global Notes will become exchangeable in whole, but not in part, for Notes in definitive form (“**Definitive Notes**”) in the denomination of €50,000, at the request of the bearer of a Permanent Global Note against presentation and surrender of such Permanent Global Notes to the Fiscal Agent if Euroclear or Clearstream, Luxembourg 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.

The Permanent Global Notes will also become exchangeable, in whole but not in part only and at the option of the Issuer, for Definitive Notes if, by reason of any change in the laws of the Issuer’s taxing jurisdiction, the Issuer is or will be required to make any withholding or deduction from any payment in respect of the Notes which would not be required if the Notes were in definitive form.

Whenever a 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 attached, in an aggregate principal amount equal to the principal amount of such Permanent Global Note to the bearer of such Permanent Global Note against the surrender of such Permanent Global Note at the Specified Office of the Fiscal Agent within 30 days of the occurrence 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 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 Conditions 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 in accordance with the terms of such Permanent Global Note on the due date for payment,

then such 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 such Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of such Permanent Global Note or others may have under the deeds of covenant dated 21 June 2007 (the “**Deeds of Covenant**”) executed by the Issuer in relation to the Notes). Under the Deeds of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg as being entitled to an interest in a Permanent Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before such 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 (as the case may be) Clearstream, Luxembourg.

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

Payments: All payments in respect of a Temporary Global Note and a Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of such Temporary Global Note or (as the case may be) such Permanent Global Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding

liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of a Temporary Global Note or (as the case may be) a Permanent Global Note, the Issuer shall procure that the same is noted in a schedule thereto.

Notices: Notwithstanding Condition 15 (*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 such Permanent Global Note is (or such Permanent Global Note and/or such Temporary Global Note are) deposited with a common depositary for Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 15 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg.

USE OF PROCEEDS

The net proceeds from the issue of the Step-Up Notes and the Non Step-Up Notes are expected to be approximately €347,375,000 and €297,750,000, respectively after deducting the Managers' fees and commissions, less estimated offering expenses. The proceeds of the Notes will be used by the Issuer for its general corporate purposes including the financing of its share buyback programme as described under "*Merger between BPVN and BPI and incorporation of Banco Popolare - Pre-Merger Events*".

DESCRIPTION OF BANCO POPOLARE DI VERONA E NOVARA

Incorporation of the Issuer

Banco Popolare di Verona e Novara Società cooperativa a responsabilità limitata – limited liability cooperative company (the “**Issuer**” or “**BPVN**”) was incorporated on 1 June 2002 following a number of mergers as described below under “- *Historic highlights of BPVN*” and is listed on the Italian stock exchange. Together with its subsidiaries, BPVN is referred to as the “**BPVN Group**”.

The merger between BPVN and Banca Popolare Italiana – Banca Popolare di Lodi Società Cooperativa

The shareholders of BPVN and Banca Popolare Italiana – Banca Popolare di Lodi Società Cooperativa (“**BPI**”) have resolved to merge and, as a result of the merger, to incorporate a new bank named Banco Popolare Società Cooperativa (“**Banco Popolare**” and, together with its subsidiaries, the “**Banco Popolare Group**”). The merger is subject to the admission to trading on the Italian Stock Exchange of the shares of Banco Popolare and is expected to have effect on 1 July 2007. The shares of BPI and BPVN will remain listed on the Italian Stock Exchange until the Merger (as defined below) takes effect.

Detailed information on the merger between BPVN and BPI and the incorporation of Banco Popolare and summary information on BPI are provided, in section “*Merger between BPVN and BPI and incorporation of Banco Popolare*” below.

Historic highlights of BPVN

BPVN was formed in 2002 following the merger between Banca Popolare di Verona – Banco S.Geminiano e S.Prospiero Società cooperativa di credito a responsabilità limitata (“**BPV**”) and Banca Popolare di Novara Società cooperativa a responsabilità limitata. Part of the business of Banca Popolare di Novara Società cooperativa a responsabilità limitata was transferred to a newly incorporated bank named Banca Popolare di Novara S.p.A. (“**BPN**”).

BPV was founded as Banca Mutua Popolare di Verona on 21 June 1867 as the seventh cooperative bank to be incorporated in Italy. Since then, BPV expanded, starting in 1935 with the acquisition of Banca Cattolica Veronese, and with the opening of branches and acquisitions of other lending institutions. In Italy, BPV merged with the Modena-based Banco S.Geminiano e S.Prospiero S.p.A. in 1995 and, following the merger with BPN to create BPVN, in 2007, took control of Credito Bergamasco, a banking institution in the North of Italy, whose shares are listed on the Mercato Telematico Azionario (the “**MTA**”). In 1998, BPV shares were admitted to trading on the MTA. On the international front BPV opened a Luxembourg branch in 1991, and in 1994 founded Banca Popolare di Verona International S.A.

BPN was incorporated as a limited cooperative lending company by Royal Decree on 17 September 1871. Since the early 1900s, BPN grew in northern and central Italy through the opening of branches as well as through the consolidation of several small-sized local banks. This continued through to the 1970s, together with the opening of representative offices in various foreign cities (for example, London and Frankfurt). In 1978 BPN shares were admitted to trading on the Italian stock exchange. In the 1980s, BPN opened branches outside of Italy (Banca Interpopolare di Zurigo e Lugano), as well as in Central and Southern Italy (the consolidation of Banca Popolare di Pisa, Banca Popolare di La Spezia e Lunigiana, Banca Popolare di Nola, Banca Popolare di Catania and Credito Campano). BPN also acquired equity investments in ancillary lending sectors (INCE, Efibanca, Sogepo and Compagnia Finanziaria Ligure Piemontese), and took control of Banca Popolare di Lecco, Banca Sannitica and Banque de l’Union Maritime et Financière de Paris. In 1991, Banca Novara International S.A. was formed in Luxembourg. In the early 1990s, BPN undertook a reorganisation and rationalisation process, which included the consolidation of INCE and Banca Sannitica and the disposal of a range of equity investments.

Geographical network of the BPVN Group

As at 31 December 2006, the BPVN Group had a network of approximately 1,250 branches in Italy. The following table sets out the geographical distribution of the branches as at 31 December 2006 split between BPV, BPN and Credito Bergamasco S.p.A. (“CB”).

<u>Regions</u>	<u>BPV</u>	<u>BPN</u>	<u>CB</u>
Abruzzo.....	0	0	0
Basilicata.....	0	0	0
Calabria.....	0	0	0
Campania	0	42	0
Emilia-Romagna	164	0	4
Friuli Venezia-Giulia.....	14	0	0
Lazio	3	15	14
Liguria.....	0	48	2
Lombardia.....	33	57	210
Marche	1	0	0
Molise	0	0	0
Piemonte	0	216	4
Puglia	0	6	0
Sardegna	0	0	0
Sicilia	0	17	0
Toscana	34	6	0
Trentino Alto-Adige	21	0	0
Umbria	0	0	0
Valle d’Aosta.....	0	6	0
Veneto	277	0	7
Italy	547	413	241

In addition, the BPVN Group has a foreign network made up of BPVN’s branch in London, 27 branches owned by Banca Sonic in Slovenia and three representative offices in Mumbai (India), Hong Kong and Shanghai (China).

The Issuer

The Issuer’s name is “Banco Popolare di Verona e Novara Società cooperativa a responsabilità limitata” and takes the legal form of a cooperative bank. BPVN’s Tax code, VAT number and Enrolment number on the Verona Enterprise Registry is 03231270236. The Issuer is also the parent bank of the BPVN Group.

Corporate registered and head offices

BPVN has its registered and head offices in Verona – Piazza Nogara No. 2, 37121 Verona, Italy, telephone +39 045 867 5537.

Term of the Issuer

The Issuer’s term, as envisaged by its by-laws, ends on 31 December 2100, subject to extensions under Italian law.

Corporate purpose

The Issuer’s corporate purpose is set out in article 4 of its by-laws as follows:

“The purpose of BPVN is to collect and maintain saving funds and issue loans and credit, in its various forms, to the benefit of both its registered shareholders and non shareholders, guided by the principles of cooperative lending. To this end, BPVN devotes special attention to the communities served by its branch network, in particular with regard to small and medium enterprises and to cooperatives. In keeping with its

institutional mission, BPVN extends favourable conditions to its registered shareholders and common shareholders for the use of specific services.

Moreover, BPVN can perform all banking and financial activities, transactions and services as permitted to lending institutions by current regulations, and for which prior regular authorisation was granted, including bond issues, extension of financing facilities governed by special acts, and the sale and purchase of receivables (factoring).

BPVN can carry out any other transaction instrumental, or in any case linked, to the achievement of the company mission. In order to accomplish its objectives, BPVN can join associations and consortia, and enter agreements both in Italy and abroad.

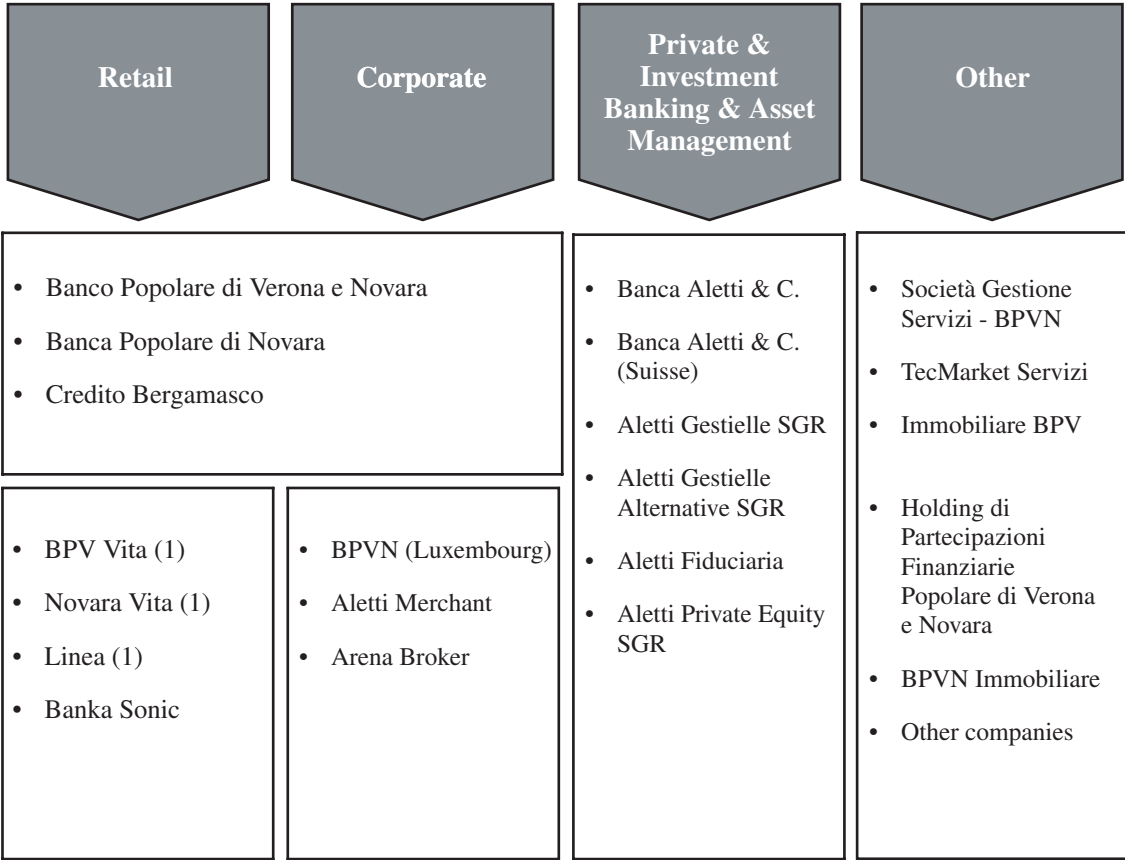
In its capacity as bank exercising a management and coordination control over the banking group Gruppo Bancario Banco Popolare di Verona e Novara – for short also Gruppo Banco di Verona e Novara, or Gruppo BPVN, or Gruppo Bancario Popolare di Verona e Novara – pursuant to art. 61, fourth paragraph, Legislative Decree No. 385 of 1 September 1993 (the “**Italian Banking Act**”), in the exercise of its management and coordination duties, BPVN issues directives to the companies of the BPVN Group, to implement instructions imparted by the Bank of Italy for the sake of the BPVN Group’s stability.”

Description of operational activity

Together with its subsidiaries, BPVN accepts deposits and extends loans in various forms. The BPVN Group provides its retail, corporate and private clients with a wide range of banking and financial products and services through traditional as well as innovative channels (such as virtual banking).

BPVN Group structure

The BPVN Group’s structure, which is stated as of 31 December 2006, can be summarised as follows:



(1) Jointly controlled on associated company, carried at equity

For details on the structure of the Banco Popolare Group after the Merger, please see “*Merger between BPVN and BPI and incorporation of Banco Popolare Group structure*”.

Competitive positioning of BPVN Group

Some highlights taken from the Issuer’s consolidated financial statements as at and for the year ended 31 December 2006 include:

- approximately 1,250 total branches (compared to 1,190 total branches for the year ended 31 December 2005), of which almost 90 per cent. is concentrated in Northern Italy, making it the sixth group in terms of distribution network size (as calculated by the Issuer on the basis of publicly available information);
- direct customer funds amount to approximately €50.6 billion, and indirect funds, under management and custody, amount to more than €74 billion, compared to approximately €42.9 billion of direct customer funds and more than €73 billion for the year ended 31 December 2005;
- customer loans amount to approximately €46.1 billion, compared to approximately €41.3 billion of customer loans for the year ended 31 December 2005; and
- total assets under management amount to approximately €31.1 billion (compared to approximately €31.9 billion of total assets under management for the year ended 31 December 2005) including a presence in private banking, also thanks to Banca Aletti.

Financial Highlights

Shown below are the main financial highlights of the BPVN Group as at and for the year ended 31 December 2006, with comparative data as at and for the year ended 31 December 2005.

The data below and the data related to the BPVN Group companies in this section “*Description of Banco Popolare di Verona e Novara*” derive from data contained in the respective financial statements with the following income statement reclassifications required by the Bank of Italy:

- dividends from shares classified among assets available for sale and assets held for trading have been combined under net financial income;
- net trading income and fair value adjustments in hedge accounting, as well as profit (loss) on financial assets and liabilities designated at fair value have been recognised in net financial income;
- profit (loss) on disposal of loans has been consolidated with net write-downs/write backs on impairment of loans, guarantees, commitments and credit derivatives;
- profit or loss on disposal repurchase of financial assets available for sale or financial liabilities are part of net financial income;
- tax and other expense recoveries have been directly deducted from administrative expenses instead of being itemised under other revenues;
- the depreciation of expenses for improvements to third party assets has been recognised in combination with impairment/write-backs on PPE and intangible assets, instead of other operating income or loss;
- share of profit of associates carried at equity has been shown in combination with dividends from equity investments.

	As at and for the year ended 31 December		Changes
	2006	2005^(*)	
	<i>(millions of euro)</i>		
Income statement			
Net interest, dividend and similar income	1,485.5	1,265.1	17.4%
Net commission income	844.1	799.6	5.6%
Total income (Net interest and other banking income)	2,752.4	2,393.7	15.0%
Operating costs	(1,330.8)	(1,339.5)	(0.6%)
Profit from operations.....	1,421.6	1,054.2	34.9%
Income before tax from continuing operations	1,545.8	970.6	59.3%
Net income for the year	1,032.9	597.0	73.0%
Balance sheet			
Total assets	68,694.9	59,758.4	15.0%
Customer loans (gross)	46,123.9	41,308.6	11.7%
Financial assets and hedging derivatives	10,771.0	10,099.3	6.7%
Shareholders' equity	4,872.0	4,021.0	21.2%
Customer financial assets			
Direct customer funds.....	50,574.0	42,984.1	17.7%
Indirect customer funds	74,374.5	73,004.1	1.9%
- Assets under management	31,144.1	31,897.6	(2.4%)
- Mutual funds and Sicav	13,460.6	13,375.5	0.6%
- Managed accounts in securities and funds.....	11,405.3	12,251.8	(6.9%)
- Insurance policies.....	6,278.2	6,270.3	0.1%
- Assets under custody	43,230.4	41,106.5	5.2%
Operational structure			
Average number of employees (**)	12,677	12,367	2.5%
Bank branches.....	1,250	1,190	5.0%

(*) The figures for 2005 have been "reclassified" (i.e. different items have been aggregated) in accordance with the provisions of Bank of Italy Instructions No. 262 of 22 December 2005.

(**) Monthly arithmetic mean.

Financial Ratios and Other Data

The following table sets out the main financial ratios and certain other data of the BPVN Group as at and for the year ended 31 December 2006, with comparative data as at and for the year ended 31 December 2005.

	As at and for the year ended 31 December	
	2006	2005
Profitability ratios (%)		
ROE	26.9%	17.4%
Net interest, dividend & similar income/Net interest & other bank income	54.0%	52.9%
Net commission income/Net interest & other banking income	30.7%	33.4%
Operating costs/Net interest and other banking income	48.4%	56.0%
Operational productivity (thousands of euro)		
Gross customer loans per employee	3,638,4	3,340,2
Net interest & other banking income per employee	217,1	193,6
Operating costs per employee	105,0	108,3
Credit quality ratios (%)		
Net NPLs/Customer loans (net)	1.2%	1.6%
Net watchlist loans/Customer loans (net)	1.0%	1.3%
Net NPLs/Shareholders equity	11.3%	16.0%
BPVN stock		
Outstanding shares.....	375,328,315	372,935,815
<i>of which; treasury shares</i>	-	-
Official closing share price		
- max	23.420	17.293
- min.....	17.351	13.753
- average.....	21.188	15.047
Annualized Basic EPS.....	2.573	1.499
Annualized Diluted EPS	2.545	1.470

Operating performance

The following tables set out the main data relating to the operating performance of the BPVN Group as at and for the year ended 31 December 2006, with comparative data as at and for the year ended 31 December 2005.

Reclassified consolidated assets

	As at 31 December		Changes	
	2006	2005 ^(*)		
	<i>(thousands of euro)</i>			
Cash and cash equivalents.....	360,546	339,356	21,190	6.2%
Financial assets and hedging derivatives	10,770,971	10,099,336	671,635	6.7%
Due from banks.....	8,680,735	5,848,353	2,832,382	48.4%
Due from customers	45,244,563	40,275,893	4,968,670	12.3%
Equity investments	796,935	431,025	365,910	84.9%
Property, plant and equipment	538,047	535,999	2,048	0.4%
Intangible assets	447,753	395,589	52,164	13.2%
Non-current assets held for sale and discontinued operations	239	27,073	(26,834)	(99.1%)
Other assets	1,855,146	1,805,763	49,383	2.7%
Total	68,694,935	59,758,387	8,936,548	15.0%

Reclassified consolidated liabilities

	As at 31 December		Changes	
	2006	2005 ^(*)		
	<i>(thousands of euro)</i>			
Due to banks	8,116,144	8,099,580	16,564	0.2%
Due to customers and debt securities in issue and liabilities measured at fair value	50,574,033	42,984,131	7,589,902	17.7%
Financial liabilities and hedging derivatives.....	1,899,375	1,587,488	311,887	19.6%
Provisions for liabilities	619,152	576,923	42,229	7.3%
Other liabilities	2,469,452	2,372,167	97,285	4.1%
Minority Interest	144,761	117,065	27,696	23.7%
Shareholders' equity	4,872,018	4,021,033	850,985	21.2%
- Share capital and reserves.....	3,839,104	3,423,979	415,125	12.1%
- Net income for the year	1,032,914	597,054	435,860	73.0%
Total	68,694,935	59,758,387	8,936,548	15.0%

Reclassified consolidated income statement

	As at 31 December		Changes	
	2006	2005 ^(*)		
	<i>(thousands of euro)</i>			
Net interest income	1,340,744	1,209,637	131,107	10.8%
Profits (loss) from equity investments carried at equity	144,787	55,470	89,317	161.0%
Net interest, dividend and similar income	1,485,531	1,265,107	220,424	17.4%
Net commission income	844,086	799,601	44,485	5.6%
Other revenues	177,492	162,882	14,610	9.0%
Net income from financial activities	245,283	166,085	79,198	47.7%
Net income from insurance activities.....	–	–	–	–
Other operating income	1,266,861	1,128,568	138,293	12.3%
Total income (Net interest and other banking income) ..	2,752,392	2,393,675	358,717	15.0%
Personnel expenses.....	884,265	(889,172)	(4,907)	(0.6%)
Other administrative expenses	(361,449)	(364,251)	(2,802)	(0.8%)
Impairment/write-backs on PPE and intangible assets	(85,070)	(86,101)	(1,031)	(1.2%)
Operating costs	(1,330,784)	(1,339,524)	(8,740)	(0.7%)
Profit from operations	1,421,608	1,054,151	367,457	34.9%
Net write-downs for loan impairments, guarantees and commitments	(99,809)	(72,944)	26,865	36.8%
Net write-downs for the impairment of other assets	(2,194)	(2,140)	54	2.5%
Net provisions for risks and charges	(58,762)	(29,855)	28,907	96.8%
Profit/loss on disposal of investments and shareholdings	284,991	21,367	263,624	1233.8%
Income/Loss before tax from continuing operations	1,545,833	970,579	575,254	59.3%
Tax on income from continuing operations	(488,062)	(365,564)	122,498	33.5%
Income/Loss after tax from continuing operations.....	1,057,771	605,015	452,756	74.8%
Loss after tax from discontinued operations	6,225	7,726	(1,501)	(19.4%)
Net income for the period	1,063,996	612,741	451,255	73.6%
Minority interest.....	(31,082)	(15,687)	15,395	98.1%
Net income attributable to the Parent company	1,032,914	597,054	435,860	73.0%

(*) The 2005 figures have been restated as explained in detail in the explanatory notes to the consolidated financial statements of the Issuer as at and for the year ended 31 December 2006. In particular: in the second quarter of 2006, some companies of the BPVN Group replaced their departmental software application dedicated to the recognition of foreign currency transactions. By doing so, it was possible to make the account-taking of exchange derivatives (outright, domestic currencies swap, etc.) compliant with IAS/IFRS recognition criteria. With respect to the former accounting standards, the spread between the spot exchange rate at the time of the agreement and the exchange rate agreed upon under the contract has been reclassified under item 80 “net financial income” from net interest income (item 10 “interest income” and item 20 “interest expense” of the income statement). For the sake of comparability, the same reclassification was carried out on all past administrative periods starting from the first quarter of 2005.

The following table shows due from banks - breakdown by product:

		As at 31 December	
		2006	2005
		<i>(thousands of euro)</i>	
A.	Due from Central banks	685,660	1,523,991
	1. Time deposits	–	–
	2. Compulsory reserve	685,178	1,523,602
	3. Repurchase agreements	–	–
	4. Other	482	389
B.	Due from other banks	7,994,821	4,323,565
	1. Checking accounts and demand deposits	1,369,768	323,780
	2. Time deposits	1,833,738	1,557,301
	3. Other loans	4,791,315	2,442,484
	4. Debt securities	–	–
	5. Impaired assets	–	–
	6. Assets sold and not written off	–	–
	Total (book value)	8,680,481	5,847,556
	Total (fair value)	8,680,487	5,847,556

The following table shows loans to customers - breakdown by product:

		As at 31 December	
		2006	2005
		<i>(thousands of euro)</i>	
1.	Checking accounts	10,318,965	9,452,039
2.	Repurchase agreements	514,744	247,912
3.	Mortgages	18,092,144	13,835,282
4.	Credit cards, personal and payroll secured loans	467,672	295,307
5.	Finance leases	48	1,783,358
6.	Factoring	307,166	39,654
7.	Other	14,339,636	12,561,736
8.	Debt securities	59,937	48,952
9.	Impaired assets	1,144,205	1,358,386
10.	Assets sold and not written off	–	653,267
	Total (book value)	45,244,517	40,275,893
	Total (fair value)	46,528,076	41,081,248

The following table shows loans to customers – breakdown by debtors/issuers:

		As at 31 December	
		2006	2005
		<i>(thousands of euro)</i>	
1	Debt securities	59,937	48,952
	a) Governments	–	–
	b) Other public agencies	–	–
	c) Other issuers	59,937	48,952
	– non-financial businesses.....	48,089	43,802
	– financial institutions.....	11,848	3,141
	– insurance companies	–	–
	– other	–	2,009
2	Loans to	44,040,374	38,215,288
	a) Governments	22,187	90,002
	b) Other public agencies	233,626	223,075
	c) Other issuers	43,784,561	37,902,211
	– non-financial businesses.....	31,307,478	28,390,928
	– financial institutions.....	4,195,115	3,144,761
	– insurance companies	581	134
	– other	8,281,387	6,366,388
3	Impaired assets	1,144,206	1,358,386
	a) Governments	–	–
	b) Other public agencies	6,397	7,074
	c) Other issuers	1,137,809	1,351,312
	– non-financial businesses.....	925,196	1,048,795
	– financial institutions.....	6,563	14,803
	– insurance companies	36	–
	– other	206,014	287,714
4	Assets sold and not written off	–	653,267
	a) Governments	–	–
	b) Other public agencies	–	–
	c) Other issuers	–	653,267
	– non-financial businesses.....	–	624,167
	– financial institutions.....	–	1,008
	– insurance companies	–	–
	– other	–	28,092
	Total	45,244,517	40,275,893

On the liabilities side, the following table shows due to banks – breakdown by product:

		As at 31 December			
		2006		2005	
	BPVN Group	Other Companies	Total	Total	
<i>(thousands of euro)</i>					
1	Due to Central banks	6,386	–	6,386	–
2	Due to other banks	8,109,475	283	8,109,758	8,099,580
	2.1 Checking accounts and demand deposits ..	188,094	–	188,094	1,253,343
	2.2 Time deposits	3,981,477	–	3,981,477	3,614,959
	2.3 Loans	3,482,979	283	3,483,262	2,922,160
	2.3.1 finance lease	16,169	–	16,169	14,943
	2.3.2 other	3,466,810	283	3,467,093	2,907,217
	2.4 Commitments to repurchase own shares	–	–	–	–
	2.5 Liabilities associated with assets sold and not written off	317,940	–	317,940	299,071
	2.6 Other payables	138,985	–	138,985	10,047
	Total	8,115,861	283	8,116,144	8,099,580

The following table shows due to customers – breakdown by product:

		As at 31 December			
		2006		2005	
	BPVN Group	Other Companies	Total	Total	
<i>(thousands of euro)</i>					
1.	Checking accounts and demand deposits	22,080,458	–	22,080,458	20,212,412
2.	Time deposits	2,065,334	–	2,065,334	830,036
3.	Third party assets under custody	47,553	–	47,553	46,363
4.	Loans	2,242,419	131	2,242,550	761,008
5.	Commitments to repurchase own shares	–	–	–	–
6.	Liabilities associated with assets sold and not written off	1,306,527	–	1,306,527	2,325,002
7.	Other payables	1,162,953	–	1,162,953	594,003
	Total	28,905,244	131	28,905,375	24,768,824

Group Shareholders' equity: breakdown

The following table sets out a breakdown of the shareholders' equity of the BPVN Group as at 31 December 2006, with comparative data as at 31 December 2005:

	As at 31 December	
	2006	2005
	<i>(thousands of euro)</i>	
1. Share capital.....	1,351,182	1,342,569
2. Share premiums	202,304	184,031
3. Reserves	2,044,798	1,734,261
4. (Treasury shares)	–	–
5. Valuation reserves	240,820	163,118
6. Common stock equivalents	–	–
7. Income (Loss) for the year	1,032,914	597,054
Total (fair value)	<u>4,872,018</u>	<u>4,021,033</u>

As at 31 December 2006 the BPVN Group's shareholders' equity stood at €4,872 million, up by 21.2 per cent. compared to 31 December 2005.

BPVN Group Companies

The following is a description of the companies belonging to the BPVN Group as at 31 December 2006. For details on the structure of the Banco Popolare Group after the Merger, please see “*Merger between BPVN and BPI and incorporation of Banco Popolare - Banco Popolare Group structure*”.

Banca Popolare di Novara S.p.A.

Banca Popolare di Novara S.p.A., directly wholly owned by BPVN, is a banking corporation formed on 31 May 2002, which has been operational since 1 June 2002. This institution includes the branches located mainly in BPN’s traditional historical franchise, with the aim of retaining and using the BPN brand in its traditional home market territories. The following table sets out non-consolidated financial highlights of Banca Popolare di Novara S.p.A. as at and for the years ended 31 December 2006 and 2005.

	As at and for the year ended 31 December		Changes
	2006	2005	
	<i>(millions of euro)</i>		
Income statement			
Net interest, dividend and similar income	396.4	343.6	15.4%
Net commission income	213.3	199.7	6.8%
Net interest and other banking income	702.6	622.5	12.9%
Operating costs	(390.3)	(414.5)	(5.8%)
Profit from operations	312.4	207.9	50.3%
Income/Loss before tax from continuing operations	256.1	166.2	54.1%
Income/Loss after tax from continuing operations	146.2	91.0	60.7%
Net income for the year	146.2	91.0	60.7%
Balance sheet			
Total assets	16,842.8	15,035.2	12.0%
Gross customer loans	10,694.0	8,268.2	29.3%
Financial assets and hedging derivatives	3,390.6	3,506.8	(3.3%)
Shareholders’ equity	1,032.7	931.8	10.8%
Customer financial assets			
Direct customer funds	10,994.8	10,317.7	6.6%
Indirect customer funds	31,786.2	32,228.7	(1.4%)
– Assets under management	9,120.9	8,899.2	2.5%
– Mutual funds and Sicav	3,542.0	3,705.8	(4.4%)
– Managed accounts inv. in securities or in mutual	3,398.3	3,441.4	(1.3%)
– Insurance policies	2,180.6	1,752.0	24.5%
– Assets under custody	22,665.3	23,329.5	(2.8%)
Other data			
Average number of employees ^(*)	3,447	3,500	(1.5%)
Bank branches	413	417	(1.0%)

(*) Monthly arithmetic mean

Credito Bergamasco S.p.A.

Credito Bergamasco S.p.A. is a lending institution in Northern Italy which is 87.719 per cent. owned by BPVN, with shares listed on the *Mercato Telematico Azionario*, the electronic market of the Italian stock exchange. It is active in many traditional areas of banking business, both corporate and retail banking, through a network of 241 branches, mainly located in the Lombardy and Veneto regions, geographical areas neighbouring the traditional franchise of BPV. The following table sets out non-consolidated financial highlights of Credito Bergamasco S.p.A. as at and for the years ended 31 December 2006 and 2005.

	As at and for the year ended 31 December		
	2006	2005	Changes
	<i>(millions of euro)</i>		
Income statement			
Net interest and Profits from equity investments carried at equity ..	368.5	301.1	22.4%
Net commission income	136.4	131.6	3.6%
Net interest and other banking income	544.3	462.2	17.8%
Operating costs	(240.3)	(233.6)	2.9%
Profit from operations	303.9	228.6	32.9%
Income/Loss before tax from continuing operations	335.3	202.2	65.8%
Income/Loss after tax from continuing operations	241.6	126.1	91.6%
Net income for the year	241.6	126.1	91.6%
Balance sheet			
Total assets	13,595.2	11,968.7	13.6%
Gross customer loans	10,178.3	9,143.7	11.3%
Financial assets and hedging derivatives	698.7	764.4	(8.6%)
Shareholders' equity	1,167.1	980.7	19%
Customer financial assets			
Direct customer funds	9,702.2	8,540.3	13.6%
Indirect customer funds	11,554.0	11,046.5	4.6%
– Assets under management	4,346.6	4,797.2	(9.4%)
– Mutual funds and Sicav	1,511.5	1,568.2	(3.6%)
– Managed accounts inv. in securities or in mutual	1,769.5	2,103.6	(15.9%)
– Insurance policies	1,065.6	1,125.4	(5.3%)
– Assets under custody	7,207.4	6,249.3	15.3%
Other data			
Average number of employees ^(*)	2,084	2,038	2.3%
Bank branches	241	235	2.6%

(*) Monthly arithmetic mean

Banca Aletti & C. S.p.A.

Aletti & C. Banca di Investimento Mobiliare S.p.A. ("**Banca Aletti & C.**") is owned by BPVN as to 74.349 per cent., and by Credito Bergamasco S.p.A. as to 25.651 per cent. Banca Aletti & C. is central to the BPVN Group strategy for the development of investment banking, private banking and portfolio management activities.

Banca Aletti & C. focuses on private banking, providing tailored consulting and asset management services to holders of medium to high volume financial portfolios, institutional customers and investment banking.

The subsidiary is organised along three departments that work in close synergy with the BPVN Group's sales networks:

- Private Banking department;
- Investment Banking department; and
- Asset Management department, that engages in portfolio management, with a greater focus on the different customer segments and hence a higher quality of service.

The following table sets out non-consolidated financial highlights of Banca Aletti & C. as at and for the years ended 31 December 2006 and 2005.

	As at and for the year ended 31 December		Changes
	2006	2005	
	<i>(millions of euro)</i>		
Income statement			
Net interest and other banking income.....	220.9	173.2	27.5%
Operating costs	(80.5)	(70.2)	14.7%
Profit from operations.....	140.4	103.0	36.3%
Net income for the year	95.1	77.3	23.0%
Balance sheet			
Indirect customer funds	14,105.9	14,343.9	(1,7%)
Total assets	14,731.9	10,854.3	35.7%
Shareholders' equity	291.6	229.8	26.9%
Other data			
Average number of employees (*)	380	330	15.2%
Bank branches.....	20	16	25.0%

(*) Monthly arithmetic mean

BPVN (Luxembourg) S.A.

Banco Popolare di Verona e Novara (Luxembourg) S.A., is 99.969 per cent. directly controlled by BPVN, with the remaining stake held by Holding di Partecipazioni Finanziarie Popolare di Verona e Novara S.p.A. It is headquartered in Luxembourg and it supports the BPVN Group in handling foreign transactions executed by customers and includes the BPVN Group's Luxembourg branch.

The following table sets out non-consolidated financial highlights of Banco Popolare di Verona e Novara (Luxembourg) S.A. as at and for the years ended 31 December 2006 and 2005.

The data below is derived from statutory financial statements prepared according to generally accepted accounting principles in Luxembourg.

	As at and for the year ended 31 December		Changes
	2006	2005	
	<i>(millions of euro)</i>		
Income statement			
Net interest	4.0	4.0	(0%)
Net Commissions	2.7	2.6	3.84%
Net income from year	1.9	3.0	(36.67%)
Balance sheet			
Direct customer funds	933.7	504.8	84.96%
Indirect customer funds	1,817.1	1,076.2	68.8%
Total assets	1,234.2	811.2	52.14%
Shareholders' equity	47.8	45.9	4.13%
Over data			
Average number of employees ^(*)	36	37	(2.7%)

(*) Monthly arithmetic mean

Over the course of 2006, BPVN Luxembourg focused on its managerial structure, in particular the commercial, private banking and asset management segments, as part of the development policy promoted by BPVN.

The lending policy of the BPVN Luxembourg is still strongly skewed towards BPVN, which represents its major borrower with €792 million loans. Cash credit lines to customers amounted to €218 million at 31 December 2006, up from €97 million at 31 December 2005, while guarantees and commitments totalled €41 million.

The principal events which had an impact on BPVN Luxembourg over 2006 are the following:

- on 23 March 2006 BPVN Luxembourg acquired 100 per cent. of the share capital of Compagnie d'Angely held by BPVN Luxembourg's subsidiary VN (France) S.A. BPVN then sold this stake to Redilco Real Estate S.p.A. on 8 November 2006, generating a capital gain of €46,981;
- on 20 December 2006 BPVN Luxembourg decreased its shareholding in VN (France) S.A. from €17 million to €6 million following the share capital reduction of VN (France) S.A. VN (France) SA intends to use the proceeds of this disposal to pay off a bridge loan granted for this purpose;
- over the course of 2006, BPVN Luxembourg ceased its corporate utility bill payment and account keeping services, with the aim of rationalising its operations.

As at 31 December 2006, direct customer funds amounted to €935.2 million (compared to €505.6 million as at 31 December 2005) and securities accounts (under custody and management) amounted to €1,817 million (compared to €1,077 million as at 31 December 2005). The securities of Novara Aquilone Sicav under custody and management of BPVN Luxembourg went from €554 million as at 31 December 2005 to €1,119 million as at 31 December 2006, while customer's securities under custody and management of BPVN Luxembourg went from €523 million as at 31 December 2005 to €698 million as at 31 December 2006.

Aletti Gestielle S.G.R.

Aletti Gestielle S.G.R. S.p.A. (a company which carries out the asset management activities of the BPVN Group) is controlled by BPVN through a 32.612 per cent. direct stake and indirect stakes held by Holding di Partecipazioni Finanziarie Popolare di Verona e Novara (47.797 per cent.) and Credito Bergamasco S.p.A. (19.591 per cent.).

The following table sets out non-consolidated financial highlights of Aletti Gestielle S.G.R. S.p.A. as at and for the years ended 31 December 2006 and 2005.

	As at and for the year ended 31 December		Changes
	2006	2005	
	<i>(millions of euro)</i>		
Income statement			
Net interest and other banking income.....	27.8	27.4	1.5%
Profit from operations.....	7.8	6.7	16.4%
Net income from year.....	4.2	3.5	20.0%
Balance sheet			
Total assets	115.9	119.4	(2.9%)
Shareholders' equity	35.5	34.6	2.6%
Business volume			
NAV of managed funds.....	14,508.8	15,456.4	(6.1%)
Subscriptions.....	9,245.5	8,559.7	8.0%
Redemptions	10,541.4	9,146.2	15.3%
Over data			
Average number of employees ^(*)	96	95	1.1%

(*) Monthly arithmetic mean

In line with the BPVN Group's focus on asset management, Aletti Gestielle S.G.R.'s "Gestielle Pacifico" fund was awarded "Premio 2005 Tripla A" among Italian mutual funds in the Equity Pacific Class at the Milano Finanza – Global Awards 2006, and a Triple A Award for rating continuity. In addition, its Gestielle World Utilities fund won the Triple A Award in the Equity Other Sectors Class.

For the year ended 31 December 2006, an outflow of €1,296 million was reported out of 38 funds belonging to Aletti Gestielle S.G.R., compared to €586 million out of 40 funds for the year ended 31 December 2005.

IT procedures and website management are carried out by SGS (as defined below). Internal Audit services are provided by BPVN's Auditing department.

The Risk Management Office of the Aletti Gestielle S.G.R. carries out the monitoring of portfolio management risks outsourced by Banca Aletti & C.

Aletti Merchant S.p.A.

Aletti Merchant S.p.A. is controlled by BPVN through a 60 per cent. direct stake and an indirect stake of 40 per cent. held by Credito Bergamasco S.p.A. Aletti Merchant S.p.A. invests in various entities, with direct investments in companies, either new to or already present in its investment portfolio. For details on the envisaged merger by incorporation of Aletti Merchant S.p.A. into Efibanca S.p.A., please see the section "Recent Events".

The following table sets out non-consolidated financial highlights of Aletti Merchant S.p.A. as at and for the years ended 31 December 2006 and 2005.

	As at and for the year ended 31 December		Changes
	2006	2005	
	<i>(millions of euro)</i>		
Income statement			
Net commission income	2.4	6.6	(63.6%)
Profit from operations	(1.9)	6.9	(127.5%)
Net income from year	51.9	5.3	879.2%
Balance sheet			
Total assets	132.9	147.8	(10.0%)
Shareholders' equity	120.7	65.8	83.4%

Aletti Gestielle Alternative S.G.R.

Aletti Gestielle Alternative S.G.R. (a company specialised in speculative funds) is controlled through a 70.8% stake held by Holding di Partecipazioni Finanziarie Popolare di Verona e Novara S.p.A and a 29.20% stake held by Credito Bergamasco S.p.A.. For the year ended 31 December 2006 Aletti Gestielle Alternative S.G.R. had a net income of €2.85 million, up from €2.3 million for the year ended 31 December 2005. Commission and fee income amounted to €14.1 million for the year ended 31 December 2006.

The following table sets out non-consolidated financial highlights of Aletti Gestielle Alternative S.G.R. as at and for the years ended 31 December 2006 and 2005.

	As at and for the year ended 31 December		Changes
	2006	2005	
	<i>(millions of euro)</i>		
Management fee income.....	6.5	5.2	25%
Performance fee income	4.7	3.8	23.7%
Front-load fee income.....	2.9	2.3	26.1%

Società Gestione Servizi - BPVN S.p.A.

Società Gestione Servizi - BPVN S.p.A. (“SGS”) is controlled by BPVN through a 75.49 per cent. direct stake and an indirect stake of 24.51 per cent. held by Credito Bergamasco S.p.A.

SGS was incorporated in 1999 with the aim of improving efficiency and effectiveness of the production and administrative systems for back office, data processing, organisation and logistics activities of the BPVN Group. In 2006, SGS underwent significant organisational change connected to the BPVN Group strategy, whereby activities not constituting part of the BPVN Group’s core business have been transferred to SGS. In August 2006, the BPVN Group’s Special Loans Function (*Crediti Speciali*) was transferred to SGS, which thus expanded its business area.

The following table sets out non-consolidated financial highlights of SGS as at and for the years ended 31 December 2006 and 2005.

	As at and for the year ended 31 December		Changes
	2006	2005	
	<i>(millions of euro)</i>		
Income statement			
Value of production.....	225.9	225.0	0.4%
Cost of production	(220.1)	(221.4)	(0.6%)
Income before tax	7.2	4.6	56.5%
Net income for the year	2.0	0.6	233.3%
Balance sheet			
Total assets	292.3	287.1	1.8%
Shareholders' equity	106.1	104.6	1.4%
Other data			
Average number of employees ^(*)	970	927	4.6%

(*) Monthly arithmetic mean.

Business areas of the BPVN Group

The business areas of the BPVN Group are made up of traditional banking activities, private banking, investment banking, leasing, bank-assurance and asset management:

- the BPVN Group attempts to strengthen its market position by using the capacity of the distribution of its network banks;
- the BPVN Group is active in the leasing sector through Banca Italease S.p.A. that provides a range of products to small and medium enterprises. As at 31 December 2006 the BPVN Group held 30.72 per cent. of the share capital of Banca Italease. For details of recent developments in respect of Banca Italease S.p.A. see “Recent Developments” below.

BPVN Strategic Plan

The BPVN Group’s 2005-2014 strategic plan (the “**BPVN Strategic Plan**”), which was presented in November 2004, laid the groundwork aimed at strengthening the BPVN Group’s identity as “*banca del territorio*”, namely the bank of choice in a specified area, and developing initiatives to identify future growth areas. The BPVN Strategic Plan is organised into different areas, each headed by senior management of the BPVN Group, and is divided into sub-projects managed by workgroups staffed by personnel belonging to the different commercial banks within the BPVN Group.

The project objectives and certain results achieved in 2006 across the various areas are set out below.

Corporate

The corporate project aims to provide companies, with a focus on medium sized companies, with a qualified partner to support them through their growth process with tailor-made solutions. With this aim in mind, the following activities have been implemented over the course of 2006:

- a dedicated sales network is being developed, including recruitment of “corporate developers” and a new software application for integrated management of corporate operations - the recruitment of “corporate developers- managers” for BPVN and BPN has commenced;

- with regard to medium/long term loans, a temporary joint-venture was set up with Europrogetti and Finanza e Veneto Sviluppo, aimed at promoting subsidised loans governed by Italian law 488/92 (relating to loans to depressed areas) - in connection with this internal communication and training activities have been implemented and a specialised BPVN Group web site has been launched;
- potential corporate finance business areas have been identified and training undertaken with the aim of being in a position to provide services to companies during corporate finance transactions;
- in the financial services area, the BPVN Group has commenced work on a project aimed at providing corporate customers with a risk management service, in addition to the current provision of derivative products, while new corporate liquidity investment products have already been released;
- the BPVN Group range of insurance related services has been expanded to provide a Directors and Officers policy, aimed at protecting the personal assets of managing directors, statutory auditors and executives;
- the BPVN Group continues to develop products and services offered to support foreign business, including its presence in India and China;
- in addition, certain BPN and CB branches have aimed to contact and strengthen relations with public entities, including suppliers and former utilities, by training courses and the development of central units.

Specialised external networks - mortgages

This project is aimed at placing mortgages with retail customers by entering into agreements with certain third parties (such as estate agency networks). The following is a summary of the principal initiatives over 2006:

- the BPVN Group acquired an 8 per cent. stake in Essere S.p.A., a company which specialises in selling mortgages to retail customers through 300 exclusive agents and 42 points of sale;
- BPVN Group acquired a 15 per cent. stake in UBH S.p.A., a holding company engaging in real estate franchising and financing with brands including Professionecasa and Grimaldi. A non-exclusive agreement was entered into providing for an increase in the sale of BPVN Group mortgages;
- over the course of 2006, agreements were entered into with Banca Italease S.p.A., Delta S.p.A. and Linea S.p.A. with the aim of broadening the existing range of products offered by the BPVN Group.

Retail loans

The aims of the BPVN Strategic Plan include improving the BPVN Group's results in terms of mortgages and personal loans. The following is a summary of the principal activities over 2006:

- distribution of new types of mortgage loans;
- completion of analysis and development for payment flexibility options for floating rate mortgages and personal loans, which are due to be launched in the first half of 2007;
- implementation of a training program involving about 550 mortgage sale specialists across the BPVN Group, with the aim of appointing at least one "Mortgage sale specialist" per branch;
- release of the new software enabling customers to obtain a mortgage quote on-line, subject to final confirmation following necessary credit procedures;
- release of a new software aimed at enabling new customers to make appointments at their local branch;
- personal loans up to €20,000 being readily available to retail customers.

Pension products

This project aims to take advantage of the opportunities management believes are offered by the pension reform underway, by evolving products, offer and distribution to both retail and corporate customers.

2005 saw the completion of projects deciding on product range and distribution model, with marketing and communication activities starting in 2007 to track the legislative process. Training programmes have also been implemented focusing on the products available.

Retail segments

This project is aimed at improving the BPVN Group's commercial approach towards specified customer segments, including immigration, seniors and women which management believes may present growth opportunities in the coming years.

The following sets out the principal activities implemented in 2006 in relation to immigration:

- broadening of money transfer service, through agreements with correspondent banks. At the date of this Prospectus, the service covers 15 countries and additional agreements are being signed with foreign banks with the aim of extending the service to a further 10 countries;
- hiring staff of a range of nationalities and opening branches in areas with high levels of immigration;
- marketing and communication plan, including agreements with foreign consulates to distribute promotional material in different languages;
- specific training program aimed at improving and tailoring customer service in this sector.

The following sets out the principal activities implemented in 2006 in relation to seniors:

- entering into certain agreements with entities associated with seniors with the aim of promoting services through these entities;
- creation of a dedicated programme, aimed at identifying a product portfolio and a timetable of events associated with promotional actions for the senior segment.

The following sets out the principal activities implemented in 2006 in relation to women:

- launch of the "Exclusive" logo, identifying a line of products, services and initiatives dedicated to women;
- sponsoring events closely connected with women (including a Women in Commerce exhibition in Turin), during which a dedicated range of products was promoted and questionnaires compiled to survey women's preferences in terms of banking relations;
- creation of a fidelity card to be associated with promotional events for the acquisition of new customers.

Cost cutting and operational innovation

This project has identified a series of actions aimed at improving productivity and efficiency, aimed at building stronger relations with customers.

The main results achieved in the various sub-projects are linked to the implementation of technology aimed at simplifying preparation of contracts, identification of signatures and monitoring of cheques. In addition, virtual services are being evolved, for both corporate and retail customers.

Branch hardware and technological infrastructure has been upgraded (for example, by replacing computers, adding scanners, introducing broadband). As a result of the above actions, management believes that it has succeeded in cutting the time spent on operational and administrative activities by up to 20 per cent.

Other initiatives include the introduction of a new self-service option at certain branches, the introduction of a new lay-out within branches aimed at improving service and security, the restructuring and outsourcing of certain activities within the BPVN Group and the implementation of a new back office model.

Ratings of BPVN

In 2006, BPVN met with the rating agencies Moody's and S&P for its annual due diligence. These meetings were characterised by a strong participation on behalf of both senior management and the managers of the main BPVN Group functions, in order to adequately provide the information requested by the rating agencies.

The table below illustrates the ratings assigned to BPVN and its subsidiaries Credito Bergamasco S.p.A. and Banca Aletti as at 31 December 2005 and 31 December 2006.

		BPVN		CREDITO BERGAMASCO		BANCA ALETTI	
		31 Dec. 2006	31 Dec. 2005	31 Dec. 2006	31 Dec. 2006	31 Dec. 2006	31 Dec. 2005
MOODY'S	Long term	A2*	A2 (stable)				
	Short term	P-1*	P-1				
	<i>Financial Strength</i>	C+*	C+				
S&P	Long term	A*	A (stable)	A*	A (stable)	A*	A (stable)
	Short term	A-1*	A-1	A-1*	A-1	A-1*	A-1
FITCH	Long term	A+*	A+ (stable)				
	Short term	F1	F1				
	<i>Individual</i>	B*	B				
	Support	3	3				

* these ratings were placed creditwatch for a possible downgrade/rating watch negative in October 2006 - further detail is set out below.

Following the announcement of the Merger between BPVN and BPI in October 2006 (for further details please see "*Merger between BPVN and BPI and incorporation of Banco Popolare*" below), the ratings marked by an asterisk in the table above were placed on creditwatch for a possible downgrade/rating watch negative, reflecting the lower ratings assigned to BPI (long-term rating: BBB for Fitch, Baa2 for Moody's and BBB for S&P) as compared to BPVN.

On 12 March 2007, following the Extraordinary Shareholders' Meetings of BPVN and BPI which on 10 March 2007 approved the Merger (see "*Merger between BPVN and BPI and incorporation of Banco Popolare – Authorisations*"), S&P removed these ratings from creditwatch, confirming the ratings previously assigned to BPVN and its subsidiaries, with an indication of a stable outlook. On 13 April 2007, Moody's, within the application of its new rating methodology on a global scale, confirmed BPVN's short and long-term ratings at the levels prior to the creditwatch action (P-1/A2), while downgrading BPVN's financial strength rating from C+ to C. The latter has remained on creditwatch for possible a downgrade.

Corporate Bodies of BPVN

Set out below is a brief description of the corporate bodies of BPVN. For a description of the corporate bodies of Banco Popolare after the Merger, please see "*Merger between BPVN and BPI and incorporation of Banco Popolare – Corporate Governance*".

Board of Directors

The Board of Directors of BPVN in office as at the date of this Prospectus is made up of the following members:

<u>Position</u>	<u>Name</u>
Chairman	Carlo Fratta Pasini*
Deputy Vice Chairman	Maurizio Comoli*
Vice Chairman	Alberto Bauli*
Chief Executive Officer	Fabio Innocenzi*
Directors	Marco Boroli*, Pietro Buzzi, Valentino Campagnolo, Vittorio Corradi, Ugo Della Bella, Giuseppe Fedrigoni, Federico Guasti*, Sergio Loro Piana, Maurizio Marino, Giuseppe Nicolò*, Gian Luca Rana, Claudio Rangoni Machiavelli, Fabio Ravanelli, Luigi Righetti*, Gian Carlo Vezzalini*, Franco Zanetta

* member of the Executive Committee

The business address of each of the Directors is Piazza Nogara No. 2, 37121 Verona, Italy.

None of the Directors perform activities outside the BPVN Group which are significant with respect to the BPVN Group.

Potential conflict of interests may exist between certain Directors' duties to the Issuer and their private interests, as certain Directors are local entrepreneurs who may wish to enter into business transactions with the Issuer (for example, borrowing funds from the Issuer). In case of such conflict of interest, pursuant to Article 2391 of the Italian Civil Code, Director is under an obligation to disclose any interest (personal or on behalf of a third party) in a specific transaction of the Issuer to the other members of the Board of Directors and to the audit committee. The Director is under an obligation to point out the nature, origin and conditions of his private interest.

Furthermore, according to Article 136 of the Italian Banking Act, any person who is vested with managerial/controlling powers within a bank may not assume any obligation or enter into purchase/sale agreements with such bank unless such transaction has been approved by the board of directors of the bank through a resolution passed unanimously and in accordance with Article 2391 of the Italian Civil Code.

Save as noted above, no potential conflicts of interest exist between the duties to the Issuer of the persons on the Board of Directors and their private interests.

Board of Statutory Auditors

Pursuant to Italian law, BPVN maintains a Board of Statutory Auditors (*Collegio Sindacale*) composed of at least three independent experts in accounting matters. The Board of Statutory Auditors of BPVN in office as at the date of this Prospectus is made up of the following members:

<u>Position</u>	<u>Name</u>
Chairman	Flavio Dezzani
Standing auditors	Giuliano Buffelli, Maurizio Calderini, Carlo Gaiani, Giovanni Tantini
Alternate auditors	Bruno Anti, Emilio Rossi

The business address of each of the Statutory Auditors is Piazza Nogara No. 2, 37121 Verona, Italy.

There are no conflicts of interest between any of the Statutory Auditors' duties to the Issuer and their private interests or other duties.

Independent Auditors

The current independent auditors of the annual non-consolidated and consolidated financial statements of BPVN are Reconta Ernst & Young S.p.A, with registered office in Verona, via Isonzo 11, registered on the special register of auditing firms held by CONSOB.

On 10 March 2007, the extraordinary shareholders' meetings of BPVN and BPI resolving on the Merger (see "*Merger between BPVN and BPI and incorporation of Banco Popolare - Authorisations*") appointed Reconta Ernst & Young S.p.A as auditors, following the Merger, of the consolidated and non-consolidated annual financial statements of Banco Popolare up to 2015.

Board of Advisors (Collegio dei Probiviri)

The Board of Advisors is composed of five members, three standing and two alternate, appointed among the shareholders.

Pursuant to article 59 of BPVN's by-laws, the Board of Advisors shall settle any dispute arising between BPVN and any of its shareholders, as well as decide on disputes relating Board of Directors' decisions against allowing a person to become a shareholder.

<u>Position</u>	<u>Name</u>
Standing	Marco Cicogna, Luciano Codini, Sergio Mancini
Alternate	Aldo Bulgarelli, Vittorio Cocito

General Manager

The General Manager of BPVN is Massimo Minolfi. The General Manager is responsible for supervision, coordination and control of BPVN's activities.

Shares and shareholders

At the end of 2006 the share capital of BPVN amounted to €1,351,181,934, divided into 375,328,315 ordinary shares with a nominal value of €3.60 each.

Pursuant to Article 30 of the Italian Banking Act, no person may hold shares in excess of 0.50 per cent. of the share capital of a *banca popolare*. Such provision, however, is not applicable to the shares held by *organismi di investimento collettivo in valori mobiliari (OICVM - investment funds)* for which higher limits apply.

Pursuant to Article 19 of the Italian Banking Act, Bank of Italy authorisation is necessary to hold a stake exceeding 5 per cent. of the share capital of a bank. In addition, pursuant to Article 120 of Italian Legislative Decree No. 58 of 24 February 1998 (the "**Italian Finance Act**") persons who hold more than 2 per cent. of the share capital of a listed company are obliged to notify that company and CONSOB of their holding.

Based on records of the company books, notifications received and any other information available to BPVN, as at 24 April 2007 the shareholders holding, directly or indirectly, a stake of over 2 per cent. of the share capital of BPVN are as follows:

<u>Shareholders</u>	<u>% of the share capital</u>
T. Rowe Price International Inc.	2.1042
Franklin Mutual Advisers, LLC	2.0549
Barclays Global Investors N.A.	2.0311
Fidelity International Ltd.	2.0098

Insolvency and Legal Proceedings

As at 31 December 2006, the main insolvency proceedings that were carried out against the BPVN Group are the following:

Insolvency proceeding from Italgest's insolvency against the former Banca Popolare di Novara S.c. a r.l.

Italgest's receiver filed a claw-back action against Banca Popolare di Novara S.c. a r.l. in relation to payments made by Italgest from Italgest's bank account with Banca Popolare di Novara S.c. a r.l. Following the merger between Banca Popolare di Verona - Banco S.Geminiano e S.Prospiero S.c. a.r.l. and Banca Popolare di Novara S.c. a r.l., the action was transferred to BPVN.

In 2004 the Court of Naples ordered BPVN to pay the Receiver of Italgest €129.2 million plus interest and legal costs. BPVN has filed an appeal against this order which is still pending. The total amount payable in respect of this claim included the Italgest bankruptcy proceedings may be reduced depending on the amount of the insolvency estate. As at the date of this Prospectus the insolvency estate is being calculated and currently stands at €51.3 million. BPVN is involved in these proceedings and has appealed against certain claims being included in the ambit of the Italgest insolvency. BPVN has made a provision in its 2006 financial statements for potential liabilities arising from the Italgest matter amounted to €43.3 million.

Insolvency proceeding instituted against the banking system by the Insolvency Commissioner of Parmalat S.p.A.

Following Parmalat S.p.A.'s declaration of insolvency in December 2003, the public prosecutors in Parma and Milan commenced investigations into various bank's involvement with Parmalat S.p.A.

BPVN's involvement with Parmalat was investigated and the claw-back period for the insolvency has been extended to 18 December 2002. Parmalat S.p.A., in extraordinary administration, has brought an action against the BPVN Group claiming repayment of the sum of approximately €185 million.

BPVN and other comparable banks are of the opinion that the Parmalat S.p.A. related claims are not well founded. In this specific case no winding-up activities were started following insolvency, and the action itself is proposed by the insolvent debtor. The extension of the claw-back period is also disputed by BPVN.

The BPVN Group has submitted a defence stating that it has acted in full accordance with the appropriate legislation and believes the claim has no merit. BPVN has made provisions in its 2006 financial statements which it deems appropriate for the potential liability in connection with this claim.

The main legal proceedings instructed against the BPVN Group are illustrated below:

Lawsuit over claims promoted by the Consorzio Lazio di Mutualità fra Cooperative Edilizie di Abitazione and other S.c.ar.l. into receivership

Consorzio Lazio di Mutualità Cooperative Edilizie di Abitazione and other S.c.ar.l. into receivership, filed a claim in 2005 against BPVN and Banca Popolare di Novara S.p.A., in the name and on behalf of a group of companies comprising some cooperatives, including Palocco 84 S.c.ar.l. and Cynthia S.c.ar.l. They claim that from 1997 the former Banca Popolare di Novara S.c.ar.l. extended loans to companies in the aforementioned group and, in particular, to the two cooperatives expressly mentioned above, in spite of the fact that BPVN and Banca Popolare di Novara S.p.A. were aware of the recipient companies' insolvency, thus inducing third parties to rely on their solvency and allowing the said companies to continue with their business activities. The claim is for an amount of €46.4 million. BPVN has applied for the claims to be struck out on the grounds that they are groundless and has not made any provision in its financial statements for any liability arising from this claim.

Legal action started by Florio Fiorini against the former Banca Popolare di Novara S.c.ar.l.

Florio Fiorini is involved in proceedings with De Angeli Frua S.p.A. where €163 million is claimed against him in connection with the insolvency of De Angeli Frua S.p.A. These proceedings are currently being

appealed and are pending. Florio Fiorini in turn has made a claim against former Banca Popolare di Novara S.c.a r.l. and other banks in relation to the above mentioned proceedings in respect of €163 million should he be liable to pay the amount in the ambit of the De Angeli Frua S.p.A. proceedings. This litigation is currently being appealed, with the courts of first instance having found for BPVN, and is still pending. BPVN believes the claim has no merit and has not made any provision in its financial statements for any liability arising from this claim.

In addition, Florio Fiorini was ordered in 1997 to pay €67 million in respect of the insolvency proceedings of a number of companies. Florio Fiorini has since brought a claim against *inter alios* Banca Popolare di Novara S.c.ar.l. and its subsidiary Seefinanz A.G. in order to recover the amount of €67 million due in respect of the sentence referred to above. Florio Fiorini's claim was rejected by the court of Milan in December 2006 and Florio Fiorini submitted an appeal in March 2007 with the first hearing scheduled for the end of June 2007. BPVN believes the claim has no merit and has not made any provision in its financial statements for any liability arising from this claim.

Litigations and complaints related to the court decisions n. 21095 of 4 November 2004 by the Cassation Court, and n. 425 of 9 October 2000 by the Constitutional Court with regard to compounding interest (taking interest on accrued interest)

With decision No. 21095 of 4 November 2004 the Court of Cassation declared the provisions covering the quarterly compounding of interest receivable introduced by lending institutions in checking account contracts even before 1999 to be void (in 1999 the Supreme Court had already declared their illegitimacy).

As a result of the above court decision, extrajudicial claims filed by customers for the repayment of the amounts debited as a result of the application of interest compounding soared rapidly and added up to those that had already been filed after the prior decision No. 425 of 9 October 2000 expressed by the Constitutional Court.

Although BPVN considers the banks that merged to become BPVN acted legitimately and in line with the banking industry, and while taking into account the indications and the initiatives put on by the Italian banking association (ABI) to defend our rights, by reason of prudence BPVN has deemed it appropriate to set aside the necessary provisions to cover estimated contingent liabilities that are considered certain or highly probable. BPVN has made provisions in its 2006 financial statements which it deems appropriate for the potential liability in connection with this claim.

Recent Events

The main recent events concerning the BPVN Group are the following:

- in the context of a securitisation transaction carried out by BP Mortgages S.r.l. on 11 April 2007, BPVN transferred to BP Mortgages S.r.l., a special purpose vehicle incorporated under Italian Law no. 130 of 30 April 1999, a portfolio of claims originated by BPVN with a total nominal value equal to Euro 1,447,780,229 (for further details on the securitisation, see section “*Securitisation transactions*” below);
- on 27 April 2007, the Board of Directors of Aletti Merchant S.p.A. and Efibanca S.p.A. approved the project for the merger by incorporation of Aletti Merchant S.p.A. into Efibanca S.p.A. and the issuance by Efibanca S.p.A. of new shares to be allocated to the shareholders of Aletti Merchant S.p.A. In particular:
 - (i) the exchange ratio envisages the assignment of 0.22 ordinary shares by Efibanca S.p.A., with a nominal value of Euro 1.00 each, for each ordinary share of Aletti Merchant S.p.A.. Pursuant to article 2501-*quater* of the Italian Civil Code, the financial statements used as reference for the merger are (a) for Efibanca S.p.A., the financial statements as at 31 December 2006, as approved by the shareholders' meeting on 16 April 2007, and (b) for Aletti Merchant S.p.A., the financial statements as at 31 December 2006, as approved by the shareholders' meeting on 3 May 2007;

- (ii) Efibanca S.p.A. will carry out an increase in its share capital of a maximum 16,720,000 shares, to be assigned to the shareholders of Aletti Merchant S.p.A. as financial consideration of the merger exchange;
 - (iii) any shareholders of Aletti Merchant S.p.A. that decide not to approve the merger project are entitled with the right of withdrawal from the company pursuant to article 2437 and following of the Italian Civil Code; and
 - (iv) the articles of association of Efibanca S.p.A. shall, as a result of the merger in question, be amended as follows: (i) the change of the legal headquarters from Rome to Lodi; (ii) the increase in the share capital from Euro 92,976,566.00 to Euro 109,696,566.00 and (iii) the change of the competent judicial body for disputes among shareholders to Lodi.
- The timing of the transaction envisages, subject to the approval by the Bank of Italy merger project (which has 90 days to approve the merger project running from the filing made on 30 April 2007), the calling of the extraordinary shareholders' meetings for the approval of the merger project, both by Efibanca S.p.A. and by Aletti Merchant S.p.A., by mid-July 2007, with the legal effectiveness of the merger expected from 1 August 2007. The objective of the merger project, which is related to the merger between BPVN and BPI (as described in the section "*Merger between BPVN and BPI and incorporation of Banco Popolare*" below), is to consolidate under Efibanca S.p.A. the professional skills in specific fields of merchant and investment banking, thereby creating a single unit to offer financial products and services to corporate customers;
 - the merger between BPVN and BPI, as described in the section "*Merger between BPVN and BPI and incorporation of Banco Popolare*" below;
 - on 31 May 2007 BPVN and BPI entered into an agreement with Fondiaria-SAI S.p.A., with respect to a partnership in the life bancassurance business. The agreement creates an exclusive relationship for Fondiaria-SAI with the distribution franchises of the Banco Popolare Group banks while leaving in place the BPI franchise agreements with AVIVA and AURORA for 2008 and 2009; and
 - in May 2007, Banca Italease S.p.A. ("**Banca Italease**") a company listed on the Italian Stock Exchange in which, as at 31 December 2006, the BPVN Group held a participation equal to 30.72 per cent. of the share capital, announced that its Chief Executive Mr. Massimo Faenza has been included in the register of persons to be questioned in relation to judicial investigation by Rome's district attorney as a result of alleged connections between himself and the Coppola Group. The investigations are pending.

On 7 June 2007 Mr. Faenza resigned as Chief Executive of Banca Italease and has been replaced by Mr. Massimo Mazzega.

On 8 June 2007, following the Board of Directors of the day before, Banca Italease issued a new press release on the exposure to the Coppola Group and its exposure in derivatives. Set out below is an extract from such press release:

"Banca Italease re-affirms what was previously communicated on 24 April 2007: the total exposure to the Coppola Group is EUR 66.1 million.

With regard to the potential credit exposure of Banca Italease towards its customers in relation to derivatives instruments, disclosed on 31 May 2007 with reference to reports dated 22 May, for a total of approximately EUR 400 million, it is noted:

- *around EUR 150 million were related to contracts that, with reference to reports dated 5 June, entail potential exposure of the customers towards Banca Italease of approximately EUR 235 million. The Bank has already closed out the related hedging instruments with bank counterparties, by paying an amount of around EUR 192 million.*
- *The remaining contracts, whose potential exposure of the customers towards Banca Italease was around EUR 250 million as of 22 May, entail potential exposure of approximately EUR*

365 million as of 5 June; for these contracts, too, the Bank is evaluating the possibility to arrange for closing out the hedging instruments.

Such amounts represent the potential exposure of the customers towards Banca Italease in the event of the transactions being closed out as of today, in advance of the stated expiration dates. It is noted that such contracts have terms in excess of one year.

Banca Italease informs that all the existing derivative contracts as of 5 June have the same nature of those as of 31.12.2006 and they are related exclusively to Euro Interest Rate (Euribor). These contracts have complex features due to the presence of leverage and barrier elements which have influenced the evolution of those instruments.

The number of contracts amount to approximately 2,600, related to around 2,200 customers; In particularly the potential credit exposure of the Bank towards the top 20 clients represents roughly 60% of the total.

In relation to the increase of such potential exposure of all the customers of Banca Italease, the Bank informs that contacts with customers has been initiated in order to provide specific clarification about their exposure and to ascertain with them the best solutions to safeguard reciprocal interest. At the same time, the Bank is proceeding to update the analysis of the creditworthiness of customer counterparties. The outcome of the initiatives being undertaken with clients as well as the update of analysis of the creditworthiness of the customers will be reported in the financial statements as of 30 June 2007, on the basis of a weighted and prudent estimate, which is presently premature to quantify.”

As at the date of this prospectus, BPVN is not in a position to assess if the recent events in respect of Banca Italease may have an impact on its financial position and results of operations.

MERGER BETWEEN BPVN AND BPI AND INCORPORATION OF BANCO POPOLARE

On 13 December 2006, the board of directors of Banca Popolare Italiana – Banca Popolare di Lodi Società Cooperativa (“**BPI**”) and the board of directors of BPVN approved the plan to merge the two banks and create a new banking company (the “**Merger**”) named “Banco Popolare Soc. Coop.” (“**Banco Popolare**”). Set out below is a brief summary of BPI, together with details of the Merger. Following the Merger, Banco Popolare will substitute BPVN as Issuer of the Notes as more fully described in Condition 13(c) (*Meetings of Step-Up Noteholders; Modification and Waiver; Substitution – Substitution*) in the “Terms and Conditions of the Step-Up Notes” and the “Terms and Conditions of the Non Step-Up Notes”.

See also “*Risk Factors – Risk Factors relating to the Merger*”.

BPI

Banca Popolare Italiana – Banca Popolare di Lodi Società Cooperativa is a co-operative company (*società cooperativa*) incorporated with limited liability under the laws of Italy and is registered in the Companies’ Register of Lodi with number 00691360150. Its registered office is at Via Polenghi Lombardo 13, 26900 Lodi.

BPI was incorporated in 1864 and was the first cooperative bank established in Italy. It was formed to promote savings by local customers and to provide banking services to support their business activities. BPI was listed on the *Mercato Ristretto* of the Italian Stock Exchange in 1981 and has been listed on the *Mercato Telematico Azionario*, the screen-based market of the Italian Stock Exchange, since 1998. In June 2005, BPI changed its name from Banca Popolare di Lodi S.c.a.r.l. to its current name, Banca Popolare Italiana – Banca Popolare di Lodi Società Cooperativa.

BPI together with its consolidated subsidiaries (the “**BPI Group**”), has a strong presence in the Italian banking sector with significant operations in several Italian regions. Since 1995, BPI has expanded its operations into most regions of Italy, including Tuscany, Sicily, Liguria and Abruzzo and, as at 31 December 2006, the BPI Group conducted operations through 971 branches in Italy and 2 branches outside of Italy.

The BPI Group’s business mainly involves the provision of commercial banking products and services. To complement its traditional banking activities, the BPI Group has, over the past years, expanded the products and services it offers to customers through various fee-generating activities, including retail banking, investment banking, consumer lending, asset management and real estate activities. Individuals, income generating households and small to medium-sized businesses constitute the core of its customer base.

Summary consolidated financial information of BPI is included in the section entitled “*Summary Financial Information of Banca Popolare Italiana*” and the consolidated financial statements of BPI as at and for the years ended 31 December 2005 and 2006 are incorporated by reference herein.

Financial Highlights

Shown below are the main financial highlights of the BPI Group as at and for the year ended 31 December 2006, with comparative data as at and for the year ended 31 December 2005.

	As at and for the year ended 31 December		Changes
	2006	2005 ¹	
Balance sheet			
Total assets	46,787,071	47,322,515	(1.13%)
Total loans.....	33,569,379	32,412,055	3.57%
of which			
customer loans	28,735,907	27,955,054	2.79%
Financial assets	4,785,796	5,421,044	(11.72%)
Shareholdings	151,168	487,644	(69.00%)
Total payables	38,135,411	39,172,974	(2.65%)
of which			
customer accounts and debt securities in issue	32,138,095	34,384,923	(6.53%)
Indirect deposits	33,260,783	34,642,883	(3.99%)
of which			
assets under management	18,575,664	18,294,066	1.54%
Net interbank position.....	(1,163,844)	(331,050)	(251.56%)
Shareholders' equity attributable to the Group and minority interests (including profit/loss)	4,103,419	3,247,975	26.34%
of which			
Shareholders' equity attributable to the Group (incl. profit/loss)..	3,955,825	2,786,311	41.97%
Income statement			
Net interest income	840,100	758,189	10.80%
Total income	1,500,738	1,277,565	17.47%
Net adjustments to loans and financial assets	(432,468)	(968,457)	(55.34%)
Administrative expenses	(999,363)	(982,078)	1.76%
Profit (loss) from continuing operations before tax	142,564	(822,841)	117.33%
Net profit (loss) (excluding minority interests)	3,421	(699,879)	100.49%
Net profit (loss) attributable to the Group	(39,861)	(743,893)	94.64%
Operating structure			
Number of employees.....	8,579	8,384	
Number of branches	973	979	
Ratios			
ROE.....	n/a	n/a	
ROA	n/a	n/a	
Net interest income/Total income.....	55.98%	59.35%	
Administrative expenses/Total income	66.59%	76.87%	
Gross financial assets/Total assets	10.23%	11.46%	
Non-performing loans/Customer loans.....	1.02%	1.08%	
Net adjustments for impairment of loans/Customer loans ⁽²⁾	1.16%	2.65%	

1 Pro forma – The figures for 2005 have been restated to incorporate the effects of the changes in the scope of consolidation which have taken place in 2006 arising from the sale of the subsidiaries Bipelle Leasing and Società Riscossione Tributi Lucca e Cremona and the reclassification of the contribution made by the affiliated companies Bipielle Network, Bipielle Previdenza, and Area life International Assurance among “Non-current assets/liabilities classified as held for sale” and “Profit/loss from disposal groups classified as held for sale after tax”.

2 Adjustments to loans, excluding extraordinary adjustments, were equal to 0.81 per cent. of the total loan portfolio on 31 December 2006.

Litigation

Set out below is a summary of the principal litigation proceedings involving the BPI Group.

Aborted acquisition of Banca Antonveneta S.p.A.

In spring 2005, BPI launched a takeover bid against Banca Antoniana Popolare Veneta S.p.A. (“**Banca Antonveneta**”) with the aim of creating the fifth largest bank in Italy. BPI is involved in litigation and potential litigation arising from this bid, which was ultimately unsuccessful.

The Public Prosecutors of Milan and Rome are investigating the Banca Antonveneta bid in order to establish whether BPI’s management and certain other parties have any criminal liability in connection with a number of alleged offences, including market manipulation, publication of false company information, obstructing the work of the regulator and issuing a false prospectus. In addition, the existence of other offences cannot be ruled out. The Public Prosecutor in Milan is also seeking to establish whether BPI can be held liable under administrative law for any of these offences. In view of this potential exposure to fines, BPI made an initial provision in its 2005 unaudited consolidated half-yearly financial statements in the sum of Euro 25 million.

All enquiries regarding the proceedings pending the Public Prosecutor’s Office of Milan ended on 15 February 2007 with a notification sent to all defendants stating that the prosecutor’s investigation has been completed, charging the defendants with the following crimes: market manipulation, false corporate information, impediment to the supervisory authorities, falsification of prospectus, aggravated misappropriation, money-laundering, acts of disloyalty following the giving or promising of benefits and aggravated fraud. These proceedings are still pending.

The notification of the investigation being complete also charges BPI of not adopting nor properly enacting organisation and management models capable of preventing the offences attributed to its administrative bodies (pursuant to articles 25 *ter* and *sexies* of the Italian Law Decree no. 231/2001).

In addition to a fine, BPI may be subject to a confiscation order in respect of any profit made from the alleged offence referred to above and, as a result, when BPI sold off its shareholding in Banca Antonveneta (following the failure of its takeover bid), the profit made on the disposal, amounting to approximately Euro 94.24 million, was frozen in an account by the Public Prosecutor. Although BPI is co-operating fully with the authorities, it has not admitted any liability in relation to the proceeds of the share sale and is unable at present to determine the likelihood of any confiscation order.

BPI’s two principal regulators, CONSOB and the Bank of Italy, have also brought proceedings against it in connection with the Banca Antonveneta bid. The initial investigations by CONSOB concerned failure to disclose various agreements between BPI and other shareholders of Banca Antonveneta, unauthorised stake-building and various other infringements of the rules on takeover bids, public offers of securities and public disclosure of information. In January 2006, CONSOB proposed to settle some of these proceedings by the payment of fines amounting to Euro 5.93 million, of which Euro 4.45 million has been paid as at the date of this Prospectus, although CONSOB’s enquiry remained open in relation to a number of infringements. In December 2006, CONSOB imposed a fine on BPI amounting to Euro 5.39 million, in respect of which BPI filed an appeal on 18 January 2007. These proceedings are ongoing as at the date of this Prospectus

The Bank of Italy’s investigations against BPI, begun in May 2005, have related to, *inter alia*, unauthorised stake-building in a bank, failing to disclose the existence of a shareholders’ agreement, irregularities in BPI’s regulatory capital (including falling below the minimum capital ratios required under Bank of Italy regulations), failings in its organisation and internal control in relation to the procedure for granting loans, failure to notify the Bank of Italy of a put option which BPI granted to Deutsche Bank AG, London Branch over shares in Bipielle Investimenti and irregularities in the subscription of hedge fund units.

In February 2006, the Bank of Italy notified BPI of a fine in the sum of Euro 791,645 ordered by the Italian Ministry for the Economy and Finance against, *inter alia*, the members of the Board of Directors and the Board of Statutory Auditors of BPI in office on the date on which the irregularities took place. The grounds for giving the fine mainly related to the acquisition of a controlling stake in Banca Antonveneta without any prior authorisation and failure to disclose the existence of shareholders’ agreements. Some of the persons

receiving the fine have lodged an appeal before the Court of Appeal of Rome, in which the members of the Board of Statutory Auditors have been successful but which is currently pending as far as the members of the Board of Directors are concerned. BPI has not appealed and the appeal does not suspend enforcement of the fine. The Bank of Italy's other proceedings and investigations against BPI are still pending.

Cirio – claim by administrator

In 2004, Cirio Finanziaria S.p.A. (in administration) (“**Cirio Finanziaria**”) brought an action before the Court of Rome against BPI, together with a number of other banks and Sergio Cragnotti (Cirio Finanziaria's former Chairman), claiming, *inter alia*:

- repayment of the sum of approximately Euro 25.8 million plus interest, compensation for currency devaluation and further and other relief, for losses it claims to have suffered as a result of allegedly unlawful conduct (which it has estimated to amount to no less than Euro 250 million in total);
- further and in the alternative, payment of no less than Euro 474 million in damages for losses suffered as a result of unlawful conduct (or any lesser or greater sum determined by the courts); and
- further and in the alternative, revocation of certain transactions by Cirio Finanziaria in favour of BPI and clawback of the sum of approximately Euro 25.8 million, plus interest, compensation for currency devaluation and any additional damages.

Following several court hearings, on 6 February 2007, the Court issued an order deeming the case ready for judgement. The latest court hearing took place on 28 May 2007 and the outcome is still pending.

The insolvency of Cirio Finanziaria and its subsidiaries (the “**Cirio Group**”) has been heavily publicised in Italy. The Cirio Group went into administration in spring 2003 after it defaulted on a series of bonds which were largely held by Italian retail investors.

BPI is not in a position to assess the likely exposure arising from this claim and cannot rule out the possibility of a judgment against it. BPI made provision in its 2006 audited consolidated annual financial statements in the sum of Euro 2 million in connection with the claims currently pending.

Parmalat and Cirio – criminal proceedings

The BPI Group is involved in investigations by the public prosecutors in Parma and Milan following the financial collapse of the Parmalat group and by the Public Prosecutor of Rome in connection with the bankruptcy of the Cirio Group. In relation to the Parmalat investigations, following the declaration of insolvency of the Parmalat group in December 2003, BPI filed a memorandum with the relevant public prosecutor in March 2004 with the aim of clarifying the reasons why it denies that it and its management were involved in the matters under investigation. Explanations were given in particular concerning:

- a property transaction involving land owned by the company Eurolat situated in the municipalities of Lodi, Tavazzano and Montanaro;
- a loan granted in 2003 to Calisto Tanzi, founder and former Chairman of the Parmalat group, which Mr. Tanzi is alleged to have used to subscribe for shares issued for the purposes of an increase in the share capital of Parmatour, which was also owned by the Tanzi family and which at the beginning of 2004 was also declared insolvent; and
- the acquisition by BPI in October 2003 of a Euro 100 million bond issued by Parmalat Finance at a price of approximately Euro 102.19 million.

Similarly, in relation to the Cirio investigations, BPI filed a memorandum with the Public Prosecutor of Rome, confirming details of loans granted to the Cirio group by BPI and, once again, denying any involvement on the part of BPI and its management in the events currently under investigation.

As at the date of this Prospectus, it is not possible to quantify the potential risks in terms of BPI's financial liability. However, there is no doubt that BPI may face significant financial penalties under civil law if its executives (or former executives) are found guilty of any offence.

Gianpaolo Zini

The Parmalat group has brought proceedings against a number of persons involved in its management prior to its collapse in December 2003, claiming a total of Euro 11.90 billion. Gianpaolo Zini, the former legal advisor of the Parmalat group and one of the defendants in this action, has brought proceedings against BPI and a number of other third parties, seeking a declaration that such third parties should also be liable for any damages awarded to the Parmalat group. In January 2005, BPI applied to the court to have Mr. Zini's claim struck out for lack of any legal basis and/or any grounds giving rise to liability on the part of BPI. A hearing on this application is still pending.

As at the date of this Prospectus, BPI is unable to assess the likely outcome of Mr Zini's claim and has made no provision in its financial statements for any potential liability arising from this matter.

Viatel

Banca Bipielle Network S.p.A. ("**Bipielle Network**") is the defendant in a significant number of proceedings brought by investors who acquired securities of the US company Viatel, Inc. ("**Viatel**"), which was declared insolvent in 2002. Although Bipielle Network has been sold and no longer forms part of the BPI Group, the risk in respect of this litigation remains with BPI as a result of the contractual agreements reached at the time of such sale.

Investors claimed damages in the sum of approximately Euro 45.2 million following Viatel's default. In particular, investors claimed that Area Banca S.p.A. (now Bipielle Network) traded Viatel securities in violation of disclosure obligations under Italian financial services legislation and under CONSOB regulations. Many of these proceedings are now at an advanced stage, some have already been concluded and a small number are under appeal.

In addition, following an investigation into Area Banca S.p.A. (now Bipielle Network) in 2005, CONSOB initiated administrative proceedings against the then members of the Board of Directors and Board of Statutory Auditors of that company, as well as certain members of its management and employees, in each case concerning the operations of the company, particularly with regard to the provision of investment services. In January 2006, CONSOB and the Ministry for the Economy and Finance ordered Bipielle Network to pay a fine of Euro 589,000 which had been imposed on the individuals referred to above. Bipielle Network's appeal in respect of this sanction has been rejected.

Following the above, Bipielle Network paid all the amounts due as sanctions and the relevant interest and at the same time requested that the parties who had actually committed the acts leading to the sanctions reimburse the amounts paid by Bipielle Network itself as a result of the sanctions issued by the Italian Ministry of Economy and Finance.

It is possible that the objections listed in the CONSOB report – together with the action taken by the Italian Ministry of Economy and Finance – may impact in a negative way on the future developments of the proceedings currently being carried out by the holders of the Viatel securities against Bipielle Network.

The amount of the provision made by the BPI Group in its 2006 annual financial statements for potential liabilities arising from the Viatel dispute amounted to approximately Euro 17.4 million.

Exposure to Barilla/Kamps

The BPI Group, together with some of its financial partners, provided assistance to the Barilla group in its acquisition of Kamps and Harry's in 2002-03, in the form of both debt and equity financing. Until the end of 2004, equity investments were recorded in BPI's financial statements at historic cost. However, when BPI adopted IFRS for the first time with effect from 1 January 2005 (and, in particular, IAS 39 (Financial Instruments: Recognition and Measurement)), its shareholdings in the Kamps and Harry's groups were

written down by a total of Euro 32.5 million. Subsequently, as the difficult financial situation of Kamps became more apparent in the second half of 2005, BPI was required to make further adjustments with a reduction in the valuation of its shareholdings by Euro 9.6 million. In addition, the BPI Group made a write-down in the sum of Euro 97 million in its 2005 annual financial statements in respect of the loans granted by it in connection with the Kamps and Harry's acquisitions. As the financial situation has worsened, the BPI group has made a write down of a further Euro 104 million in its 2006 financial statements in respect of loans granted in connection with the Kamps and Harry's acquisitions and a full write down of interest accrued in 2006 in the amount of Euro 21.9 million.

Under the agreements between the Barilla group and its financial partners (including the BPI Group), the financial partners hold a put option granted by the Barilla group over the shares held by them either directly or indirectly in Finba Bakery Holding GmbH and Finbakery Netherlands B.V., parent companies of, respectively, the Kamps group and the Harry's group. The put option is exercisable upon the occurrence of certain events, such as the failure of the two parent companies to be listed on the stock market, with a strike price equivalent to book value plus interest. At present, none of these events has occurred and it is not yet certain if and when they will actually occur. Furthermore, in April 2006, the Barilla group raised objections to certain contractual arrangements with BPI and questioned the validity of the put option. After BPI indicated its wish to commence arbitration proceedings, the Barilla group responded by commencing legal proceedings, which are now pending. BPI meanwhile began arbitration proceedings in September 2006. While BPI considers the objections put forward by the Barilla group to be unfounded, it is not currently in a position to predict the outcome of these objections, although it considers it unlikely that it will suffer any losses over and above those already covered by provisions.

Overall, the current earnings performance of the Kamps group and its projected future revenues have revealed significant risks. BPI has made provisions in its 2006 financial statements which it deems appropriate for the potential liability in connection with this claim.

Unpaid debts owed by the Magiste group

The BPI Group is owed significant debts by the Magiste group of Stefano Ricucci arising from four main positions (and certain minor positions):

- following the maturity of certain exchange rate transactions and following enforcement of security to recover the amounts owed, an outstanding balance due from Magiste S.p.A. of US\$ 9.83 million (from a foreign currency loan) and Euro 1.22 million (from a current account) as at 31 December 2005;
- an unpaid BPI loan to Magiste International S.A. originally in the sum of Euro 730 million (subsequently reduced to Euro 665 million), plus interest, in connection with which BPI has enforced security and recovered Euro 105.16 million (less costs);
- approximately Euro 100 million plus interest owed by Garlsson Real Estate S.A. under a short-term loan granted in June 2005 (maturing in September, 2005), of which BPI has recovered Euro 9.07 million by enforcement of security; and
- an overdraft of approximately Euro 10 million on a current account held by Magiste Real Estate S.p.A.

After making a successful application to release shares in RCS Media Group S.p.A. ("**RCS**") held by the Magiste group that had been frozen by the public prosecutor, BPI effected a placement of 75,566,946 shares, equivalent to 10.31 per cent. of the ordinary capital of RCS, which was completed in June 2006. Following the conclusion of the placement of RCS shares, the total amount of unpaid debts owed to the BPI Group totalled Euro 202.54 million, to which adjustments in the sum of Euro 150.28 million have been made to the BPI Group's 2005 annual financial statements, bringing the total amount down to Euro 52.26 million which, following certain adjustments, amounted to Euro 56.9 million as at 31 December 2006.

On 13 November 2006, the Bankruptcy Section of the Court of Rome commenced the procedure for a creditor composition (*concordato preventivo*) in respect of Magiste International S.A. which was declared

bankrupt in January 2007. It is possible that the security taken and enforced in respect of the loans referred to above could be set aside.

Giovanni Cerea

In 2001 Giovanni Cerea issued proceedings against BPI in the Court of Milan, seeking to recover fees in the sum of Euro 38.5 million for an alleged appointment in relation to the acquisition by BPI of a controlling shareholding in Banca Popolare di Crema. Mr. Cerea also sought damages for alleged non-performance by BPI of its obligations under the appointment. Subsequently, two further claimants, Ernesto Preatoni and Sarin S.r.l., joined the proceedings, making claims against both BPI and Mr Cerea. BPI has contested each of these claims, regarding them as unfounded and vexatious. In 2004, the court of first instance found in favour of BPI, dismissing all claims against BPI and, in 2005, following the filing of an appeal against this judgment, BPI reached a settlement with Mr Preatoni and Sarin S.r.l. However, Mr Cerea's appeal is still pending and is expected to be heard by the Court of Appeal in July 2007. BPI is unable to predict the likely outcome of these proceedings and has not made any provision in its financial statements in relation to this claim.

Dispute between Banca Popolare Italiana and Dresdner Bank AG

In April 2006, BPI claimed compensation from Dresdner Bank AG ("**Dresdner**") in an amount of Euro 38 million in connection with a series of structured finance transactions carried out between BPI and Dresdner in April 2003. In addition, in April 2007, BPI filed charges and initiated proceedings with the Public Prosecutor of Lodi against former officers of BPI and Dresdner in connection with these transactions. At the date of this Prospectus, the proceedings are still in the preliminary stage.

2004 and 2005 financial statements

Following the abortive takeover bid against Banca Antonveneta by BPI in 2005, investigations carried out by regulators, the public prosecutor and BPI's own Board of Directors and its Board of Statutory Auditors, with particular regard to the activities of BPI's chief executive officer and its finance department, there emerged transactions which had not been reported to the Board of Directors, including balance sheet valuations based on a statement concerning the underlying transactions and financial instruments given to Board meetings that was partial or misleading. As a result, CONSOB applied to the Court of Lodi to have the shareholders' resolution approving the annual consolidated and non-consolidated financial statements of BPI as at and for the year ended 31 December 2004 declared invalid.

Following these events, BPI issued restated annual consolidated and non-consolidated financial statements as at and for the year ended 31 December 2004. These show a Euro 194.9 million reduction in the BPI Group's consolidated net income for the year and in its consolidated shareholders' equity as at the year end, in comparison to the original 2004 annual financial statements. The restated financial statements also contain information on certain commitments made by BPI which were not mentioned in the original 2004 annual financial statements.

Deloitte & Touche independent auditors to BPI, issued qualified audit reports on the restated consolidated and non-consolidated annual financial statement as at and for the year ended 31 December 2004. In particular, Deloitte & Touche stated that it was unable to state whether the accounting treatment of certain adjustments were correct or not - in particular, the accounting treatment of guaranteed returns offered to certain customers and the related provisions for potential losses and the write-down of certain complex financial derivatives and structured financial assets booked to BPI's portfolio. As such matters could have an impact on the 2005 results of the BPI Group, Deloitte & Touche also qualified its audit reports on the consolidated and non-consolidated financial statements of BPI as at and for the year ended 31 December 2005.

Merger Process

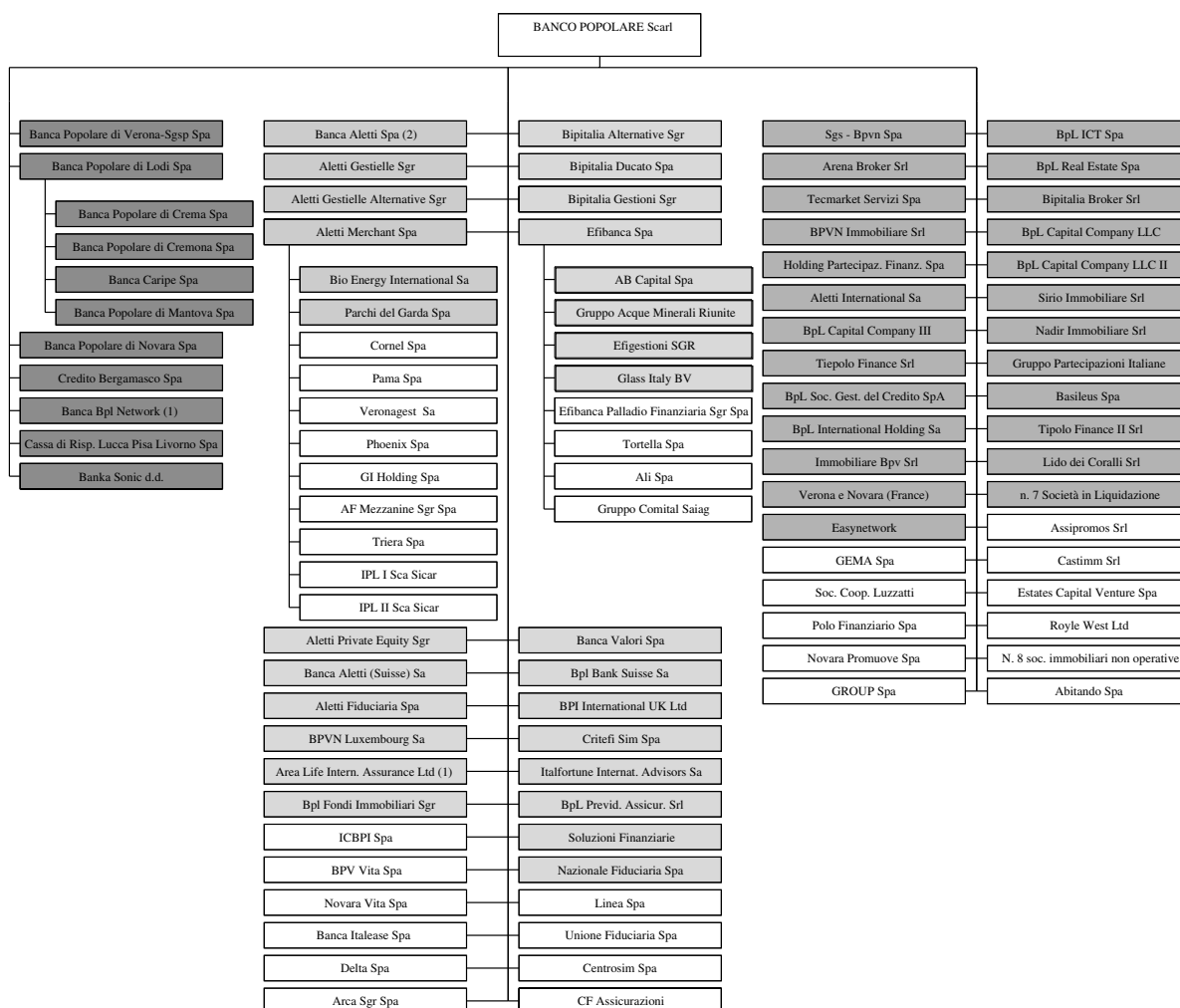
The project of merger between BPI and BPVN (the “**Merger Project**”) envisages:

- (i) the establishment of Banco Popolare as a new banking company, which is expected to be listed on the Italian stock exchange will have its registered office in Verona, administrative head offices in Lodi and Verona and other offices in Novara;
- (ii) the transfer of BPI’s banking activities, essentially made up of the BPI branch network located mainly in areas where BPI traditionally originated and of all controlling interests in other banks that constitute the BPI Group, to a newly incorporated joint-stock company (Banca Popolare di Lodi S.p.A.) owned entirely by Banco Popolare, with registered office and administrative head office in Lodi, on the understanding that this transfer will be subject to the legal effectiveness of the Merger;
- (iii) the transfer of BPVN’s banking activities, essentially made up of the BPVN branch network located mainly in areas where BPVN traditionally originated, to a newly incorporated joint-stock company (Banca Popolare di Verona – San Geminiano e San Prospero S.p.A.) owned entirely by Banco Popolare, with registered office and administrative head office in Verona, on the understanding that this transfer will be subject to the legal effectiveness of the Merger.

The remaining assets and liabilities of BPI and BPVN will pass automatically to Banco Popolare on the Merger, as described under “*Legal effectiveness of the Merger*” below.

Banco Popolare Group structure

As at the date of this Prospectus, the Banco Popolare Group structure is expected to be as follows:



Authorisations

Italian regulatory authorities

On 25 January 2007 the Bank of Italy authorised the Merger Project pursuant to Article 57 of the Italian Banking Act.

On 30 March 2007, the Italian Market and Competition Authority (*Autorità Garante della Concorrenza e del Mercato*) and the Italian Assurance Supervisory Authority (*Istituto per la Vigilanza sulle Assicurazioni Private e di Interesse Collettivo*) communicated their resolution not to conduct any inquiry into the Merger.

Shareholders and creditors of BPVN and BPI

On 10 March 2007 the extraordinary shareholders' meetings of BPVN and BPI approved the Merger Project, which includes *inter alia*:

- (i) the assignment to the shareholders of BPVN of 1 share of Banco Popolare, with a nominal value of €3.60, for each share held in BPVN, with a previous nominal value of €3.00;
- (ii) the assignment to the shareholders of BPI, of 0.43 shares of Banco Popolare, with a nominal value of €3.60 each, for every share held in BPI, with a previous nominal value of €3.00;
- (iii) the approval of the articles of association of Banco Popolare characterised by the adoption of a dualistic management and control model system based on a Supervisory Board (*Consiglio di Sorveglianza*) and a Management Board (*Consiglio di Gestione*), in accordance with article 2409-ocies and following of the Italian Civil Code.

On 3 April 2007 BPI and on 5 April 2007 BPVN, according to article 2502-bis of the Italian civil code, deposited the resolutions of their respective extraordinary meetings for the registration in the competent companies' registers. Within 15 days of such deposit, creditors of BPVN and BPI were entitled to raise objections to the Merger, pursuant to articles 2503 of the Italian civil code and 57 of the Italian Banking Act. No such objections have been raised by any creditor of BPVN and BPI.

Pre-Merger Events

At a meeting held on 10 March 2007, the shareholders' of BPI approved an extraordinary distribution from the BPI share premium reserve, for a total maximum value of €1,521 million, in favour of the shareholders of BPI and of the holders of 4.75 per cent. convertible bonds due 2010 (ISIN: IT0001444360), corresponding, on a unitary basis, to the distribution of €2.17 for every BPI share. This extraordinary distribution is subject to (i) the verification and declaration by the BPI Board of Directors that as at 30 June 2007 no event has occurred which may affect the capacity of the share premium reserve and the distribution thereof, and (ii) the completion of the Merger.

In addition, the shareholders' of both BPVN and BPI have authorised their respective Board of Directors, within the implementation of the Merger Project and prior to the completion of the Merger, to proceed with the acquisition of own shares, up to a maximum of 5.4 per cent. of the outstanding share capital of each entity. This transaction, together with the Notes issued pursuant to this Prospectus, is aimed at optimising the capital structure of Banco Popolare, with a view to maximising the accretion of value for the shareholders of the Banco Popolare Group, while at the same time respecting a capital profile deemed adequate by the supervisory authorities and by the rating agencies.

On 28 March 2007, the Board of Directors of BPVN and BPI approved their respective share buyback programmes for the period from 29 March 2007 to 30 June 2007. The purchases of BPVN and BPI shares are to be made on the regulated market in accordance with applicable Italian law and regulation. The maximum total number of shares which may be purchased under the two share buyback programmes is 20,400,000 ordinary shares of BPVN and 37,000,000 ordinary shares of BPI, representing 5.4 per cent. of the share capital of BPVN and BPI respectively. The minimum purchase price per share is fixed at the nominal value of BPVN ordinary shares (being Euro 3.60) and of BPI ordinary shares (being Euro 3.00). In

addition, BPVN may purchase common shares of BPI for an amount equal to the portion which has not been purchased by BPI under the BPI share buyback programme, after obtaining any prior authorisations required by law, on the same terms as the BPI programme.

As at 25 May 2007, pursuant to the share buyback programmes described above BPVN has purchased 12,352,229 BPVN ordinary shares and BPI has purchased 20,960,000 BPI ordinary shares.

Legal effectiveness of the Merger

The next steps in the implementation of the Merger Project leading to the Merger taking legal effect are as follows:

- (i) the authorisation by CONSOB and Borsa Italiana S.p.A. in respect of the listing of the shares of Banco Popolare, prior to the completion of the Merger;
- (ii) the execution, by 30 June 2007, of the Deed of Merger (as defined below) and its registration with the relevant companies' registers on 1 July 2007;
- (iii) the payment by Banco Popolare of the extraordinary part of the BPI share premium reserve to the shareholders of BPI, with value date on 5 July 2007.

The contribution of the business of BPVN to Banca Popolare di Verona – S. Geminiano e S. Prospero S.p.A. and of BPI to Banca Popolare di Lodi S.p.A. described in this section and in “Merger Process” above shall take place immediately before the effectiveness of the Merger.

The Merger Project envisages: (i) the establishment of Banco Popolare as a new banking company as a result of the merger between BPI and BPVN, which will be listed on the Italian Stock Exchange and will have its registered office in Verona, administrative head offices in Lodi and Verona and other offices in Novara; (ii) the contribution of part of BPI's business, essentially made up of the BPI branch network located mainly in areas where BPI traditionally originated and of all controlling interests in other banks that constitute the BPI Group, into a newly incorporated joint-stock company (Banca Popolare di Lodi S.p.A.) wholly owned by Banco Popolare, with registered office and administrative head office in Lodi, on the understanding that this contribution will be subject to the legal effectiveness of the Merger; (iii) the contribution of part of BPVN's business, essentially made up of the BPVN branch network located mainly in areas where BPVN traditionally originated, into a newly incorporated joint-stock company (Banca Popolare di Verona – San Geminiano e San Prospero S.p.A.) wholly owned by Banco Popolare, with registered office and administrative head office in Verona, on the understanding that this contribution will be subject to the legal effectiveness of the Merger. The final step of the merger process is the registration with the relevant companies registers (i.e. Lodi and Verona) of a deed of merger (the “**Deed of Merger**”). The Deed of Merger is a notarial deed of BPVN and BPI which is expected to be entered into in the last week of June 2007. The Deed of Merger will contain all information required by Italian law for the merger to take place and for the incorporation of Banco Popolare as a new company.

The contribution of part of the business of BPVN to Banca Popolare di Verona – S. Geminiano e S. Prospero S.p.A. and of BPI to Banca Popolare di Lodi S.p.A. described above shall take place immediately before the effectiveness of the Merger. According to Article 2504-bis of the Italian Civil Code, Banco Popolare, as the company resulting from the Merger, will assume all rights and liabilities of BPVN and BPI at the date of the Merger and will replace BPVN and BPI in all their contractual relationships and judicial proceedings started before the Merger.

Industrial Rationale and Operating Highlights of the Banco Popolare Group

On 13 December 2006, the board of directors of BPVN and BPI approved the industrial plan (the “**BP Industrial Plan**”) for Banco Popolare and its subsidiaries (the “**Banco Popolare Group**”). The BP Industrial Plan aims at the development of the full potential of Banco Popolare.

The strategy of the Banco Popolare Group is to appeal to the development of traditional core business, enhancing the geographical fit of the branch network, with strong ties to the territory which aims to result in

greater revenue synergies versus cost synergies. The following operating highlights of the Banco Popolare Group have been prepared on a pro forma basis as described in the section “*Summary Pro Forma Financial Information of Banco Popolare di Verona e Novara*” and otherwise by BPVN aggregating certain unaudited data of BPI and BPVN and the ranking/market share data has been calculated by the Issuer on the basis of publicly available information. See “*Forward-Looking Statements*” and “*Market Statistics*”.

CERTAIN INFORMATION CONTAINED IN THIS SECTION “INDUSTRIAL RATIONALE AND OPERATING HIGHLIGHTS OF THE BANCO POPOLARE GROUP” HAS BEEN PREPARED BY BPVN AND HAS NOT BEEN REVIEWED BY AUDITORS. THIS INFORMATION IS INCLUDED FOR INFORMATION PURPOSES ONLY IN THE LIGHT OF ITS PUBLICATION BY BPVN AND BPI IN THE MERGER DOCUMENT PREPARED FOR THEIR RESPECTIVE SHAREHOLDERS IN ACCORDANCE WITH ITALIAN REGULATORY REQUIREMENTS. INVESTORS ARE ADVISED NOT TO PLACE UNDUE RELIANCE ON THIS INFORMATION.

Size

The Merger paves the way for the creation of the largest co-operative banking group and the third largest Italian banking group measured by capitalisation (17 billion euro). Based on pro forma financial information as of 31 December 2006, Banco Popolare:

- would rank third in terms of distribution franchise in Italy, with about 2,223 branches and with a market share of 10 per cent in northern Italy;
- would have an aggregate portfolio of more than 3 million customers, mainly households and small and medium-sized businesses in northern Italy;
- would benefit from direct customers funds of €83 billion, indirect customer funds of €108 billion and customer loans of €76 billion.

Market Capitalisation

With a pro-forma market capitalisation of €17 billion without taking into account synergies which Management expects to achieve following the merger, the Banco Popolare Group will be the third largest bank in Italy in terms of market capitalisation.

Capital Base

The capital structure of the Banco Popolare Group (with pro-forma Tier 1 Capital and total Solvency Capital ratios of 6.1 per cent. and 9 per cent., respectively, as at year-end 2006 (including the issue of the Notes described in this Prospectus and after the extraordinary dividend to be paid to BPI shareholders’), satisfies underlying capital adequacy requirements and is deemed appropriate by management considering that the Banco Popolare Group’s customer base (mainly households and SMEs) represents a low risk profile.

Geographic Fit

The distribution networks of BPVN and BPI provide a coverage of their respective regions and cover areas that management believes are complementary both geographically and economically. Branch network overlap is negligible (less than 5 per cent. of total branches).

Business Model Fit

Both BPVN and BPI groups address a similar customer base, comprised of private individuals and small and medium sized enterprises (“SMEs”). Both groups recently announced that business plans envisage a further strengthening of their deeply rooted local presence, the maximisation of customer satisfaction and an increase of operating efficiency. The distribution models and client base segmentation criteria of BPI and BPVN are similar to each other.

Synergies

Management believes that the Merger will enable the Banco Popolare Group to achieve €500 million fully phased pre-tax synergies by 2010. In particular, estimated cost synergies are expected by management to be approximately €220 million (mainly from integration of IT systems, back office rationalisation and centralisation of purchase functions), while revenue synergies are anticipated by management to amount to approximately €280 million (through the internalisation of revenues on products/services currently outsourced and through a partial alignment of employee productivity to the best practice).

Corporate Governance

The corporate governance of Banco Popolare, the parent company of the Banco Popolare Group, will be based on a dual-board structure. Legal headquarters of Banco Popolare will be in Verona. Annual General Meetings of the Banco Popolare Group will be held alternatively in Verona and Lodi; operating headquarters will be split between Lodi and Verona. The corporate bodies described below will be effective on the Merger taking legal effect.

Supervisory Board (Consiglio di Sorveglianza)

The Annual General Meeting will be responsible for approving financial statements, for the distribution of earnings and for the appointment of the members of the Supervisory Board.

The Supervisory Board will be comprised of 20 members from 2009 (10 in 2007 and 16 in 2008) in order to preserve the traditional cooperative model, based on the annual renewal of the body in conjunction with the Annual General Meeting on financial statements. 60 per cent. of the members of the initial Supervisory Board will be appointed by BPVN and 40 per cent. by BPI. In addition to its legislative requirements, the Supervisory Board will be in charge of business plan approvals and relevant extraordinary transactions.

On 10 March 2007, the shareholders of BPVN and BPI approved the composition of the Supervisory Board of Banco Popolare as follows:

<u>Position</u>	<u>Name</u>
Chairman	Carlo Fratta Pasini
Deputy Vice Chairman	Dino Piero Giarda
Deputy Chairman	Maurizio Comoli
Members	Marco Boroli, Giuliano Buffelli, Guido Castellotti, Pietro Manzonetto, Maurizio Marino, Mario Minoja; Claudio Rangoni Machiavelli

Management Board (Consiglio di Gestione)

The Management Board will be comprised of 12 members, jointly elected exclusively on a professional basis; 4 members will be non executive and the remaining 8 will be chosen among Banco Popolare Group managers.

On 10 March 2007, the shareholders of BPVN and BPI approved the composition of the Management Board of Banco Popolare as follows:

<u>Position</u>	<u>Name</u>
Chairman	Divo Gronchi
Chief Executive Officer	Fabio Innocenzi
Members ⁽¹⁾	Franco Baronio; Massimo Minolfi

(1) The remaining members of the Management Board will be designated in the Deed of Merger.

Organisational and operational aspects of the Merger

The organisational and operative integration between BPVN and BPI, to be implemented on the basis of the structure and management logic provided for in the Merger Project, anticipates a dedicated task force working for a period of approximately 12-18 months. The principal activities will involve the following:

- integration of central management functions in Banco Popolare and constitution of central management functions for Banca Popolare di Verona-San Geminiano e San Prospero S.p.A. and Banca Popolare di Lodi S.p.A. (for further details of these entities, please see “Merger Process” above), operating according to the governance model chosen for the Banco Popolare Group, valid for all Italian banks;
- reorganisation of the distribution network on the basis of the organisational logic and operating procedures chosen for the commercial structure of the Banco Popolare Group;
- adoption of the information system of BPVN for the entire Banco Popolare Group, enhanced by modules that characterise the BPI system;
- integration of the back-offices of the BPVN Group and the BPI Group;
- integration of consumer credit, business finance, asset management and private banking activities and structuring of retail products, with the appropriate corporate transactions, where required;
- revision of current purchasing contracts in view of the Banco Popolare Group structure in order to obtain savings and eliminate possible duplicates;
- uniformity of Banco Popolare Group reporting systems.

The timing estimate of 12-18 months for the realisation of the merger and reorganisation of the Banco Popolare Group is founded on three factors: the first is represented by the experience of the groups of BPVN and BPI in merger projects; the second consists in the choice of the information technology systems to be adopted by the Banco Popolare Group; the third is represented by having already identified the management team that will be called upon to lead the integration process and the Banco Popolare Group.

On the basis of information currently available, the integration process is subdivided into five macro-phases.

Phase One

This was completed in March 2007, during which the activities to be developed by the date of the merger taking legal effect (such as, for example, those pertaining to accounting, reporting, etc.) were defined, so as to ensure efficient realisation of the Merger Project. The management procedures for current operations were also defined during this phase. In particular, various issues were analysed, among which:

- improving management of investments that have already been provided for/decided separately by BPI and BPVN, hence avoiding duplication;
- maintaining, for the duration of the integration process, a focus on the market and, in particular, supply and service levels that may be subject to modification/deterioration during the delicate transition period;
- defining strategy and a migration model for information technology systems.

Phase Two

A second phase, which started in March 2007 and expected to be completed by the end of June 2007, during which the central Management of Banca Popolare di Verona-San Geminiano e San Prospero S.p.A., of Banca Popolare di Lodi S.p.A. and of the other Italian banks in the Banco Popolare Group are to be defined; software is to be developed to allow compliance with supervisory authorities requirements as a sole group and to support the migration of the central management functions and integration of product factories; the

integration of IT and back-office activities in SGS is to be examined. The migration of BPI branches to the information technology systems adopted by BPVN is also to be worked on.

Phase Three

A third phase is scheduled to take place from June 2007 to the end of 2007, during which all the functions of Banco Popolare and the central management of the other Italian banks in the Banco Popolare Group are to become fully operative and during which the Banco Popolare Group will arrange for the necessary organisational structure. Information technology migration of management procedures is due to take place, as will the information technology migration of the BPI network. In addition, product integration is scheduled to begin, with the first sales campaigns aimed at the realisation of revenue synergy to be launched, and harmonisation of the product range and services model work will commence.

Phases Four and Five

A fourth phase is scheduled to be carried out from January 2008 to February 2008 during which migration of BPI branches to the BPVN information technology system will be completed. The fifth and final phase will take place thereafter during which the final structure of the Banco Popolare Group will become fully operational (so-called “territorial re-articulation”).

While these phases are being activated, there is also to be a work group focusing on personnel issues, to choose the most appropriate mechanisms for management of human resource transition, re-conversion/training, or redundancy, as well as for dealing with any relevant labour agreement and administrative issues.

Project management

Project organisation will evolve during the various phases in order to take into account the number and types of activities to be carried out, resources and timing of corporate transactions, and it is expected that this will include:

- a steering committee, in charge of key integration decisions, which will provide strategic project guidance aimed at reaching the objectives of the Industrial Plan and approve the relative budgets. The steering committee will be composed of the general managers, managing directors and senior management representatives of BPI and BPVN that are actively involved in the Merger Project;
- an integration team that will assist the steering committee in directing the activities of the various work groups, solve, where possible, all specialised issues that may arise from the various work groups, prepare all materials necessary for required deliberations, co-ordinate and control work progress, monitor achievement of the objectives set in the BP Industrial Plan (see “Industrial Rationale and Operating Highlights of the Banco Popolare Group”), support the steering committee in the allocation of the budget for integration and co-ordinate management of personnel redundancies/re-qualification/mobility;
- the subdivision of the integration project into various sub-projects, with special work groups working under the responsibility of the future management of the various activities/functions, to project and realise the actions required for the operational efficiency of the Banco Popolare Group, of the support functions and of the integrated product factories.

Interchange of bank branches between BPVN Group and BPI Group

As of 1 October 2006, the interchange of bank branches between the BPVN Group and the BPI Group was successfully completed. The operation began during May 2006.

The BPVN Group transferred to BPI nine BPVN branches and nine BPN branches located in the following regions: Le Marche, Tuscany, Umbria and Lazio. The BPI Group transferred to BPVN 18 branches, all located in the region of Trentino Alto Adige, as well as the trade name “Banca Popolare del Trentino”.

BPVN Group Lending Activities and Risk Management

Credit risk

Qualitative information

General Aspects

In addition to the traditional areas of operation, the BPVN Group has set itself the objective of intercepting new phenomena which now characterise our society such as loans to foreign workers and to women and young entrepreneurs. This was accomplished without neglecting containment of risk levels through a careful selection of credit in the disbursement phase, geographic and sectoral diversification, the securing of guarantees where necessary and the application of effective performance management. With reference to the corporate segment and keeping in mind its vocation of strong ties with the territory, the BPVN Group has maintained its commitment to support local businesses, especially the small and medium-sized ones. In particular, the BPVN Group has carried out a programme of broadening its range of credit products and focussed the action on medium and long term loans related to the improvement of corporate financial structures and their changed operational needs. Special attention is paid to supporting companies that presented plans for industrial development and for recovery of both production and financial efficiency.

The BPVN Group's credit activities are mainly carried out in territories characterised by a lively, professionally prepared entrepreneurship endowed with an ability for innovation so fundamental to global competition. The distinguishing factors of the BPVN Group *vis-à-vis* its customers are flexibility and the ability not only to adapt the products it offers but also to interpret the needs of the customer and anticipate the instruments needed to meet their financial needs through special financing as well. As far as the private segment is concerned, special commercial initiatives have been taken particularly for residential mortgages and personal loans with the idea of acting as partners for families. With reference to mortgages specifically, the BPVN Group has offered customers new products on the one hand, and on the other, in order to strengthen our thrust, it has made alliances with large external partners to enlarge its commercial network.

The BPVN Group constantly and carefully monitors its loan portfolio with timely analyses of risk profile trends, loans and utilisations for the economic sector, the geographical area, the customer segment and the technical form. Specifically in the face of perspective analyses of certain negative events which may characterise specific sectors, appropriate corrective action is promptly initiated at the central level.

At the portfolio level, the BPVN Group's lending activities are diversified across a broad range of commodities with an adequate counterparty risk spread. Over time, internal models have been developed for the attribution of a counterparty rating which vary in accordance with the customer segment. Such models, developed also in order to apply the new instructions from the supervisory authority of Bank of Italy (implementing the Basel II regulatory system) have been adopted in processes of disbursement of new credit lines or in the renewal/amendment of current credit lines, in processes of performance management and in risk measurement processes and calculations of capital absorption.

Credit risk management policy

Organisational aspects

The risk profile of the loan portfolio is sensitive to the trend of general economic conditions or, with regard to certain specific production sectors, to the internal company structural and technological changes of the debtor companies, to the change of the competitive position of the counterparties, to macroeconomic structural factors (for example, rising family debt) and other external factors such as legal and regulatory requirements. With reference to organisational structures assigned to oversee and manage credit risk, individual roles and specific competencies have been identified. The head office has the role of directing and controlling as well as deciding upon loans to major entities and managing credit problems above a certain amount. The network, with roles and different responsibilities for the business and employee areas, is assigned the job of managing positions operationally (as well as on the basis of instructions imparted by the

head office) and to continuously and correctly take note of operational facts which characterise the customers in order to identify events which can lead to endangering loan performance.

Disbursement powers are exercised within a series of limits which envisage powers starting with corporate bodies at head office and decreasing and ending with deliberative bodies in branches.

In observance of the provisions of the supervisory body, at the BPVN Group level guidelines and general principles on loans are defined which must be followed by the entire structure, both central and peripheral, involved in loan disbursement and management phases. The banks of the BPVN Group have adopted these principles despite their independence and possible technical and organisational specificities and issued specific internal instructions.

For the customers in common of the commercial banks in the BPVN Group specific management paths were established.

Management systems, measurement and control

In compliance with the new regulatory rules defined by the supervisory body, BPVN is setting up an Internal Rating System which is currently at an advanced stage of implementation.

The Internal Rating System means the structured and documented set of methodologies, organisational and control processes, procedures for organising data bases for the collection and processing of important information for the formulation of brief assessments of the creditworthiness of a borrower and the riskiness of the individual loan operations.

Through the Internal Rating System a brief assessment credit rating of a borrower is assigned and an estimate of the components of the credit risk is performed.

The internal level of a credit rating is the assessment referring to a certain point in time done on the basis of all the information available, in terms of both quality and quantity, and is expressed using a classification on a predefined scale of the ability of the borrower or the customer requesting credit to meet his contractual obligations.

Each class of rating is associated with a default probability (DP). The rating classes must be ordered in terms of their credit risk. This implies that in moving from a lower risk class to a higher risk class, the probability of debtor default increases.

In the development phase, the credit portfolio was segmented on the basis of criteria of size and registry considerations in order to minimise the discriminating ability and the predictive power of the models.

With reference to companies, our models are generally based on a summary of assessments concerning two different profiles of risk observation.

The first concerns the company profile in an assessment of three areas of investigation:

- quantitative data on the financial statements. If the company is not required to draw up its financial statements, a simplified economic financial analytical procedure will be applied;
- qualitative data included by the account manager who compiles the customer information sheet;
- environmental data identified through a geo-sectoral score combining sectoral riskiness with the geographic area in which the company operates;

The second concerns the behavioural profile which assesses two areas for consideration:

- trend of relations between the bank and the customer (analysis of internal bank data);
- trend of relations between the entire banking system and the customer (analysis of *Centrale dei Rischi*).

A combination of the company score and the behavioural score gives the total score.

Class ratings are obtained from an analysis of the scores assigned to the customers.

A model was developed for banks based on a system whereby its assignment of the rating takes into consideration the assessments of the main rating agencies, the financial and economic data of the counterparty in relation to the aggregate data of the banking systems involved and the amount and quality of the data input by the analyst. The judgement expressed by the model is verified by an analyst who will validate it or amend it on the basis of information collected and/or detailed analyses and also provide a brief comment. The procedures for assigning ratings to countries of interest to the BPVN Group are based on scores obtained through the normalisation and weighting of assessments coming from the main rating agencies and analysis companies. The internal analyst confirms or adjusts the scores on the basis of an accurate analysis of macroeconomic data and monitors the national and international affairs of the country. On the basis of the final score the countries are ranked in descending order then linked to the rating classes.

While awaiting an internal rating system for the private segment as well, a specific credit scoring system is currently in use. This is an operational system for granting credit to private customers which can assess the repayment ability of the borrower after a preliminary check for any possible negative factors and on his borrowing in the banking system. If the assessment produced by the system is not positive this will reduce the amount of ordinary credit available.

For reliable customers patronising several banks in the BPVN Group, in order to provide a single assessment, the system verifies the amount of current loans in the banks involved. The prevailing rating will be determined by the bank with the highest utilisations (the rule of the propagation of the rating).

In support of the control activities carried out by the network and by the head office, a system has been in place for some time for customer borrowers which awards points on the basis of the relationship performance and by area investigated and lists any anomalies encountered. The score expressed by this system is used in cases where a rating is not available.

Recent regulations from the supervisory authority envisage that the adoption of advanced methodologies of credit analysis be subordinate to full utilisation of ratings in credit processes to provide constant support to the account manager who is in any case the final manager of the position.

To guarantee that rating be central to credit processes under way in 2006, pre-existing processes were refined and new processes were implemented through which it was possible to define:

- the assessment and verification of the rating by reliable employees;
- valuation and verification of the rating by the competent employees;
- procedures for revising ratings assigned by models;
- case studies where it is possible to depart from the rating process.

Where credit is being granted the rating must necessarily be accepted by the account manager who will be asked for comments on the assessment expressed by the system. When he runs into certain cases, the manager may ask the appropriate structure at head office to override the rating. Still in the view of a "full utilisation" of the rating in credit processes, the assessment supplied by the system contributes to determining which bodies are competent to grant loans and influences the application of the automatic renewal mechanism on credits good till cancelled.

The centrality of rating in the credit processes also becomes manifest in the monitoring and managing of account performance in the form of an instrument which will guide the managers in classifying the positions. This process referring to the portfolio of performing loans is based on the predictability of the rating and therefore on its capacity to identify sufficiently in advance any accounts which are becoming impaired. That provides the time needed for corrective action before an actual default occurs in the relations.

The objectives of performance management are:

- reduction in the cost of assumed risk through timely identification of a limited number of impaired accounts on which to focus monitoring efforts and intervention guided by pre-defined management rules;
- the enhancement of portfolio credits with a low risk factor for the development of commercial initiatives.

The rules defined set risk reduction objectives for the customers included in the worst performance classes as well as time limits predetermined by the amount of time they remain in that risk class under the supervision of specific professional figures who work in the business area and at head office.

In particular, a cycle of activities is planned to start when the account manager reviews the positions showing a marked impairment in credit risk and concludes with the assignment of a performance classification.

The activities of classification and definition of the steps to be taken are guided by a system of operational rules and by a system of decision-making responsibilities which distributes this decisional power at the performance point among the employees, the business area and the head office depending upon what the system suggests and upon the time limits or the amount.

The rating is, furthermore, a parameter used in defining the objectives of the incentive system for the part relating to credits.

As of 31 December 2006 an exposure rating of about 97% was assigned to the corporate portfolio. For the private segment an acceptance system is in place which supports the network in its granting of new loans. There were models created to supply the first loss estimates for defaults (LGD) and exposure at the time of default (EAD).

In order to avoid high concentrations of credit risk, BPVN sets ceilings for both common customers with credit lines over certain limits and for country risk. These ceilings are then shared among the various companies in the BPVN Group.

Monitoring portfolio credit risk is done monthly using a model which belongs to the default model category for credit exposure at the commercial banks of the BPVN Group (BPVN, Credito Bergamasco, BPN) and is confined to performing loans, cash and commitments of the ordinary resident customers and the non-resident customers.

The model used provides an estimate of the operational capital absorbed while taking into account the portfolio concentration and the possibility of joint insolvency of the borrowers in a predefined context of significant macroeconomic variables. This “interval of confidence” used is 99.96% over a period of one year. The default probabilities (PD) used by the model are the output of the new rating systems developed in relation to the Basel II project.

The portfolio model is integrated into the Montecarlo simulation developed internally to monitor the loan portfolio credit risk with interbank counterparties.

Credit risk mitigation techniques

The BPVN Group has always been careful of the so-called “second tier”, that is the acquisition of accessory contracts or the use of instruments and techniques which determine a reduction in credit risk. For this purpose guarantees typical of banking activities such as real security against real estate and financial instruments in addition to personal guarantees have been obtained whenever it is considered needful.

In general the decision to obtain a guarantee is based on an assessment of the credit rating of the customer and the characteristics of the operation. After this analysis, it may be considered advisable to obtain supplementary guarantees to mitigate the risk keeping in mind the presumed recoverable value offered by the guarantee.

The analysis performed to estimate the loss in case of default (LGD) shows a good capacity for credit recovery thanks to a careful policy of collateralisation instated by the BPVN Group.

During 2006 in the Basel II – CRM project a new system became operational which can improve the census of real estate posted as guarantees and visualise the market assessments of the property, revalue the property periodically, manage the split up of the real estate and visualise the earlier title searches on the property now filed.

The worth of real financial guarantees is subject to constant automatic monitoring which provides a comparison of the current value of the guarantee with its initial value so that the manager can promptly intervene should there be a significant reduction in the guarantee itself.

As far as derivatives activities with market issuers is concerned, the BPVN Group prefer those entities with which there are active collateral loan agreements with specific reference to the ISDA – Credit Support Annex for the significant reduction of credit risk.

Impaired loans

There are specific organisational units operating in the BPVN Group to deal with impaired loans which apply predefined methodologies for management and recovery and which vary according to the type of credit for classes of amount and risk.

Credit classification follows certain criteria characterised by caution and are based on objective risk parameters.

In general credits classified as doubtful when there are seriously abnormal relations with the BPVN Group, grave irregularities are found in notices from the Centrali dei Rischi, a disturbing situation arises in the balance sheet, there is an occurrence of negative events which could limit the extent of guarantees and which could in any case endanger credits.

Adjustments in value assessed analytically for each individual account reflect criteria of caution with regard to the possibility of actual recovery even when there are collateral guarantees and they are subject to periodic checks.

With reference to managing non performing loans, an organisational revision was made specifically to specialise the processes in order to increase the capacity for recovery and to optimise the ratio between costs and recovery percentage. The “administrative” and predominantly legal rationale was abandoned in favour of focusing activities on achieving economic objectives. These objectives are achievable thanks also to a strong orientation towards out of court solutions and through concentrating activities on the recoverable value with emphasis on prompt and rapid recovery action.

Quantitative information

Credit quality

Impaired and performing loans: amounts, write-downs, economic and geographical distribution

Breakdown of financial assets by portfolio and credit quality (book values)

	BPVN Group						Other Companies		
	Non-performing loans	Watchlist	Re-structured loans	Past due loans	Country Risk	Other Assets	Impaired	Other	Total
	<i>(in thousand euro)</i>								
1. Financial assets held for trading	847	1,950	–	–	3,404	8,418,422	–	–	8,424,623
2. Financial assets available for sale	–	–	–	–	–	1,045,502	–	8,250	1,053,752
3. Financial assets held to maturity	–	–	–	–	–	938,869	–	450	939,319
4. Due from banks	–	–	–	–	6,329	8,674,152	–	254	8,680,735
5. Customer loans	549,651	468,780	49,712	76,768	5,087	44,094,519	–	46	45,244,563
6. Financial assets measured at fair value	–	–	–	–	–	314,430	–	–	314,430
7. Non-current assets available for sale	–	–	–	–	–	–	–	–	–
8. Hedging derivatives	–	–	–	–	–	38,847	–	–	38,847
Total 31/12/2006	550,498	470,730	49,712	76,768	14,820	63,524,741	–	9,000	64,696,269
Total 31/12/2005	644,412	515,392	73,530	138,927	13,989	54,836,535	–	797	56,223,582

Sector distribution of cash and “off-balance sheet” exposures to customers

	Governments and central banks			Other public entities <i>(thousands of euro)</i>			Financial companies					
	Gross Exposure	Individual write-downs	Portfolio write-downs	Net Exposure	Gross Exposure	Individual write-downs	Portfolio write-downs	Net Exposure	Gross Exposure	Individual write-downs	Portfolio write-downs	Net Exposure
A. Cash exposures												
A.1 Non-performing loans.....	-	-	-	-	2,711	(1,552)	-	1,159	9,172	(5,582)	-	3,590
A.2 Watchlist loans	-	-	-	-	644	(208)	-	436	1,707	(301)	(13)	1,393
A.3 Restructured loans	-	-	-	-	5,292	(41)	-	5,251	1,952	(777)	-	1,175
A.4 Past due.....	-	-	-	-	1	-	-	1	58	-	-	58
A.5 Other exposures	3,884,171	X	(27)	3,884,144	239,336	X	(1,614)	237,722	6,071,003	X	(21,113)	6,049,890
Total	3,884,171	-	(27)	3,884,144	247,984	(1,801)	(1,614)	244,369	6,083,892	(6,660)	(21,126)	6,056,106
B. Off balance sheet exposure												
B.1 Non-performing loans.....	-	-	-	-	-	-	-	-	22	-	-	22
B.2 Watchlist loans	-	-	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-	-	-
B.4 Other exposures	178	X	-	178	32,445	X	-	32,445	1,339,222	X	(26)	1,339,196
Total	178	-	-	178	32,445	-	-	32,445	1,339,244	-	(26)	1,339,218
31/12/2006.....	3,884,349	-	(27)	3,884,322	280,429	(1,801)	(1,614)	277,014	7,423,136	(6,660)	(21,152)	7,395,324
A. Cash exposures												
A.1 Non-performing loans.....	-	-	-	-	845,358	(397,604)	(2)	447,752	207,254	(110,104)	-	97,150
A.2 Watchlist loans	-	-	-	-	448,823	(74,765)	(782)	373,276	101,874	(8,112)	(87)	93,675
A.3 Restructured loans	-	-	-	-	52,058	(8,882)	(24)	43,152	135	(1)	-	134
A.4 Past due.....	-	-	-	-	57,241	-	(515)	56,726	20,114	-	(131)	19,983
A.5 Other exposures	96,111	X	-	96,111	31,617,875	X	(197,481)	31,420,394	9,890,984	X	(50,890)	9,840,094
Total	96,111	-	-	96,111	33,021,355	(481,251)	(198,804)	32,341,300	10,220,361	(118,217)	(51,108)	10,051,036
B. Off balance sheet exposure												
B.1 Non-performing loans.....	46	(46)	-	-	12,931	(5,298)	-	7,633	161	-	-	161
B.2 Watchlist loans	958	(288)	-	670	17,389	(1,568)	-	15,821	402	-	-	402
B.3 Other impaired assets	-	-	-	-	3,727	-	-	3,727	186	-	-	186
B.4 Other exposures	7,344	X	(125)	7,219	6,228,354	X	(115)	6,228,239	595,984	X	-	595,984
Total	8,348	(334)	(125)	7,889	6,262,401	(6,866)	(115)	6,255,420	596,733	-	-	596,733
31/12/2006.....	104,459	(334)	(125)	104,000	39,283,756	(488,117)	(198,919)	38,596,720	10,817,094	(118,217)	(51,108)	10,647,679

Comparative values as at 31/12/2005 are not provided as – pursuant to the transitory provisions issued by the Bank of Italy together with its Circular Letter n. 262 as of 22/12/2005 – last year the BPVN Group took advantage of the possibility not to disclose its sector distribution of cash and “off-balance sheet” exposures to customers.

Geographical breakdown of cash and “off-balance sheet” exposures to banks (book values)

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Gross exposure	Net Exposure	Gross exposure	Net Exposure	Gross exposure	Net Exposure	Gross exposure	Net Exposure	Gross exposure	Net Exposure
<i>(in thousand euro)</i>										
A. Cash exposures										
A.1 Defaulted loans	-	-	-	-	-	-	-	-	-	-
A.2 Delinquent loans	-	-	-	-	-	-	-	-	-	-
A.3 Restructured loans	-	-	-	-	-	-	-	-	-	-
A.4 Past due	-	-	-	-	-	-	-	-	-	-
A.5 Other exposures	6,754,413	6,754,409	3,328,161	3,328,032	130,616	130,605	185,043	184,832	9,110	9,110
Total	6,754,413	6,754,409	3,328,161	3,328,032	130,616	130,605	185,043	184,832	9,110	9,110
B. Off balance sheet exposures										
B.1 Defaulted loans	-	-	-	-	-	-	-	-	-	-
B.2 Delinquent loans	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Other exposures	1,383,454	1,383,454	1,146,872	1,146,839	17,336	17,336	109,480	109,471	9,602	9,585
Total	1,383,454	1,383,454	1,146,872	1,146,839	17,336	17,336	109,480	109,471	9,602	9,585

Comparative values as at 31/12/2005 are not provided as – pursuant to the transitory provisions issued by the Bank of Italy together with its Circular Letter n. 262 as of 22/12/2005 – last year the BPVN Group took advantage of the possibility not to disclose its geographical distribution of cash and “off-balance sheet” exposures to banks.

Geographical breakdown of cash and “off-balance sheet” exposures to customers

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Gross exposure	Net Exposure	Gross exposure	Net Exposure	Gross exposure	Net Exposure	Gross exposure	Net Exposure	Gross exposure	Net Exposure
<i>(in thousand euro)</i>										
A. Cash exposures										
A.1 Defaulted loans	1,037,658	542,262	19,352	6,729	436	31	-	-	7,049	629
A.2 Delinquent loans	547,936	465,209	5,110	3,569	-	-	1	1	1	1
A.3 Restructured loans	59,204	49,500	233	212	-	-	-	-	-	-
A.4 Past due	77,236	76,590	120	120	22	22	35	35	1	1
A.5 Other exposures	49,397,949	49,137,011	1,901,582	1,891,994	350,862	350,532	124,995	124,815	24,092	24,003
Total	51,119,983	50,270,572	1,926,397	1,902,624	351,320	350,585	125,031	124,851	31,143	24,634
B. Off balance sheet exposures										
B.1 Defaulted loans	13,079	7,735	-	-	-	-	-	-	-	-
B.2 Delinquent loans	18,827	16,971	-	-	-	-	-	-	-	-
B.3 Other impaired assets	3,916	3,916	-	-	-	-	-	-	-	-
B.4 Other exposures	7,388,056	7,387,845	715,503	715,499	70,755	70,739	3,172	3,172	26,048	26,014
Total	7,423,878	7,416,467	715,503	715,499	70,755	70,739	3,172	3,172	26,048	26,014
31/12/2006	58,543,861	57,687,039	2,641,900	2,618,123	422,075	421,324	128,203	128,023	57,191	50,648

Comparative values as at 31/12/2005 are not provided as – pursuant to the transitory provisions issued by the Bank of Italy together with its Circular Letter n. 262 as of 22/12/2005 – last year the BPVN Group took

advantage of the possibility not to disclose its geographical distribution of cash and “off-balance sheet” exposures to customers.

Major risks (under the Bank of Italy’s regulations)

As at 31 December 2006, three major risks are reported, totaling 2,185,935 thousand euro.

Securitisation and business disposal

Securitisation transactions

BPVN carried out two securitisation transactions as “originator”.

In the framework of the first securitisation transaction, in December 2001 BPVN transferred to BP Mortgages S.r.l., a special purpose vehicle incorporated under Law no. 130 of 30 April 1999, a portfolio of claims originated by BPVN with a total nominal value equal to Euro 512,495 thousand euro. In order to fund the purchase of the portfolio, BP Mortgages S.r.l. issued Euro 92,000,000 Class A1 Residential Mortgage Backed Floating Rate Notes due 2021, Euro 392,000,000 Class A2 Residential Mortgage-Backed Floating Rate Notes due 2021, Euro 26,000,000 Class B Residential-Mortgage Backed Floating Rate Notes due 2021 and Euro 2,495,000 Class C Residential Mortgage-Backed Variable Return Notes due 2021. All the notes have been listed on the Luxembourg Stock Exchange. The Euro 92,000,000 Class A1 Residential Mortgage-Backed Floating Rate Notes and the Euro 392,000,000 Class A2 Residential Mortgage-Backed Floating Rate Notes have been rated “AAA” by S&P and “AAA” by Fitch, and the Euro 26,000,000 Class B Residential Mortgage Backed Floating Rate Notes have been rated “A” by S&P and “A” by Fitch. No rating has been assigned to the Euro 2,495,000 Class C Residential Mortgage Backed Variable Return Notes, which have been subscribed for by BPVN.

As at 31 December 2006, the Euro 92,000,000 Class A1 Residential Mortgage Backed Floating Rate Notes have been repaid in full and the Euro 392,000,000 Class A2 Residential Mortgage-Backed Floating Rate Notes amounted to Euro 163,900,000.

The second securitisation transaction took place in April 2007. In the context of such securitisation transaction, BPVN transferred to BP Mortgages S.r.l. a portfolio of claims originated by BPVN with a total nominal value equal to Euro 1,447,780,229. BP Mortgages S.r.l. has financed the purchase of the portfolio, *inter alia*, through the issue of Euro 202,700,000 Class A1 Residential Mortgage-Backed Floating Rate Notes due January 2017, Euro 1,172,650,000 Class A2 Residential Mortgage-Backed Floating Rate Notes due April 2043, Euro 25,300,000 Class B Residential Mortgage-Backed Floating Rate Notes due April 2043, Euro 32,600,000 Class C Residential Mortgage-Backed Floating Rate Notes due April 2043 and Euro 14,500,000 Class M Residential Mortgage-Backed Variable Rate Notes due April 2043. All the notes have been listed on the Luxembourg Stock Exchange. The Euro 202,700,000 Class A1 Residential Mortgage-Backed Floating Rate Notes and the Euro 1,172,650,000 Class A2 Residential Mortgage-Backed Floating Rate Notes have been rated “Aaa” by Moody’s, “AAA” by S&P and “AAA” by Fitch, the Euro 25,300,000 Class B Residential Mortgage-Backed Floating Rate Notes have been rated “Aa3” by Moody’s, “AA” by S&P and “AA+” by Fitch, the Euro 32,600,000 Class C Residential Mortgage-Backed Floating Rate Notes have been rated “Baa2” by Moody’s, “BBB” by S&P and “BBB+” by Fitch. No rating has been assigned to the Euro 14,500,000 Class M Residential Mortgage-Backed Variable Rate Notes, which have been subscribed for by BPVN.

Operations with third parties underlying assets

As at 31 December 2006, securities originating from securitisation transactions performed by third parties included in the BPVN Group portfolio amount to a nominal value of about 449.1 million Euro as at 31 December 2006. The majority of such securities consist of a senior tranche having an AAA rating and underlying assets characterized by a high level of diversification, most of them are performing assets with a collateral value that is significantly higher than the nominal value of the issued securities.

The main objective consists in investing in securities that are characterized by the following: low risk, very high rating and a coupon yield that is higher than the yield of other securities having the same rating and maturity. Investing in such securities should lead to an increase in portfolio diversification, to higher yields and to a significant increase of the portfolio average rating.

Please note that the issue of mezzanine tranches is characterized by a guarantee – granted by the European Fund for Investments – on both the principal and interests, should the underlying leasing assets result as non-performing; also note that a relevant share of investments in this subfund is made up of securities originated by the Italian Government.

In order to monitor the portfolio risks of the assets underlying securitised loans, the BPVN Group relies on the reports summarising each issue that are regularly released by Moody's, by other operators and, in some cases, by the same counterparties operating as issue manager.

Special purpose entities belonging to the BPVN Group

The BPVN Group owns no companies acting as special purpose entities.

Market risks

Interest rate risk – regulatory trading portfolio

Qualitative information

General aspects

Following the centralization of the risk positions and operational flows concerning the trading of currencies and securities in the subsidiary Banca Aletti, the main interest rate risk source affecting the trading portfolio of the BPVN Group's commercial banks is represented by their respective "investment portfolio", managed by Banca Aletti. This portfolio is mainly comprised of debentures and its exposure to interest rate risk is limited.

The main interest risk exposures of the trading portfolio of Banca Aletti can be traced to its Investment Banking Function operations on both cash markets and the related quoted derivatives or plain vanilla controlled by the Forex and Money Market Function and the Fixed Income Office, both on the derivative and OTC structured product markets and of quoted derivative markets pertaining to the Derivatives & Structured Products Function.

As regards the portfolios of the commercial banks, the main interest rate risk source associated with the "trading portfolio" is represented by the "investment portfolio" managed by Banca Aletti. It is an investment portfolio that is mainly comprised of debentures and whose exposure to interest rate risk is limited. The aforesaid management delegation is justified by the centralization of the risk positions and operating flows concerning the trading of currencies and securities in the investment bank of the BPVN Group – Banca Aletti – carried out in previous years. In fact, the managed portfolio represents almost all of the investment portfolio of the BPVN Group's commercial banks.

At the end of the 2006 financial year, the debenture portfolio managed by Banca Aletti was made up as follows: (i) approx. 52% variable-rate securities (50% for BPVN, 52% for Credito Bergamasco and 54% for BPN), (ii) 13% asset swap structures hedged against interest rate risk by derivative contracts (the percentage is respectively 14% for BPVN, 10% for Banca Popolare di Novara and 19% for Credito Bergamasco); the remaining 35% fixed-rate securities (the percentage is respectively 36% for BPVN, 36% for BPN and 29% for Credito Bergamasco).

The portfolio average duration, considering the correlated transactions in derivatives on interest rates used as part of the investment strategy (interest swaps and futures) is 0.52 years (0.53 for BPVN, 0.53 for BPN and 0.44 for Credito Bergamasco) and the sensitivity, estimated on a parallel movement of 100 basis points of the yield curve, is approximately euro 23.6 million in total as far as the BPVN Group's commercial banks

are concerned, equal to euro 9.7 million for and euro 2.5 and 11.4 million respectively for the subsidiaries Credito Bergamasco and BPN.

As far as BPN is concerned, further risk positions are represented by the residual portfolio of variable-rate securities of corporate issuers which were not placed under Banca Aletti's management as they related to the commercial activity, as well as the variable-rate debentures issued by the subsidiary Credito Bergamasco under the EMTN (Euro Medium Term Notes) programme.

Lastly, a further residual quota is represented by the trading baskets of securities available to the commercial network, for a total counter-value at 31 December 2006 of just over euro 10 million (euro 4 million for BPVN, euro 3 million for Credito Bergamasco, euro 3.7 million for BPN).

Finally, the portfolio of cash and debenture investment trusts set up to invest liquidity in the short term, for a total of approximately euro 264 million on BPVN and approximately euro 80 million on BPN at 31 December 2006 values, characterised by an average duration of 1.6 years for BPVN and 4 years for BPN is deemed to be similar to interest rate risk positions.

The main exposures of Banca Aletti's trading portfolio to interest rate risk can be traced to the operations on cash and derivative markets, both quoted and unquoted.

In particular:

- with regard to the operations on the cash and currency markets, the overall interest rate risk exposures at 31 December 2006 amounted to approximately euro 4.3 million, assuming a parallel change in the interest rate curve of 100 basis points. Short-term government bonds fall within these exposures and, at year end amounted to approximately euro 400 million, had an average duration of 0.5 years and were largely employed in repos;
- portfolios of debentures and related quoted derivatives held by the Equity and Fixed Income Function are characterised by a prudent interest rate risk management; in particular, by reference to the year-end positions, in the portfolio held for investment purposes, just over euro 70 million are allocated mainly to variable-rate securities (42% of the total) or hedged against interest rate risk as included in asset swap structures (13%), for an average duration of the portfolio of 0.30 years. The trading portfolio, exposed at 31 December 2006 for only euro 16 million, is almost entirely made up of variable-rate securities (92%) and has an average duration of 0.32 years;
- the operations in structured instruments as well as quoted and unquoted derivatives, including trading operations on the secondary market of structured products issued or placed by banks of the BPVN Group, represents the third type of operations. The deconstructing of complex transactions based on the underlying allows the centralised management of interest rate, exchange rate and price risk on the basis of sophisticated position-keeping systems. In particular, the overall year-end sensitivity (delta and gamma) to interest rate risk is equal to approximately euro 3.1 million. This exposure considers also the risks connected with exposure commitments at preset prices accepted by Banca Aletti *vis-à-vis* the banks of the BPVN Group or issuers of securities being placed by the commercial network and it is calculated on the basis of changes in values of the financial instruments in portfolio assuming two market scenarios which respectively envisage a positive and negative change of 100 basis points in all the market rates.

The aforesaid risk exposures of Banca Aletti are monitored daily to verify that the operating limits fixed by the Board of Directors on the entire portfolio and each underlying have been complied with. In particular, also the weighting of exposures (delta-gamma and vega) is envisaged for transactions in derivatives compared to volatility levels of each underlying and the correlations existing between them.

Please refer to the Annual Report for the objectives and strategies of the trading activity.

Management processes and interest rate risk measuring methods

The activity of controlling financial risk management in order to identify risk types, defining measuring methodologies for them, strategically controlling limits and the consistency of their effectiveness with the risk/yield objectives assigned is centralised in the Risk Management function of BPVN for all the banks of the BPVN Group.

Particular operational limits are applied, moreover, so as to direct activity towards the markets; their monitoring and control devolve upon the Financial Controlling & Planning Function in the Private Banking and Finance Division of BPVN. For operational control of risk positions of BPVN, the Private Banking and Finance Division and Banca Aletti employ sophisticated position keeping and risk control systems which allow a constant control of exposure levels and accurate checking on observance of the operational limits set by the Board of Directors.

Specifically the business of dealing non listed derivatives and structured products is supported on the basis of the main underlying on two applications specialised respectively in derivatives on rates/exchanges and equity instruments. Where there are very complex and innovative structures, these are also integrated with models of pricing and of sensitivity calculations developed by the BPVN Group, controlled by a Validation Group coordinated by the Risk Management Function of the Head of Group following an adequate period of operational checks mainly carried out by the Private Banking and Finance Division and under the supervision of members of the academic world.

The position-keeping systems, automatically supplied for operational purposes with cash and derivatives quoted from the platforms of the market and the sales network, are constantly kept in line with accounting procedures and continuously guarantee recording and control of the position indicators, of sensitivity and operational results and are also combined with the Value at Risk control systems developed in the Risk Management Function area.

Monitoring of financial risk is performed daily and uses determining indicators (risk exposure, duration, sensitivity) and probability indicators (VaR).

In particular, Value at Risk (VaR), which expresses the worst conditional expectation linked to market movements in non extreme conditions, is a synthetic measure of risk. The methodology used to calculate VaR belongs to the variance-covariance class of models according to which it is assumed that risk factors which influence the distribution of variations in value follow normal distribution (the matrix used supplies levels, volatility and correlations on daily and monthly assessment horizons for more than 470 risk factors). The estimated values are calculated with a 99% degree of confidence and a 10-day interval on the basis of an observation period of 250 days. These observations are weighted using an exponential method.

The aggregate of reference for VaR calculation is the negotiation portfolio and all the postings sensitive to exchange risk. The model currently in use fully covers generic position risks and exchange while the specific risk is calculated only on securities. Risk factors are aggregated with the correlations in the variance-covariance matrices which are updated daily.

For an estimate of the VaR of options the current value is used determined by the most common assessment models and by models developed in house by the BPVN Group.

Risk is calculated by multiplying the present value of the underlying instrument by the delta coefficient, indicator of the price sensitivity of the derivative instrument in relation to its underlying. In particular, exposure to rate risk is aggregated on the nodes of the maturities defined. In relation to exotic options, VaR calculation is done by technically managing these instruments as plain vanilla options to which present value and coefficients of sensitivity (so-called “*greche*”) generated by the Finance systems are assigned.

A VaR report is produced which supplies information at Group and individual bank levels as well as at the level of organisational units and individual negotiation portfolios. This report is sent to the Bank Management, to the Finance Division and to the Internal Audit Division.

With regard to back testing to verify the reliability of VaR estimates, a general approach and the requisite organisational, computer and process methodologies have been defined which are shared with the Bank of Italy.

The system is currently being implemented and tested. With regard to stress testing scenario analysis to verify the degree of exposure to factors or external events and the relative degree of adequate assets, a general approach and organisational and methodological requisites have been defined and will be shared with the Bank of Italy.

The VaR model adopted internally is not currently used for calculating asset requisites on market risks.

Quantitive information

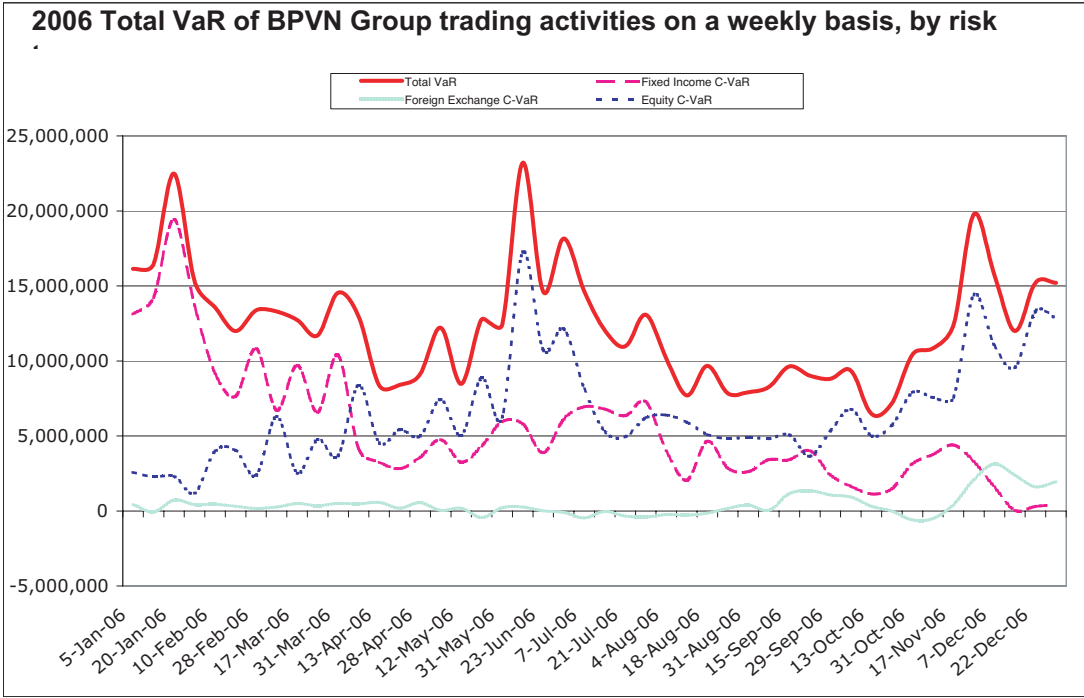
Regulatory trading portfolio: internal models and other methods of analysis of sensitivity

Listed below are VaR data of financial years 2005 and 2006 relating to the regulatory trading portfolios of BPVN, BPN, Credito Bergamasco, Banca Aletti and BPVN Luxembourg, which represent almost the entire market risks of the BPVN Group. The analysis includes also the banking portfolio of Banca Aletti notwithstanding the interbank nature of the assets and liabilities of such portfolio.

VaR of trading activity broken down by type of risk

	Financial year 2006				Financial year 2005	
	31 December (mln €)	Average (mln €)	Max (mln €)	Min (mln €)	31 December (mln €)	Average (mln €)
Interest rate risk.....	3.2	7.9	20.8	3.2	12.0	6.1
Exchange rate risk	2.8	1.5	4.5	0.4	1.2	1
Equity risk	13.4	8.8	19.0	4.6	6.4	5.2
Diversification risk	(4.2)	(5.9)	n.s.	n.s.	(7.4)	(4.2)

The numeric chart specifies the correlation impact among risk factors. Shown below is a chart depicting the weekly data for 2006, in terms of component-VaR (obtained by distributing the correlation effect across interest rate, exchange rate and equity risk factors) and total VaR (correlated total in the above table).



Interest rate risk – banking book

Qualitative information

General aspects, management procedures and methods for the assessment of interest rate risks

The interest rate risk incurred by the BPVN Group with regard to its banking portfolio mainly derives from the activity of the bank as an intermediary working on maturity conversion processes and it is mostly attributable to the unbalance between assets and liabilities in terms of amount, maturity, financial duration and rate.

The issue of bonds, the disbursement of fixed rate mortgages and trade loans together with deposits by on demand current accounts represent a potential “fair value” rate risk, pursuant to IFRS, whereas the issue of floating rate bonds represents a potential cash flow interest rate risk.

The organizational structure in charge of the monitoring and assessment of the interest rate risk on banking portfolios is made up of the Risk Management Department of BPVN, which carries out this activity on the basis of specific agreements underwritten on behalf of the subsidiary banks as well.

The structure in charge of the operational management of the interest rate risk is made up of the ALMO and Capital Management department of BPVN, which carries out this activity also on behalf of the subsidiary banks and which aims at optimising the economic return on the merged capital.

The measurement and assessment of the interest rate risk is carried out on the basis of reports provided by the *Strategic Asset & Liability Management* (SALM) procedure. The main relevant report consists of the “gap analysis” that is used to assess unbalances between assets and liabilities as well as to measure and manage – through the aggregation of positions – the rate risk related to the net unbalance.

All monitoring and assessment activities are carried out on a monthly basis, with mid-month updates when operations are carried out that may be defined as significant based on their amount or relevance.

In the course of the year, the risk related to exposures concentrated in short periods was reduced by relying on specific swap coverage instruments with regard to both fixed rate loans and deposits.

With regard to the structural liquidity risk, the BPVN Group’s structure still has to face a deficit situation on the short term, which is however reduced on the mid to long term.

The aggregate value trend – that is carried out and regularly monitored with gap analyses – currently shows a good balance between loans and deposits.

Htm (*Held to maturity*) and Afs (*Available for sale*) portfolios represent a significant share of the BPVN Group banking portfolio.

The BPVN Group set up an Htm portfolio made up of fixed rate government securities and of financial corporate securities that may be re-financed at the European Central Bank for an overall amount of 900 million Euros.

AFS listed portfolios amount – on the whole and at market value – to about 500 million Euro; they rely on a good credit standing and are hedged against interest rate risks by means of a 260 million Euro swap instrument.

Fair value hedging activities

The strategy adopted by BPVN Group in the course of the year aimed at maintaining and managing a positive net fixed rate structural unbalance for longer than one year maturity dates; such an unbalance leads to a reduced rate risk thanks to the hedging activity that is described in the following paragraphs.

The carrying out of activities aimed at hedging the interest rate risk implied that, on a large scale, the issue of fixed rate bonds – usually expiring at two to five years – would not be immediately hedged and would therefore be used as a natural hedge for fixed rate unbalances between assets and liabilities.

As usual, an immediate hedging was instead granted for structured bonds.

The BPVN Group provided for the full hedging of all the advanced repayment options embedded in the loans issued through the sale of corresponding options to brokers. The exercise of the such options implies the contextual exercise of the options embedded in the loans issued by BPVN, which leads to early settlement to customers.

The exposure to short-term rate risk – that is mainly caused by on-demand aggregate deposits – was analysed within an econometric and statistic study. The analyses above show that the overall accounts are quite stable and, at the same time, quite inelastic with regard to interest rate movements; the relevant outcome shows that the economic maturity of these aggregates (at three year) is different from their contractual maturity (usually one day).

The stabilization of the interest margin realized by these items was achieved thanks to plain vanilla swap macro hedging instruments. Such activities led to a positive economic result that shall continue for the next few years.

Cash flow hedge activities

In order to stabilize the cost of its floating rate deposits, the BPVN Group enacted some swap hedging instruments that are classified as macro cash flow hedge.

The current hedging is granted full capacity by the notional amounts of the FRN loans issued on the international markets.

Quantitative information

Banking portfolio – internal models and other methods to assess sensitivity

The BPVN Group relies on a strategic asset liability management procedure in order to assess – on a monthly basis – the impact (sensitivity) of any variation of the structure of interest rates on the expected financial margin and on the economic value of the capital with regard to the banking portfolio and the trading portfolio.

With regard to the expected financial margin, the ALM system estimates its fluctuations on a one-year term assuming a deterministic shock of rate curves (+/- 100 base points to be applied on all rate curves as an immediate, single and parallel fluctuation) as well as an adjustment shock to the *forward* rates within cash market rates or a shock deriving from the forecast of alternative scenarios.

All estimates are carried out by assuming that the financial structure does not change with regard to the balance between assets and liabilities and their financial characteristics (rates, spread, duration).

The assumptions above shall also be applied to the economic value of the capital; to this regard the fluctuation of the current value of all operations shall be measured and compared to the economic value of the capital.

The following paragraphs summarize the main sensitivity data of the 2005 and 2006 financial years with regard to the banking book and to the trading portfolio of BPVN, BPI, Credito Bergamasco, BPVN Luxembourg e Leasimpresa. Banca Aletti is not included in the analysis above as its banking portfolio includes only interbank assets and liabilities. On the other hand, the analysis includes the supervisory trading portfolios as they are a fundamental element for the matching of the bank financial statements.

Risk ratios per shifts of – 100 bp	Financial year 2006				Financial year 2005	
	31 December	Average 2006	Max	Min	31 December	Average 2005
Net interest, dividend and similar income at risk/ Net interest, dividend and similar income Economic value at risk/ Capital Economic	4.4%	5.3%	6.5%	4.3%	6.2%	8.2%
Value	1.9%	1.8%	2.4%	1.4%	2.5%	3.1%

Risk ratios per shifts of – 100 bp	Financial year 2006				Financial year 2005	
	31 December	Average 2006	Max	Min	31 December	Average 2005
Net interest, dividend and similar income at risk/ Net interest, dividend and similar income Economic value at risk/ Capital Economic	(5.1%)	(7.2%)	(5.1%)	(8.4%)	(5.1%)	(7.2%)
Value	(2.3%)	(2.9%)	(1.9%)	(3.6%)	(2.3%)	(2.9%)

Sensitivity analyses are complemented by gap analyses (*decalage*), that are applied to the fixed rate component of the banking book, together with the relevant hedges, so as to monitor the net imbalance for each term structure and to provide the relevant operating units with an analytical tool to support interest rate risk management strategies, with the aim of mitigating this risk on the medium and long term.

Price risk – regulatory trading portfolio

Qualitative information

In general

Price risk positions in the portfolios of the commercial banks of the BPVN Group are represented by the investment portfolios managed by Banca Aletti. For further details, see the Report on operations.

The main price risk exposures within the trading portfolio of Banca Aletti are connected with trades on the money and listed and unlisted derivatives markets.

In particular:

- equity portfolios and associated listed derivatives held for trading, as market maker on single stock futures and as specialist for liquidity-service activities, are characterized by contained net daily exposures;
- trades in structured instruments and in listed and unlisted derivatives, including trades on the secondary market of structured products issued by the banks of the BPVN Group take place by breaking down complex transactions based on their underlying instruments. Total price risk exposure for the associated derivative portfolio at the end of the period amounted to roughly 3.8 million euro, net of hedges with derivatives and cash financial assets.

The above risk exposures are monitored on a daily basis to verify their compliance with the operating thresholds set by the Board of Directors on the entire portfolio and on the single underlying assets, along similar modalities to those described for the interest rate risk.

Quantitative information

Regulatory trading portfolio: cash exposures in equity securities and U.C.I.T.S.

	Book Value	
	Quoted	Unquoted
	<i>(thousand Euro)</i>	
A Equity securities	632,189	78
A1. Shares	632,189	1
A2. Innovative capital instruments	–	–
A3. Other capital securities	–	77
B UCI	7,871	943,973
B1. Italian	32	791,173
– open harmonized	–	791,173
– open non-harmonized	–	–
– closed	32	–
– reserved.....	–	–
– speculative	–	–
B2. Other EU countries	7,839	152,800
– harmonized	7,467	152,800
– open non-harmonized	–	–
– closed non-harmonized.....	372	–
B3. Non EU countries	–	–
– open	–	–
– closed	–	–
Total	640,060	944,051

Supervision trading portfolio; distribution of the capital securities and share index exposure for the main Countries of the listed market

	Quoted		Unquoted
	Italy	Other countries	
	<i>(thousand Euro)</i>		
A Equity securities	184,627	437,600	77
– long positions	181,437	435,192	77
– short positions.....	3,190	2,408	–
B Unsettled trading on equity securities.....	20,004	10,725	–
– long positions	14,450	6,014	–
– short positions.....	5,554	4,711	–
C Other derivatives on equity securities.....	77,311	–	316,361
– long positions	10,135	–	45,982
– short positions.....	67,176	–	270,379
D Derivatives on share indexes.....	9,563	444,302	978,015
– long positions	1,276	54,265	521,007
– short positions.....	8,287	390,037	457,008

Regulatory trading portfolio: internal models and other methods to assess sensitivity

The monitoring and assessment of the risk related to the price of the trading portfolio is carried out with the internal VaR model, that is described in section “Interest rate risk – regulatory trading portfolio”.

Price Risk– Banking Portfolio

Qualitative information

General aspects, management procedures and methods for the assessment of price risks

The BPVN Group owns a portfolio mainly made up of equity shares that are classified as available-for-sale shares and of hedge funds that are held in order to overcome the dependence of the overall portfolio from market trend.

Price risk hedging activities

The banking portfolio price risk – which is monitored on a monthly basis – is not hedged.

Quantitative information

Banking portfolio: Equity securities and O.I.C.R. (Collective Savings Investment Institutions) cash exposure

	Book Value	
	Quoted	Unquoted
	<i>(thousand Euro)</i>	
A Equity securities	114,042	388,636
A1. Shares	114,033	371,156
A2. Innovative capital instruments.....	–	–
A3. Other capital securities	9	17,480
B UCI	910	322,518
B1. Italian	–	318,801
– open harmonized	–	–
– open non-harmonized	–	–
– closed	–	15,006
– reserved.....	–	–
– speculative	–	303,795
B2. Other EU countries	910	3,717
– harmonized	910	–
– open non-harmonized	–	–
– closed non-harmonized.....	–	3,717
B3. Non EU countries	–	–
– open	–	–
– closed	–	–
Total	114,952	711,154

Banking Portfolio: sensitivity analysis internal models and other methods

The monitoring activity and risk price control of the fund of hedge funds banking portfolio is carried out through the use the internal VaR model, which is described in detail in section “*Interest rate risk – regulatory trading portfolio*”. The risk estimate is calculated by evaluating each hedge fund based on a combination of factors representing the management strategies. The risk level of each strategy is estimated based on the volatility figures of each risk factor, which are updated monthly.

The shares that are classified as available for sale are shareholdings under 20%, whose price risk is not being specifically monitored at the moment.

Exchange rate risk

Qualitative information

General issues, management procedures and exchange rate risk assessment methods

Exchange rate risks ensuing from the commercial activities of the banks of the BPVN Group have been transferred and centralized in Banca Aletti, which acts as the BPVN Group's investment bank.

As to any foreign currency position set up by the commercial banks in the investment portfolios managed by Banca Aletti, they are directly funded by the BPVN Group's integrated Treasury department in the settlement currency.

The exchange rate risk management for Banca Aletti is associated with very small positions, regarding major currencies, in particular the US dollars, Japanese yens, Swiss francs and English pounds.

As to trades in exchange rate derivatives, exposures are basically closed down every day.

Quantitative information

Distribution by currency of denomination of assets and liabilities and derivatives

Currencies

	As at 31 December 2006					
	US Dollars	GB Pounds	Swiss Francs	Yen	Krone	Other currencies
	<i>(thousands of euro)</i>					
A Financial assets	1,338,002	557,129	326,618	214,799	44,030	36,732
A1 Debt securities	38,236	54,770	13,123	244	–	–
A2 Equity securities	143,451	2,612	57,790	89,141	–	506
A3 Due from banks	703,213	388,066	168,789	79,694	15,969	25,328
A4 Loans to customers	453,102	111,681	86,916	45,720	28,061	10,898
A5 Other financial assets	–	–	–	–	–	–
B Other assets	3,667	904	2,493	136	2,670	798
C Financial liabilities	2,272,186	1,330,547	463,538	440,462	61,054	153,395
C1 Due to banks	896,958	120,253	125,066	100,261	961	43,585
C2 Due to customers	779,983	150,383	31,683	62,443	60,093	108,782
C3 Debt securities	590,712	1,059,317	304,893	277,712	–	–
C4 Other financial liabilities	4,533	594	1,896	46	–	1,028
D Other liabilities	2,871	260	693	27	–	100
E Financial derivatives	442,906	36,180	40,636	396,920	–	76,559
- Options	155,910	11,397	33,163	63,216	–	1
+ long positions	51,746	8,027	25,790	31,864	–	–
+ short positions	104,164	3,370	7,373	31,352	–	1
- Other	286,996	24,783	7,473	333,704	–	76,558
+ long positions	69,626	23,698	2,035	284,514	–	56,080
+ short positions	217,370	1,085	5,438	49,190	–	20,478
Total assets	1,463,041	589,758	356,936	531,313	46,700	93,610
Total liabilities	2,593,720	1,335,002	476,349	521,004	61,054	173,874
Imbalance (assets – liabilities)	(1,130,679)	(745,244)	(119,413)	10,309	(14,354)	(80,264)

Liquidity risk

General issues, management procedures and liquidity risk assessment methods

Liquidity risk comes from the time mismatch between expected cash in- and outflows in a very short time horizon. In addition to the difficulty/impossibility of hedging such mismatches, the liquidity risk can also entail an interest rate risk caused by the need to raise/lend funds at unknown rates that could be potentially unfavourable.

The first defence line against liquidity risk in commercial banks is the daily monitoring and control of the liquidity imbalance accrued over 14 days (calendar days from the overnight value date) by the treasury. This mismatch is measured by the difference between treasury cash inflows and outflows, that are summed algebraically based on the progressive gap analysis technique.

In case of a negative liquidity gap, Banca Aletti verifies that it does not exceed the amount that would be made available through refinancing with the Central Bank by presenting the eligible securities of each bank, also those whose management was delegated to Banca Aletti.

Banca Aletti, who was committed by the banks of the BPVN Group with the integrated management of treasury and forex activities, immediately reports any breakout of said threshold to BPVN, which in turn immediately informs the Finance Committee of each bank so as to discuss and approve the necessary corrective actions to bring the situation back to balance.

The agreement between Banca Aletti and BPVN sets specific ceilings for the maximum negative liquidity gap at the overnight value date determined by the daily transactions of the investment bank on its books, net of the amount that would be made available through refinancing with the Bank of Italy by presenting the available eligible debt securities.

The second defence line against liquidity risk is the monitoring and active management of any liquidity mismatch in the medium and long term through the adoption of appropriate funding policies, also by way of funding programs. These policies are defined during the monthly and quarterly meetings of the Finance Committees, upon the proposal of BPVN's Structured Planning and Finance Function.

The main instrument used to finance a surge in loan demand exceeding the common internal funding sources and to optimize the correlation between loans and deposits is the issue of bonds destined to institutional investors as part of the Euro Medium Term Notes (EMTN) program of BPVN, with maturities at 5.7 and 10 years.

The third defence line against liquidity risk is the monitoring activity performed by BPVN's Risk Management function. Pursuant to the specific powers delegated to this function by the banks of the BPVN Group, it measures the liquidity term structure of all the transactions in the banking book and in the trading portfolio, using the ALM-related gap analysis technique, and it sends the relevant reports to the head offices of the banks, in particular duplicating the daily control of the liquidity mismatch accrued in 14 days.

Operational risk

Qualitative information

General issues, management procedures and operational risk assessment methods

Operational risk is the risk of suffering losses caused by inadequacy or failure attributable to procedures, human resources and internal systems, or caused by external events. The legal risk is included, while the strategic and reputational risks are not.

The main sources of operational risk are: low reliability of operational processes, insufficient IT security, growing recourse to automation, outsourcing of corporate functions, a limited number of suppliers, changes in strategies, frauds, mistakes, staff recruitment, training and loyalty-building, and finally social and environmental impacts.

In order to correctly identify and assess operational risks, The BPVN Group defined a methodology based on a qualitative analysis (Risk Assessment) and on a quantitative analysis (Loss Collection).

The qualitative risk assessment is carried out when there are no historical loss data that may evidence the risk level associated with specific risk events (for example, low frequency and high impact events) or when the corporate business is being reorganized and revised in such a way as to change its risk level. Risk Assessment data is collected by regularly interviewing the heads of the various organizational departments, it is then codified and filed in a database functional to statistical analysis. Loss Collection data is filed in a loss database as soon as the reporting function recognizes the loss event to be accounted for. Said data must be validated to verify their quality, as well as their formal accuracy.

During 2006 an assessment and certification system of the operational risk data base was implemented, which is intended to guarantee the quality as well as the formal correctness of the information.

Moreover a system has been developed for Loss Collection to automatise the management and accounting process of trading repayments and operating losses of the trading network units.

A reporting system for trading repayments and operating losses was also made available to the Management of the BPVN Group and to all involved operating units.

The aim of the above activities is to ensure the adoption of the standardized model as of the introduction of the New Capital Accord, to then change over to the adoption of the internal operational risk management model of the BPVN Group (Advanced Measurement Approach).

In order to implement the standardized model, followed by the AMA model, the BPVN Group intends setting up a business organizational model centralized in BPVN, which acts directly on behalf of the three commercial banks, Banca Aletti and SGS, and defines and regularly updates the objectives and the guidelines for the BPVN Group’s product factories. From an operational point of view, each product factory shall set up an internal organizational unit in charge of endorsing and implementing the targets fixed by the Parent company, and of providing a regular feedback on operational risk management.

Quantitative information

The capital requirement, as calculated through the Standardized method, is determined based on the average of the capital requirements for the last three years as at each year’s closing.

The following table shows the capital absorption for BPVN Group as at 31 December 2006, calculated yearly as the average of the capital absorption figures at the closing of the financial years 2004, 2005, and 2006:

Business Line	Absorption
Corporate Finance	1.655.753
Trading and sales	47.008.037
Retail Banking	101.675.620
Commercial Banking	121.791.070
Payment and Settlement.....	27.927
Agency service.....	8.312.910
Asset Management.....	6.182.172
Retail Brokerage	35.778.839
Total	322.432.839

Liquidity risk

The ALM model is also used to measure the liquidity risk, by monitoring and controlling imbalances generated by sources and uses of funds (cash flows) across the whole time horizon.

This tool allows the assessment of total short-term imbalances (from fourteen days to one month) and the verification as to whether they are offset by adequate liquidity reserves, represented by securities portfolios to be used for advance transactions with the European Central Bank.

It also supports the planning of BPVN Group funding policies, coordinated by the ALM department of the Finance Area, with regard to bond funding through its retail branch system, as well as funding programs on international markets.

Risk integration and capital management

The integration of the different type of risks aims at producing a global measurement, at BPVN Group and single bank/company level, incorporating the risk factor diversification effect, so as to achieve two goals:

- ensure capital adequacy, consistent with the risk profile of the economic entity, by comparing total capital with total assets; and
- produce risk-adjusted performance measurements, as a support to the Value Based Management (VBM) process.

Integration spans credit risks, financial risks, business risks, operational risks, and – with regard to companies of the BPVN Group with no internal risk management models – net equity under the assumption of a perfect capital base. A common matrix was defined in terms of confidence interval (99.96 per cent., in line with the rating assigned by the major rating firms) and time horizon (one year).

Settlement risk

Settlement risk is due to the exchange of cash flows and is of a much shorter-term nature. This risk arises as soon as an institution makes the required payment until the offsetting payment is received. This risk is greatest when payments occur in different time zones, especially for foreign exchange transactions where notional amounts are exchanged in different currencies. Failure to perform on settlement can be caused by counterparty default, liquidity constraints or operational problems.

Insurance risk

Insurance risk involves uncertainty about both:

- (a) the ultimate amount of net cash flows from premiums, commissions, claims and claims-settlement expenses emanating from a transfer of contractually defined liabilities (underwriting risk); and
- (b) the timing of the receipt and payment of those cash flows (timing risk).

Other risks

The BPVN Group monitors another risk: business risk.

Business risk is defined as the risk of incurring losses, in terms of falling non-interest income, due to changes in the macro- or micro-economic environment, leading to shrinking volumes and/or margins which might undermine the BPVN Group's ability to generate profits.

This risk is measured using the Earnings at Risk (EAR) model: based upon the historical volatility at bank and business area level of the various components making up non-interest income, this model measures the worst-case losses over a one-year horizon and a confidence level of 99.96 per cent., thus providing an estimate of earnings at risk as a measure of capital adequacy.

Provisions for Risks and Charges – Other Provisions

The main components of these provisions are the provisions entered in the income statement for 2006 and for the previous years for the losses that may arise from possible revocatory actions against the banks of the BPVN Group.

General

In addition to the Merger with BPI which is described in section “*Merger between BPVN and BPI and incorporation of Banco Popolare*” and which will have effect as of 1 July 2007, there has been no material adverse change in the ordinary course of business or in the prospects or condition of the Issuer since 31 December 2006, being the date of its last published audited financial statements. No material contracts are entered into which are not in the ordinary course of the Issuer’s business and there have been no recent events particular to the Issuer which are to a material extent relevant to the evaluation of the Issuer’s solvency.

The Basel 2 project

During 2006 activities continued on the Basel 2 Project aimed at creating the proper conditions required to obtain the recognition of advanced approaches for establishing the capital adequacy requirements of the BPVN Group from the Bank of Italy.

At 31 December 2006, the stage of completion of the various projects under way was as follows:

Credit risk

The objective of the BPVN Group is the progressive adoption of advanced methods (Internal Rating Based) starting from the Enterprises portfolios.

Credit-risk assessment models

During 2006 the reassessment of the internal rating model (Probability of Default model) was started in order to refine models that are currently being produced for the portfolios relating to Corporate customers (Enterprises segment). The internal validation process for rating models and for comparison with the Supervisory Authority (so-called pre-validation phase of the rating models) was started. These activities were supported by a preliminary verification of the data used for statistical data processing. This also allowed the company to define a process for the ongoing verification of the quality of data (so-called Data Quality).

Credit risk management processes

During 2006 actions were undertaken for the full use of the rating in credit processes on corporate customers at the banks of the BPVN Group. The novelties introduced are as follows:

- introduction of the compulsory comment on the rating in the preliminary investigation process;
- introduction of the process for the handling of exceptions to the automatic judgement by the system upon proposal by the analyst (so-called override);
- enhancement of the performance management process through the introduction of guarantees as a mitigating factor;
- review of the outstanding credits and introduction of the past due management category (for positions outstanding for more than 180 days).

These actions were accompanied by a dedicated training course aimed at consolidating the competencies of the resources at the Network and the Head office on the Basel 2 issues and the update on the latest novelties introduced: at group level, during 2006, approximately 30,000 training hours were provided to Branch staff.

Furthermore, activities to achieve compliance with the requirements established for the Credit Risk Mitigation continued with particular emphasis on the procedures for managing collateral securities (property in particular).

Risk Assessment and Capital Evaluation

To this regard, the BPVN Group achieved the following results:

- internalization of the criteria for calculating the minimum capital requirements;
- first Parallel Calculation simulation of the capital requirements for the consolidated BPVN Group, as at June 2006;
- pursue of the activities aimed at complying with the Second Pillar of the New Agreement on Capital and at defining the Internal Capital Adequacy Assessment Process (I.C.A.A.P.);
- fine-tuning – currently being carried out – of the internal risk assessment models pursuant to the Basel 2 regulations.

Validation of the credit risk processes and models

The BPVN Group started the activity for the internal validation of the Rating Systems (Companies and Banks and Countries rating models) as well as the activity for the internal validation of the IT and organization requirements compliant to and in collaboration with the internal audit activity.

In the course of the year, both the Top Management and the Company Officers were regularly involved in defining the line of policy and in sharing the project results.

Operational Risks

The BPVN Group is carrying out the activities that are necessary to fully comply with the Standard methods; this refers, in particular, to the improvement of all loss collection processes:

- full operation of the processes in the functions that were already set up in 2005 (Foreign Affairs and Commodities Department, Middle and Back Office for the Finance Department, Back Office for the Proceeds and Payments Department, IT and SGS);
- automation of the authorization procedure for recording losses;
- realization of the Data quality system and arrangement of the line controls to be carried out on collected data;
- specific training of the relevant users.

Other completed activities:

- execution of the Risk Assessment activities (evaluation of the IT department and full definition of the method for assessing risks related to new products);
- definition of the global reporting model (for both the management and the single departments) and implementation of the information system for line functions reporting;
- definition of the method and completion of the first self-evaluation activity for the Standard method for managing operational risk.

The Risk Management department also continued to carry out the methodological analyses aimed at developing models and instruments to assess capital requirements with the most advanced internal methods (so called Advanced Measurement Approach – A.M.A.)

With regard to the *Credit Risk* and *Operational Risk* projects, in the course of 2006, the BPVN Group continued to discuss and work with the Supervisory Authority of the Bank of Italy on the results, next steps and implementation schedule of the new Agreement.

Other Projects

Following specific regulations (Italian law n. 62 as of 18/4/2005, Italian law n. 262 as of 28/12/2005, Italian law n. 146 as of 16/3/2006, Italian law n. 7 as of 9/1/2006) that increase the administrative responsibilities of the Bank, in the course of 2006, the BPVN Group started to review the Organizational Model and introduced two new Special Sections regarding Market Abuse and Transnational Offences. The review above – which was approved by the Board of Directors of BPVN – is already operating and shall be extended to the other banks of the BPVN Group within the first half of 2007.

Pursuant to the provisions of CONSOB that are aimed at applying sanctions on unfair behaviour implying the abuse of confidential information (*i.e.* insider trading), the BPVN Group introduced a “*Procedure to manage company and privileged information*” that is aimed at controlling the internal use of information and its circulation to the public. In particular, this procedure has led to the introduction of a “*Register of people accessing privileged information*”, which lists all the people who can access – be it on a regular or occasional way – the information above.

Following the entry into force of the Italian Law Decree n. 223 as of 04/07/2006 (known as “Decreto Bersani”), the BPVN Group introduced the necessary amendments provided for by the law, above all with regard to the contract conditions for current accounts.

Within the project aimed at rationalizing the trade network of the BPVN Group, the following activities were carried out:

- extension of the organizational model of BPVN to the Branches acquired from BPI (SWAP project);
- carrying out of specific organizational analyses on each Branch/Business Unit in order to identify the most adequate organizational arrangement;
- realization of a system to assess the efficiency index of each Branch/Business Unit (Network Sizing System – N.S.S.) by identifying the workloads for each function;
- reorganization of the foreign activities by identifying – within the different Business Units – “Reference Branches” to whom the activity of all other Branches of the same Business Unit is transferred.

At the Head Office level, activities continued with the aim of rationalizing the organizational structure of the BPVN Group in order to attain the most efficiency.

Finally, the BPVN Group set up, together with Banca Aletti, a consulting service on financial investments aimed at supporting the Bank Private customers; this consulting activity – which has been duly undersigned within a contract – aims at providing customers with information that is useful to manage one’s investments in a way that is consistent with one’s objectives and financial situation.

Project for the draft of the control model for company accounting documents (Italian Law 262/2005)

The Italian Law n.262 as of 28/12/2005 (better known as Savings Act) introduced the office of the manager in charge of drawing up the company accounting documents. A project was therefore launched to realize an internal model to control all administrative processes underlying the drawing up of the financial statements.

Project for the validation of the market risk model

The BPVN Group continues to carry out the project aimed at validating the internal model for the assessment of the adequacy capital requirements to face market risk. The BPVN Group has already defined the activities to be carried out with regard to organization, processes and systems; such activities are necessary to ensure compliance with the quantitative and qualitative requirements provided for by the Provisions on Supervision.

The main activities currently being carried out refer to:

- the methodology for VaR calculation; the BPVN Group is moving from the current variance-covariance parameter approach to a historical simulation approach. This shall take place gradually as the new model is applied to the different financial and risk instruments (plain instruments, options on equity instruments, on rates and on exchange rates) as well as to instruments to assess the equity and debt securities specific risk and the vega risk;
- the approval of the code on risk limits and monitoring activities; a code on risk limits was approved that – as of today – provides for risk limits in terms of VaR with regard to market risks (and to the interest rate risks of the banking book) faced by banks. The limits above shall be gradually extended to credit risks and to other operational risks as well. Contextually, the Group implemented the relevant monitoring activity;
- the preparation of stress tests; these shall be aimed at identifying a significant number of risk factors (interest and exchange rates; share prices; volatility and matching) in order to assess the impact of extreme events and scenarios on the value of the current positions and, consequently, on the capital adequacy of both the Group and the single Banks;
- the setting of methods for carrying out back-testing analyses. Guidelines were defined that should lead to the creation of a back-testing system that makes it possible to assess the variance of the real portfolio value with respect to the VaR-based risk estimates; this should ensure a high prediction value of the model. The relevant system implementation and testing activities are also being carried out.

CAPITALISATION OF BANCO POPOLARE DI VERONA E NOVARA

The following table sets out the capitalisation on a consolidated basis of the Issuer as at 31 December 2006. Save as disclosed in this Prospectus, there has been no material change in the capitalisation of the Issuer since 31 December 2006.

	As at 31 December 2006
	<i>(thousands of euro)</i>
Debt	
Due to banks	8,116,144
Due to customer	28,905,375
Debt securities in issue ⁽¹⁾	16,334,515
Financial liabilities held for trading.....	1,844,528
Financial liabilities measured at fair value	5,334,143
Total debt	60,534,705
Capital Stock	1,351,182
Additional paid-in capital	202,304
Reserves	2,044,798
Revaluation reserves	240,820
Income for period.....	1,032,914
Total Shareholder's equity	4,872,018
Total Capitalisation	65,406,723

(1) This does not include liabilities of the Issuer resulting from the issue of the Notes under this Prospectus.

SUMMARY FINANCIAL INFORMATION OF BANCO POPOLARE DI VERONA E NOVARA

Set out below is summary financial information of BPVN which is derived from the audited consolidated financial statements of BPVN as at and for the years ended 31 December 2006 and 2005 (prepared in accordance with IFRS/IAS), which have been audited by Reconta Ernst & Young S.p.A. Such financial statements, together with the audit reports of Reconta Ernst & Young S.p.A. **and** the accompanying notes, are incorporated by reference into this Prospectus. The financial information below should be read in conjunction with, and is qualified in its entirety by reference to, such financial statements, reports and the notes thereto. See also “*Documents Incorporated by Reference*”.

BPVN CONSOLIDATED BALANCE SHEET

	As at 31 December		Changes	
	2006	2005		
	<i>(thousands of euro)</i>			
ASSETS				
Cash and cash equivalents.....	360,546	339,356	21,190	6.2%
Financial assets held for trading	8,424,623	7,908,135	516,488	6.5%
Financial assets measured at fair value.....	314,430	292,662	21,768	7.4%
Financial assets available for sale	1,053,752	1,021,750	32,002	3.1%
Financial assets held to maturity.....	939,319	876,714	62,605	7.1%
Due from other banks	8,680,735	5,848,353	2,832,382	48.4%
Loans to customers	45,244,563	40,275,893	4,968,670	12.3%
Hedging derivatives.....	38,847	75	38,772	51,696%
Fair value change of assets in hedged portfolios	(4,093)	(1,014)	(3,079)	303.6%
Equity investments	796,935	431,025	365,910	84.9%
Property, plant and equipment	538,047	535,999	2,048	0.4%
Intangible assets	447,753	395,589	52,164	13.2%
of which: goodwill.....	413,027	362,617	50,410	13.9%
Fiscal assets.....	661,465	698,307	(36,842)	(5.3%)
a) current.....	290,397	354,628	(64,231)	(18.1%)
b) deferred.....	371,068	343,679	27,389	8.0%
Non-current assets held for sale and disposal groups..	239	27,073	(26,834)	(99.1%)
Other assets	1,197,774	1,108,470	89,304	8.1%
Total	68,694,935	59,758,387	8,936,548	15.0%
LIABILITIES				
Due to banks	8,116,144	8,099,580	16,564	0.2%
Due to customers.....	28,905,375	24,768,824	4,136,551	16.7%
Debt securities in issue	16,334,515	12,932,148	3,402,367	26.3%
Financial liabilities held for trading	1,844,528	1,585,687	258,841	16.3%
Financial liabilities measured at fair value	5,334,143	5,283,159	50,984	1.0%
Dedging derivatives.....	54,847	1,801	53,046	2,945.4%
Fair value change of liabilities in hedged portfolios ..	(57,936)	(16,652)	41,284	247.9%
Tax liabilities	416,354	306,904	109,450	35.7%
a) current.....	192,554	158,797	33,757	21.3%
b) deferred.....	223,800	148,107	75,693	51.1%
Other liabilities	2,111,034	2,081,915	29,119	1.4%
Employee termination benefits	350,079	354,171	(4,092)	(1.2%)
Provisions for risks and charges and charges	269,073	222,752	46,321	20.8%
a) retirement and similar obligations	25,964	27,343	(1,379)	(5.0%)
b) other provisions	243,109	195,409	47,700	24.4%
Valuation reserves	240,820	163,118	77,702	47.6%
Reserves.....	2,044,798	1,734,261	310,537	17.9%
Share premiums.....	202,304	184,031	18,273	9.9%
Share capital	1,351,182	1,342,569	8,613	0.6%
Minority interest	144,761	117,065	27,696	23.7%
Net income for the year.....	1,032,914	597,054	435,860	73.0%
Total	68,694,935	59,758,387	8,936,548	15.0%

BPVN CONSOLIDATED INCOME STATEMENT

	For the year ended 31 December		Changes	
	2006	2005 ^(*)		
	<i>(thousands of euro)</i>			
Interest income and similar revenues	2,596,175	2,032,493	563,682	27.7%
Interest expense and similar	(1,255,431)	(822,856)	432,575	52.6%
Net interest income	1,340,744	1,209,637	131,107	10.8%
Commission income	948,185	893,398	54,787	6.1%
Commission expense.....	(104,099)	(93,797)	10,302	11.0%
Net commission income	844,086	799,601	44,485	5.6%
Dividend and similar income	89,594	55,245	34,349	62.2%
Net trading income	106,555	86,134	20,421	23.7%
Fair value adjustments in hedge accounting	1,029	506	523	103.4%
Profit (Loss) on disposal or repurchase of:.....	55,248	13,850	41,398	298.9%
a) loans	36,362	243	36,119	14,863.8%
b) financial assets available	16,919	11,647	5,272	45.3%
c) financial assets held to maturity	–	1,675	(1,675)	–
d) financial liabilities	1,967	285	1,682	590.2%
Profit (Loss) on financial assets and liabilities designated at fair value	29,219	10,593	18,626	175.8%
Net interest and other banking income	2,466,475	2,175,566	290,909	13.4%
Net write-downs / write-backs on impairment of:	(138,366)	(75,327)	63,039	83.7%
a) loans	(133,820)	(73,862)	59,958	81.2%
b) financial assets available for sale.....	(2,194)	(2,140)	54	2.5%
c) financial assets held to maturity	–	–	–	–
d) other financial activities.....	(2,352)	675	(3,027)	–
Net income from banking activities	2,328,109	2,100,239	227,870	10.8%
Net income from banking and insurance activities	2,328,109	2,100,239	227,070	10.8%
Administrative expenses:	(1,354,565)	(1,354,287)	278	0.0%
a) personnel expenses	(884,265)	(889,172)	(4,907)	(0.6%)
b) other administrative expenses	(470,300)	(465,115)	5,185	1.1%
Net provisions for risks and charges.....	(58,762)	(29,855)	28,907	96.8%
Impairment/write backs on PPE	(46,728)	(43,238)	3,490	8.1%
Impairment/write backs on intangible assets	(29,912)	(33,719)	(3,807)	(11.3%)
Other operating income (loss).....	277,913	254,602	23,311	9.2%
Operating costs	(1,212,054)	(1,206,497)	5,557	0.5%
Share of profit of associates	387,980	76,275	311,705	408.7%
Profit (Loss) on disposal of investments.....	41,798	562	41,236	7,337.4%
Income (Loss) before tax from continuing operations	1,545,833	970,579	575,254	59.3%
Tax on income from continuing operations	(488,062)	(365,564)	122,498	33.5%
Income (Loss) after tax from continuing operations	1,057,771	605,015	452,756	74.8%
Income (Loss) after tax from discontinued operations	6,225	7,726	(1,501)	(19.4)%
Net income for the year	1,063,996	612,741	451,255	73.6%
Minority interest	(31,082)	(15,687)	15,395	98.1%
Parent company's share of profit	1,032,914	597,054	435,860	73.0%

(*) Restated for comparability

SUMMARY FINANCIAL INFORMATION OF BANCA POPOLARE ITALIANA

Set out below is summary financial information of BPI which is derived from the audited consolidated financial statements of BPI as at and for the years ended 31 December 2006 and 2005 (prepared in accordance with IFRS/IAS), which have been audited by Deloitte & Touche S.p.A. Such financial statements, together with the audit reports of Deloitte & Touche S.p.A. and the accompanying notes, are incorporated by reference into this Prospectus. The financial information below should be read in conjunction with, and is qualified in its entirety by reference to, such financial statements, reports and the notes thereto. See also “*Documents Incorporated by Reference*”.

BPI CONSOLIDATED BALANCE SHEET

	As at 31 December	
	2006	2005
	<i>(thousands of euro)</i>	
Assets		
Cash on hand and deposits with central bank and post offices	248,988	237,423
Financial assets held for trading	3,601,485	4,068,043
Financial assets at fair value		716,378
Available-for-sale financial assets	1,100,617	1,095,710
Held-to-maturity financial assets	83,694	84,630
Due from bank	4,833,472	4,457,197
Customer loans.....	28,735,907	27,968,762
Hedge derivatives.....	102,927	185,988
Shareholdings.....	151,168	487,644
Reinsurers' share of technical reserves		
Property, plant and equipment	947,078	932,065
Intangible assets.....	2,221,173	2,057,370
Of which:		
-Goodwill	2,169,865	2,010,018
Tax assets	1,222,348	1,305,546
a) current	179,627	243,161
b) prepaid	1,042,721	1,062,385
Non-current assets and discontinued operations	1,391,248	1,401,931
Other assets	2,146,966	2,323,828
Total assets	46,787,071	47,322,515
Liabilities		
Due to banks	5,997,316	4,791,619
Due to customers	15,610,851	14,356,069
Securities in issue.....	16,527,244	20,281,134
Financial liabilities held for trading.....	498,859	713,354
Financial liabilities at fair value.....		316,281
Hedge derivatives.....	204,574	195,621
Adjustments to the value of financial liabilities under macro hedging		
Tax liabilities	277,646	299,481
a) current	142,081	159,518
b) deferred	135,565	139,963
Liabilities associated with discontinued operations	1,269,425	613,509
Other liabilities.....	1,723,479	1,752,879
Employee severance payment fund	173,128	164,778
Provisions for contingencies and charges	401,130	504,596
a) pension fund.....	139,642	139,885
b) other provisions	261,488	364,711
Technical reserves		85,219
Valuation reserves	91,549	50,705
Capital instruments	3,048	3,048
Reserves	(749,540)	(375,825)
Issue premiums	2,682,267	2,487,324
Share capital.....	2,047,082	1,456,498
Own shares (-)	(78,720)	(91,546)
Minority interests (+/-).....	147,594	461,664
Profit (loss) for the year.....	(39,861)	(743,893)
Total liabilities and shareholders' equity	46,787,071	47,322,515

BPI CONSOLIDATED INCOME STATEMENT

	For the year ended 31 December	
	2006	2005
	<i>(thousands of euro)</i>	
Interest income and similar revenue	2,054,356	1,777,679
Interest expense and similar charges	(1,214,256)	(1,016,846)
Net interest income	840,100	760,833
Commission income.....	488,932	580,867
Commission expense	(88,240)	(281,495)
Net commissions	400,692	299,372
Dividends and similar income	29,631	62,026
Net income from trading activities	53,567	(47,687)
Net income from hedging activities.....	36,079	47,356
Profit (loss) from the sale or repurchase of:	146,730	47,938
a) loans	68,775	
b) available-for-sale financial assets.....	71,090	47,938
c) held-to-maturity financial assets		
d) financial liabilities	6,865	
Net income from financial assets and liabilities designated at fair value	(6,061)	93,053
Total income	1,500,738	1,262,891
Net adjustments for impairment of:.....	(432,468)	(981,994)
a) loans	(333,042)	(752,998)
b) available-for-sale financial assets.....	(98,913)	(226,217)
c) held-to- maturity financial assets		
d) other financial transactions	(513)	(2,779)
Net income from financial operations	1,068,270	280,897
Net premiums.....		6,254
Balance of other income/expenses from insurance operations		5,421
Net income from financial and insurance operations	1,068,270	292,572
Administrative expenses:	(999,363)	(1,004,204)
a) personnel expenses.....	(528,965)	(543,918)
b) other administrative expenses	(470,398)	(460,286)
Net provisions for contingencies and charges	(53,376)	(261,406)
Net adjustments to property, plant and equipment	(54,630)	(59,614)
Net adjustments to intangible assets	(22,788)	(25,028)
Other operating income/expenses	181,691	223,088
Operating costs	(948,466)	(1,127,164)
Gains (losses) from investments	45,608	(6,021)
Net income from the fair value measurement of property, plant and equipment and intangible assets		
Net adjustments to goodwill	(46,962)	(42,035)
Profit (loss) from sale of investments	24,114	824
Profit (loss) from continuing operations before tax	142,564	(881,824)
Income taxes on continuing operations	(97,058)	165,208
Profit (loss) from continuing operations after tax	45,506	(716,616)
Profit (loss) from discontinued operations after tax	(42,085)	16,737
Profit (loss) for the year	3,421	(699,879)
Period profit (loss) of minority interests	(43,282)	(44,014)
Period profit (loss) of parent bank	(39,861)	(743,893)

**SUMMARY PRO FORMA FINANCIAL INFORMATION OF BANCO POPOLARE
DI VERONA E NOVARA**

Set out below is summary pro forma consolidated financial information of BPVN which has been obtained on the basis of:

- the audited consolidated financial statements of the Issuer and BPI as at and for the year ended 31 December 2006; and
- the pro forma adjustments reflecting the Merger.

Such unaudited pro forma consolidated financial information was prepared by making appropriate pro forma adjustments to the audited financial statements referred to above, to give theoretical retroactive effect, for balance sheet and income statement purposes, to the merger of the Issuer and BPI, which is scheduled to take place on 1 July 2007, as if such transaction had occurred on 1 January 2006 for the income statement and 31 December 2006 for the balance sheet.

A press release of BPVN containing such unaudited pro forma consolidated financial information of BPVN, together with the report of Reconta Ernst & Young S.p.A. and the accompanying notes, are incorporated by reference into this Prospectus. The financial information below should be read in conjunction with, and is qualified in its entirety by reference to, such financial statements, reports and the notes thereto. See also “*Documents Incorporated by Reference*”.

UNAUDITED PRO-FORMA CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2006

	BPVN Group	BPI Group	Eliminations	Merger adjustments	BPVN-BPI pro-forma
	<i>(thousands of euro)</i>				
ASSETS					
Cash and cash equivalents	360,546	248,988	–	–	609,534
Financial assets held for trading	8,424,623	3,601,485	–	–	12,026,108
Financial assets measured at fair value	314,430	–	–	–	314,430
Financial assets available for sale	1,053,752	1,100,617	–	(27,042)	2,127,327
Financial assets held to maturity	939,319	83,694	–	–	1,023,013
Due from other banks	8,680,735	4,833,472	(101,953)	–	13,412,254
Loans to customers	45,244,563	28,735,907	(47,615)	–	73,932,855
Hedging derivatives	38,847	102,927	–	–	141,774
Fair value change of assets in hedged portfolios	(4,093)	–	–	–	(4,093)
Equity investments	796,935	151,168	–	42,023	990,126
Property, plant and equipment ..	538,047	947,078	–	–	1,485,125
Intangible assets	447,753	2,221,173	–	–	2,668,926
Tax assets	661,465	1,222,348	–	(13)	1,883,800
Non-current assets held for sale and disposal groups	239	1,391,248	–	–	1,391,487
Other assets	1,197,774	2,146,966	–	–	3,344,740
Merger difference.....				4,401,168	4,401,168
Total	68,694,935	46,787,071	(149,568)	4,416,136	119,748,574
LIABILITIES					
Due to banks	8,116,144	5,997,316	(149,568)	1,510,578	15,474,470
Due to customers	28,905,375	15,610,851	–	–	44,516,226
Debt securities in issue	16,334,515	16,527,244	–	–	32,861,759
Financial liabilities held for trading	1,844,528	498,859	–	–	2,343,387
Financial liabilities measured at fair value	5,334,143	–	–	–	5,334,143
Hedging derivatives	54,847	204,574	–	–	259,421
Fair value change of liabilities in hedged portfolios	(57,936)	–	–	–	(57,936)
Tax liabilities	416,354	277,646	–	(117)	693,883
Liabilities associated with discontinued operations	–	1,269,425	–	–	1,269,425
Other liabilities	2,111,034	1,723,479	–	–	3,834,513
Employee termination benefits	350,079	173,128	–	–	523,207
Provisions for risks and charges	269,073	401,130	–	–	670,203
Valuation reserves	240,820	91,549	–	(1,836)	330,533
Common stock equivalents	–	3,048	–	–	3,048
Share premiums	202,304	2,682,267	–	3,020,427	5,904,998
Share capital.....	1,351,182	2,047,082	–	(997,958)	2,400,306
Treasury shares (-)	–	(78,720)	–	78.720	–
Minority interest	144,761	147,594	–	–	292,355
Reserves and net income for the period	3,077,712	(789,401)	–	806,322	3,094,633
Total	68,694,935	46,787,071	(149,568)	4,416,136	119,748,574

**UNAUDITED PRO-FORMA CONSOLIDATED INCOME STATEMENT FOR THE
YEAR ENDED 31 DECEMBER 2006**

	BPVN Group	BPI Group	Eliminations	Merger adjustments	BPVN-BPI pro-forma
	<i>(in thousand euro)</i>				
Income statement					
Interest income and similar revenues	2,596,175	2,054,356	(4,223)	–	4,646,308
Interest expense and similar charges	(1,255,431)	(1,214,256)	4,223	(44,894)	(2,510,358)
Net interest income	1,340,744	840,100	–	(44,894)	2,135,950
Commission income	948,185	488,932	–	–	1,437,117
Commission expense	(104,099)	(88,240)	–	–	(192,339)
Net commission income	844,086	400,692	–	–	1,244,778
Dividend and similar income	89,594	29,631	–	(1,702)	117,523
Net trading income	106,555	53,567	–	–	160,122
Fair value adjustments in hedge accounting	1,029	36,079	–	–	37,108
Profit (Loss) on disposal or repurchase of:	55,248	146,730	–	–	201,978
a) loans	36,362	68,775	–	–	105,137
b) financial assets available	16,919	71,090	–	–	88,009
c) financial assets held to maturity	–	–	–	–	–
d) financial liabilities	1,967	6,865	–	–	8,832
Profit (Loss) on financial assets and liabilities designated at fair value	29,219	(6,061)	–	–	23,158
Total income	2,466,475	1,500,738	–	(46,596)	3,920,617
Net write-downs / write-backs on impairment of:	(138,366)	(432,468)	–	–	(570,834)
a) loans	(133,820)	(333,042)	–	–	(466,862)
b) financial assets available for sale	(2,194)	(98,913)	–	–	(101,107)
c) financial assets held to maturity	–	–	–	–	–
d) other financial activities	(2,352)	(513)	–	–	(2,865)
Net income from banking activities ..	2,328,109	1,068,270	–	(46,596)	3,349,783
Net income from banking and insurance activities	2,328,109	1,068,270	–	(46,596)	3,349,783
Administrative expenses:	(1,354,565)	(999,363)	–	–	(2,253,928)
a) personnel expenses	(884,265)	(528,965)	–	–	(1,413,230)
b) other administrative expenses	(470,300)	(470,398)	–	–	(940,698)
Net provisions for risks and charges	(58,762)	(53,376)	–	–	(112,138)
Impairment/write backs on PPE	(46,728)	(54,630)	–	–	(101,358)
Impairment/write backs on intangible assets	(29,912)	(22,788)	–	–	(52,700)
Other operating income (loss)	277,913	181,691	(51,943)	–	407,661
Operating costs	(1,212,054)	(948,466)	(51,943)	–	(2,212,463)
Share of profit of associates	387,980	45,608	–	4,565	438,153
Goodwill impairment	–	(46,962)	–	–	(46,962)
Profit (Loss) on disposal of investments	41,798	24,114	–	–	65,912
Income (Loss) before tax from continuing operations	1,545,833	142,564	(51,943)	(42,031)	1,594,423
Tax on income from continuing operations	(488,062)	(97,058)	17,141	16,723	(551,256)
Income (Loss) after tax from continuing operations	1,057,771	45,506	(34,802)	(25,308)	1,043,167
Income (Loss) after tax from discontinued operations	6,225	(42,085)	–	–	(35,860)
Net income for the year	1,063,996	3,421	(34,802)	(25,308)	1,007,307
Minority interest	(31,082)	(43,282)	–	–	(74,36)
Parent company's share of profit	1,032,914	(39,861)	(34,802)	(25,308)	932,943

TAXATION

The following is a general summary of certain tax consequences in Italy of acquiring, holding and disposing of Notes. It does not purport to be a complete analysis of all tax considerations that may be relevant to the decision to purchase, own or dispose of Notes and does not purport to deal with the tax consequences applicable to all categories of prospective beneficial owners of Notes, some of which may be subject to special rules. This summary is based upon tax laws and/or practice in force as at the date of this Prospectus, which are subject to any changes in law and/or practice occurring after such date, which could be made on a retroactive basis. The Issuer will not update this summary to reflect changes in law and, if any such change occurs, the information in this summary could be superseded.

Prospective purchasers of Notes should consult their tax advisers as to the overall tax consequences of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes, including in particular the effect of any state, regional or local tax laws.

ITALY

The statements herein regarding Italian taxation are based on the laws and published practice of the Italian tax authorities in effect in the Republic of Italy as of the date of this offering memorandum and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of the Notes are advised to consult their own tax advisors concerning the overall tax consequences of their acquiring, holding and disposing of Notes and receiving payments on interest, principal and/or other amounts under the Notes, including in particular the effect of any state, regional and local tax laws.

Tax Treatment of interest and other proceeds under the Notes

Pursuant to Legislative Decree No. 239 of 1 April 1996 (“**Decree No. 239**”), as amended and restated, and pursuant to Article 44, (2)(c) of Presidential Decree No. 917 of 22 December 1986 (“**Decree No. 917**”), in general, interest and other proceeds (including the difference between the redemption amount and the issue price) in respect of notes that qualify as “bonds” or “debentures similar to bonds” (“*obbligazioni*” or “*titoli similari alle obbligazioni*”) for Italian tax purposes and are issued by Italian banks or listed companies (i.e., the so called “*grandi emittenti*”) may be subject to an Italian substitute tax, depending on the legal status of the beneficial owner of such interest and other proceeds. Both (i) “bonds”, which are the securities qualifying as “*obbligazioni*” pursuant to Art. 2410-et seq. of the Italian Civil Code, and (ii) other securities – defined as “debentures similar to bonds” by Art. 44(2)(c) of Decree No. 917, which incorporate an unconditional obligation to pay, at maturity, an amount not less than their nominal value and that do not give any right to directly or indirectly participate in the management of the relevant issuer or of the business in relation to which they are issued, are included in the category of “bonds and debentures similar to bonds” referred to in Decree No. 239, subject to the above regime. The Italian tax authorities have clarified (Revenue Agency Circular No. 4/E of 18 January 2006) that bonds may have a maturity which is not scheduled at a specific date, but it is linked to the maturity of the issuing company or to the liquidation thereof, if the company has been set-up with an undetermined maturity pursuant to Article 2328 (2), No. 13, of the Italian Civil Code.

Italian Resident Noteholders—Applicability of the Imposta Sostitutiva

Under Decree No. 239, payments of interest and other proceeds (including the original issue discount) in respect of the Notes to Italian resident beneficial owners (either when interest and other proceeds are paid or when payment thereof is obtained by a beneficial owner on a transfer of the Notes) are subject to a final substitute tax (the “**Imposta Sostitutiva**”) at a 12.5 per cent rate in the Republic of Italy if made to Italian resident beneficial owners that are:

- (i) private individuals holding the Notes not in connection with an entrepreneurial activity (unless they have entrusted the management of their financial assets, including the Notes, to an Italian authorized financial intermediary and have opted for the regime provided for by Article 7 of Legislative Decree No. 461 of 21 November 1997, so called “asset management option” or “*Risparmio Gestito*”);
- (ii) partnerships (other than *società in nome collettivo*, *società in accomandita semplice* or similar partnerships), de facto partnerships not carrying out commercial activities and professional associations;
- (iii) public and private entities, other than companies, not carrying out commercial activities as their exclusive or principal activity;
- (iv) entities exempt from corporate income tax.

Prospective purchasers of the Notes should note that, based on Conditions 9(a)(ii) (*Taxation – Gross up*) and 9(a)(iv) (*Taxation – Gross up*) of the Terms and Conditions of the Notes, the Issuer will not be obliged to pay any additional amounts in relation to the *Imposta Sostitutiva* applied on payments of interest or other proceeds in respect of the Notes to Italian resident beneficial owners.

In case the Notes are held by an individual or by an entity indicated above under (iii), in either case in connection with an entrepreneurial activity, interest and other proceeds relating to the Notes are subject to the *Imposta Sostitutiva* and have to be included in the relevant beneficial owner’s income tax return. As a consequence, interest and other proceeds are subject to the ordinary income tax and the *Imposta Sostitutiva* may be recovered as a deduction from the income tax due.

The 12.5 per cent *Imposta Sostitutiva* is applied by the Italian resident qualified financial intermediaries provided by law (including banks, *società di intermediazione mobiliare* (or “**SIM**”), fiduciary companies, *società di gestione del risparmio* (or “**SGR**”), stock brokers and other qualified entities expressly indicated in Ministerial Decrees, as well as permanent establishments in the Republic of Italy of banks or intermediaries resident outside the Republic of Italy—collectively referred to as “**Intermediaries**” and each as an “**Intermediary**”) that intervene, in any way, in the collection of interest and other proceeds on the Notes or, also as transferee, in the transfer of the Notes. If the Notes are not deposited with any qualified Intermediary, *Imposta Sostitutiva* is applied and withheld by any Italian intermediary (including a permanent establishment in Italy of a foreign entity) paying interest to a beneficial owner.

If interest and other proceeds on the Notes are not collected through the intervention of an Italian resident intermediary and as such no *Imposta Sostitutiva* is levied, the Italian resident beneficial owners listed above under (i) to (iv) are required to include interest and other proceeds in their annual income tax return and subject them to final substitute tax at a rate of 12.5 per cent, unless an option is allowed and made for a different regime.

Italian Resident Noteholders—Imposta Sostitutiva Not Applicable

Pursuant to Decree No. 239, payments of interest and other proceeds (including the original issue discount) in respect of the Notes to Italian resident beneficial owners are not subject to the *Imposta Sostitutiva* if made to beneficial owners that are:

- (i) Italian resident individuals holding the Notes not in connection with entrepreneurial activity who have entrusted the management of their financial assets, including the Notes, to an Italian authorized financial intermediary and have opted for the *Risparmio Gestito*;
- (ii) Italian resident collective investment funds and SICAVs and pension funds referred to in Legislative Decree No. 252 of 5 December 2005;
- (iii) Italian resident real estate investment funds;
- (iv) Italian resident corporations or permanent establishments in the Republic of Italy of non-resident corporations to which the Notes are effectively connected;

- (v) Italian resident partnerships qualified as *società in nome collettivo* or *società in accomandita semplice* and other similar partnerships, even de facto, carrying out a commercial activity; or
- (vi) public and private entities, other than companies, carrying out commercial activities and holding the Notes in connection with the same commercial activities.

If the Notes are part of an investment portfolio managed on a discretionary basis by an Italian authorised intermediary and the beneficial owner of the Notes has opted for the *Risparmio Gestito*, an annual substitute tax at a rate of 12.5 per cent applies on the increase in value of the managed assets accrued, even if not realized, at the end of each tax year (which increase includes interest, premium and other proceeds accrued on Notes). The substitute tax is applied on behalf of the taxpayer by the managing authorised intermediary.

Italian resident collective investment funds and SICAVs are generally subject to a 12.5 per cent annual substitute tax (the “**Collective Investment Fund Tax**”) on the increase in value of the managed assets accrued at the end of each tax year (which increase includes interest and other proceeds accrued on the Notes).

Italian resident pension funds subject to the regime provided by Legislative Decree No. 252 of 5 December 2005, are subject to an 11% annual substitute tax (the “**Pension Fund Tax**”) on the increase in value of the managed assets accrued at the end of each tax year (which increase includes interest and other proceeds accrued on Notes).

Italian resident real estate investment funds established pursuant to Article 37 of Legislative Decree No. 58 of 24 February 1998 (the “**Italian Finance Act**”) are not subject to any taxation at the fund level on payments under the Notes.

Interest and other proceeds on the Notes accrued to (a) Italian resident corporations or to permanent establishments in the Republic of Italy of foreign companies to which the Notes are effectively connected, (b) Italian resident partnerships qualified as *società in nome collettivo* or *società in accomandita semplice* or similar partnerships carrying out a commercial activity; and (c) Italian resident public and private entities, carrying out commercial activities and holding the Notes in connection with the same commercial activities, generally are included in the taxable business income for income tax purposes (and, in certain cases, depending on the status of the Noteholder, may also be included in the taxable net value of production for purposes of regional tax on productive activities, IRAP) of such beneficial owners, subject to tax in the Republic of Italy in accordance with ordinary tax rules.

To ensure payment of interest and other proceeds in respect of the Notes without application of the *Imposta Sostitutiva*, where allowed, investors indicated herein under (i) to (vi) above must be the beneficial owners of payments of interest and other proceeds on the Notes and must timely deposit the Notes, together with the coupons relating to such Notes, directly or indirectly, with an Italian authorised financial intermediary (including non-resident entities and companies that participate in a centralised management system of securities and hold a direct relationship with the Ministry of Economy and Finances—Revenues Agency).

Non-Italian Resident Noteholders

Pursuant to Decree No. 239 payments of interest and other proceeds in respect of the Notes are not subject to the *Imposta Sostitutiva* if made to non-Italian resident beneficial owners of the Notes with no permanent establishment in the Republic of Italy to which the Notes are effectively connected, provided that:

- (a) they are resident in a country which allows an adequate exchange of information. With reference to this condition, according to Ministerial Decree of 12 December 2001, the current list of the countries allowing an adequate exchange of information is that contained in the Ministerial Decree of 4 September 1996, as subsequently amended and supplemented. The exemption from the *Imposta Sostitutiva* also applies to (i) non resident “institutional investors” (i.e., entities whose activity consists in making or managing investments on their own behalf or on behalf of other persons, as defined by the Revenue Agency Circular No. 23/E of 1 March 2002), even if they are not treated as taxpayers in their country of residence, but provided that they are located in a country which allows an adequate exchange of information (and subject to certain other conditions mentioned in Circular No. 23/E,

quoted, and in Revenue Agency Circular No. 20/E of 27 March 2003, (ii) international organisations created pursuant to international treaties that are effective in the Republic of Italy, and (iii) central banks or entities managing also the official reserves of the State;

- (b) the Notes are deposited directly or indirectly: (i) with a bank or an Italian securities dealing firm (SIM) resident in the Republic of Italy, (ii) with the Italian permanent establishment of a non-resident bank or brokerage company which is electronically connected with the Italian Ministry of Economy and Finance, or (iii) with a non-resident entity or company which has an account with a centralised clearance and settlement system (such as Euroclear or Clearstream, Luxembourg) which has a direct relationship with the Italian Ministry of Economy and Finances; or (iv) with a centralised managing company of financial instruments, authorised in accordance with Article 80 of the Italian Finance Act;
- (c) the banks or brokers mentioned in (b) above receive a self-declaration from the beneficial owner of the interest which states that the beneficial owner is a resident of that country. The self-declaration, which must be in conformity with the model approved by Decree of the Ministry of Economy and Finances of 12 December 2001 (published in the Ordinary Supplement No. 287 to the Official Gazette No. 301 of 29 December 2001), is valid until revoked by the investor and does not have to be filed if an equivalent self-declaration (including Form 116/IMP) has been submitted to the same intermediary for the same or different purposes; in the case of institutional investors not subject to tax, the institutional investor shall be regarded as the beneficial owner and the relevant self-declaration shall be produced by the management company; and
- (d) the banks or brokers mentioned in (b) and (c) above receive all necessary information to identify the non-resident beneficial owner of the deposited debt securities, and all necessary information in order to determine the amount of interest that such beneficial owner is entitled to receive.

Non-resident holders are subject to the *Imposta Sostitutiva* at the rate of 12.5 per cent on interest and other proceeds on the Notes if any of the above conditions (a), (b), (c) or (d) are not satisfied.

Early Redemption

Without prejudice to the above provisions, in the event that the Notes are redeemed, in full or in part, prior to eighteen months from their date of issue, the Issuer is required to pay an additional amount equal to 20% of the interest, premium and other proceeds accrued up to the time of the early redemption. Where Italian withholding agents intervene in the collection of interest on the Notes or in their redemption, this additional amount may be levied by such withholding agents by way of withholding. In accordance with one interpretation of Italian fiscal law, in the event of a purchase of Notes by the Issuer with subsequent cancellation thereof prior to eighteen months from the issue date, this 20% additional amount may also be due.

Capital Gains Tax

Capital Gains Realised by Italian Resident Noteholders

Any capital gain realised upon the sale for consideration or redemption of the Notes would be treated as part of the taxable business income (and, in certain cases, may also be included in the taxable net value of production for IRAP purposes), subject to tax in the Republic of Italy according to the relevant tax provisions, if realised by Noteholders that are:

- Italian resident corporations;
- Italian resident partnerships qualified as *società in nome collettivo* or *società in accomandita semplice* and other similar partnerships, even de facto, carrying on a commercial activity;
- permanent establishments in the Republic of Italy of foreign corporations to which the Notes are effectively connected;

- Italian resident individuals carrying out a commercial activity, as to any capital gains realized within the scope of the commercial activity carried out; or
- public or private entities, other than companies, carrying out commercial activities, holding the Notes in connection with the same commercial activities.

Pursuant to Legislative Decree No. 461 of 21 November 1997, any capital gain realised by Italian resident individuals holding the Notes not in connection with an entrepreneurial activity and certain other persons upon sale for consideration or redemption of the Notes would be subject to an *Imposta Sostitutiva* at the current rate of 12.5 per cent. Under the so called “tax return regime” (“*regime della dichiarazione*”), which is the standard regime for taxation of capital gains realised by Italian resident individuals not engaged in an entrepreneurial activity, *Imposta Sostitutiva* on capital gains will be chargeable, on a cumulative basis, on all capital gains, net of any relevant incurred capital loss, realised by Italian resident individual holders holding the Notes not in connection with an entrepreneurial activity pursuant to all disposals of Notes carried out during any given fiscal year. Italian resident individuals holding the Notes not in connection with entrepreneurial activity must report overall capital gains realised in any tax year, net of any relevant incurred capital loss, in the annual tax return to be filed for such year and pay the *Imposta Sostitutiva* on such gains together with any income tax due for such year. Capital losses in excess of capital gains may be carried forward against capital gains of the same kind realised in any of the four succeeding tax years.

As an alternative to the tax return regime, Italian resident individual Noteholders holding the Notes not in connection with entrepreneurial activity may elect to pay a 12.5 per cent *Imposta Sostitutiva* separately on capital gains realised on each sale or redemption of the Notes (the “*Risparmio Amministrato*” regime). Such separate taxation of capital gains is allowed subject to (i) the Notes being deposited with Italian banks, SIMs or certain authorised financial intermediaries; and (ii) an express election for the *Risparmio Amministrato* regime being timely made in writing by the relevant Noteholder. Under the *Risparmio Amministrato* regime, the financial intermediary is responsible for accounting for the *Imposta Sostitutiva* in respect of capital gains realised on each sale or redemption of the Notes (as well as in respect of capital gains realised at revocation of its mandate), net of any relevant incurred capital loss, and is required to pay the relevant amount to the Italian fiscal authorities on behalf of the taxpayer, by deducting a corresponding amount from proceeds to be credited to the Noteholder.

Under the *Risparmio Amministrato* regime, where a sale or redemption of the Notes results in a capital loss, such loss may be deducted from capital gains of the same kind subsequently realised within the same relationship of deposit in the same tax year or in the following tax years up to the fourth. Under the *Risparmio Amministrato* regime, the Noteholder is not required to declare capital gains in its annual tax declaration and remains anonymous.

Any capital gains accrued on Notes held not in connection with entrepreneurial activity by Italian resident individuals who have elected for the *Risparmio Gestito* are included in the computation of the annual increase in value of the managed assets accrued, even if not realised, at year end, subject to a 12.5 per cent substitute tax to be applied on behalf of the taxpayer by the managing authorised intermediary. Under the *Risparmio Gestito* regime, any depreciation of the managed assets accrued at year end may be carried forward against increase in value of the managed assets accrued in any of the four succeeding tax years. Under the *Risparmio Gestito*, the Noteholder is not required to report capital gains realised in its annual tax declaration and remains anonymous.

In the case of Notes held by Italian resident collective investment funds or SICAVs, capital gains on the Notes are included in the computation of the taxable basis of the Collective Investment Fund Tax.

In the case of Notes held by Italian resident pension funds subject to the regime provided by Legislative Decree No. 252 of 5 December 2005, capital gains on the Notes are included in the computation of the taxable basis of the Pension Fund Tax.

Capital Gains Realised by Non-Italian Resident Noteholders

Capital gains realised by beneficial owners who are not resident in the Republic of Italy for tax purposes from the sale or redemption of the Notes are not subject to Italian taxation, provided that the Notes are held outside the Republic of Italy.

However, pursuant to Article 23(1)(f) of Decree No. 917, any capital gains realised through the sale for consideration or redemption of the Notes by non-Italian residents without a permanent establishment in the Republic of Italy to which the Notes are effectively connected are exempt for taxation in the Republic of Italy to the extent that the Notes are listed on a regulated market (as defined in the EC Directive No. 2004/39/EC) in the Republic of Italy or abroad and, in certain cases, subject to timely filing of documentation stating that the holder is not resident in the Republic of Italy, even if the Notes are held in the Republic of Italy and regardless of the provisions set forth by any applicable double tax treaty.

Italian Inheritance and Gift Tax

The Italian regime of inheritance and gift tax is provided by the combined disposal of Law Decree No. 262 of 3 October 2006 (“**Law Decree No. 262**”), as converted, with amendments, by Law No. 286 of 24 November 2006, Law No. 296 of 27 December 2006 and Legislative Decree No. 346 of 31 October 1990.

Under such rules, subject to certain exceptions, Italian inheritance and gift tax shall generally be payable on transfers of assets and rights (including the Notes) (i) by reason of death of Italian residents or donations by Italian residents, even if the transferred assets are held outside Italy and (ii) by reason of death of non-Italian residents or donations by non-Italian residents, if the transferred assets are held in Italy.

Pursuant to Law Decree No. 262, transfers of assets and rights on death or by gift shall generally be subject to inheritance and gift tax:

- at a rate of 4 per cent. in case of transfers made to the spouse or relatives in direct line, on the portion of the global net value of the transferred assets, if any, exceeding, for each beneficiary, €1,000,000;
- at a rate of 6 per cent. in case of transfers made to relatives within the fourth degree or relatives in law within the third degree (in case of transfers to brothers or sisters, the 6 per cent. rate is applicable only on the portion of the global net value of the transferred assets, if any, exceeding, for each beneficiary, €100,000); and
- at a rate of 8 per cent. in any other case.

Transfer Tax

Italian Legislative Decree No. 435 of 21 November 1997 (“**Decree No. 435**”), which partly amended the regime set forth by Royal Decree No. 3278 of 30 December 1923, governs the application of Italian transfer tax on the transfer of securities (so-called “*tassa sui contratti di borsa*”), applicable as follows in relation to transfers of Notes executed in the Republic of Italy:

- (i) €0.0083 for every €51.65 (or fraction thereof) of the price at which the Notes are transferred, when the transfer is effected between private subjects directly or through an intermediary other than a bank or other authorised intermediaries governed by Legislative Decree No. 451 of 23 July 1996, as superseded by the Italian Finance Act, or stockbroker (the “**Qualified Intermediaries**”);
- (ii) €0.00465 for every €51.65 (or fraction thereof) of the price at which the Notes are transferred, when the transfer is effected (a) between private subjects and Qualified Intermediaries, or (b) between private subjects through Qualified Intermediaries; and
- (iii) €0.00465 for every €51.65 (or fraction thereof) of the price at which the Notes are transferred, when the transfer is effected between Qualified Intermediaries.

However, in the cases indicated above under (ii) and (iii), the amount of applicable transfer tax may not exceed €929.62 for each transaction.

The transfer tax does not apply, inter alia, to: (i) contracts entered into on regulated markets (e.g. the Regulated Market of the Luxembourg Stock Exchange) relating to the transfer of securities, including contracts between the intermediary and its principal or between Qualified Intermediaries, or (ii) off-market transactions regarding securities listed on regulated markets, provided that the contracts are entered into: (a) between Qualified Intermediaries, (b) between Qualified Intermediaries, on the one hand, and non-Italian residents, on the other hand, or (c) between Qualified Intermediaries, even if non-resident in the Republic of Italy, on the one hand, and undertakings for collective investment of saving income, on the other hand; (iii) contracts related to sales of securities occurring in the context of a public sale offering (*offerta pubblica di vendita*) aimed at a listing on regulated markets, or involving financial instruments already listed on regulated markets; and (iv) contracts regarding securities not listed on a regulated market entered into between Qualified Intermediaries, on the one hand, and non-Italian residents, on the other hand.

For transfer tax purposes, transfers of securities to or by Italian residents are presumed to be executed in the Republic of Italy. Moreover, contracts for the transfer of Notes executed outside the Republic of Italy between non-Italian residents will have legal effect (*efficacia giuridica*) in the Republic of Italy to the extent that transfer tax is paid.

EU SAVINGS TAX DIRECTIVE

Under EC Council Directive 2003/48/EC on the taxation of savings income (the “**EU Savings Directive**”), EU member states are required to provide to the tax authorities of another member state details of payments of interest (or similar income) made 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, deducting taxes at rates rising over time at 35 per cent. The ending of such transitional period will depend upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories, including, inter alia, Switzerland, have agreed to adopt similar measures (which will be a withholding system in the case of Switzerland) with effect from the same date.

The Republic of Italy has implemented the EU Savings Directive through Legislative Decree No. 84 of 18 April 2005 (“**Decree No. 84**”). Under Decree No. 84, subject to a number of important conditions being met, in the case of interest paid to individuals who qualify as beneficial owners of the interest payment and are resident for tax purposes in another EU member state, Italian qualified paying agents (i.e. banks, SIMs, fiduciary companies and SGRs resident for tax purposes in Italy, permanent establishments in Italy of non-resident persons and any other economic operator resident for tax purposes in Italy paying interest for professional or commercial reasons) shall report to the Italian tax authorities details of the relevant payments and personal information on the individual beneficial owner. Such information shall be transmitted by the Italian tax authorities to the competent foreign tax authorities of the State of residence of the beneficial owner.

With reference to the definition of interest subject to the above described communication regime, Art. 2(1)(a) of Decree No. 84 makes reference, inter alia, to: “interest paid or credited, on accounts arising from receivables of whatever nature, secured or not by mortgage ..., in particular interest and any other proceed, arising from public bonds and other bonds...”.

Noteholders who are individuals and receive interest on the Notes should note that additional amounts which, at present, may become due as described in Condition 9 (*Taxation*) above would not be due in respect of withholding tax imposed under or pursuant to the EU Savings Directive, or any law implementing or complying with, or introduced in order to conform to, the EU Savings Directive.

Prospective investors resident in a Member State of the European Union should consult their own legal or tax advisers regarding the consequences of the EU Savings Directive in their particular circumstances.

Tax monitoring obligations

Pursuant to Law Decree No. 167 of 28 June 1990, individuals, non-profit entities and certain partnerships (in particular, *società semplici* or similar partnerships in accordance with Article 5 of Decree No. 917) resident in Italy are required to report in their yearly income tax declaration, for tax monitoring purposes:

the amount of securities (including the Notes) held abroad at the end of each tax year, if exceeding in the aggregate €12,500;

the amount of any transfers from abroad, sent abroad and occurred abroad, related to such securities, occurred during each tax year, if exceeding in the aggregate €12,500. This also in the case that at the end of the tax year the securities are no longer held by such mentioned investors.

The aforementioned persons are, however, not required to comply with the above reporting requirements in respect of securities deposited for management with qualified Italian financial intermediaries and in respect of contracts entered into through their intervention, upon condition that the items of income derived from such securities are collected through the intervention of the same intermediaries.

SUBSCRIPTION AND SALE

Goldman Sachs International, HSBC Bank plc and J.P. Morgan Securities Ltd. (together the “**Joint Lead Managers**”) and Banca Aletti & C. S.p.A. (together with the Joint Lead Managers, the “**Managers**”) have, in subscription agreements dated 19 June 2007 (the “**Subscription Agreements**”) and made between the Issuer and the Joint Lead Managers, on behalf of the Managers, upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Notes at their issue price of 100 per cent. of their principal amount, less commissions. The Issuer has also agreed to reimburse the Joint Lead Managers for certain of the expenses incurred in connection with the management of the issue of the Notes. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United States of America

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 Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells 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.

In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an 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 the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, each of the Managers has represented and agreed that it has not offered or sold, and will not offer or sell, any Notes in Italy in a solicitation to the public, and that sales of the Notes in Italy shall be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations.

Each of the Managers has represented that it has not offered, sold or delivered, and will not offer, sell or deliver any Notes or distribute copies of the Base Prospectus or any other document relating to the Notes in the Republic of Italy except in any circumstances where an express exemption from compliance with the

solicitation restrictions applies, as provided under Decree No. 58 or CONSOB Regulation No. 11971 of 14 May 1999, as amended.

Any such offer, sale or delivery of the Notes or distribution of copies of the Base Prospectus or any other document relating to the Notes in the Republic of Italy must be:

- (a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1 September 1993 (“**Decree No. 385**”), Decree No. 58 and CONSOB Regulation No. 11522 of 1 July 1998 (in each case, as amended) and any other applicable laws and regulations; and
- (b) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

General

Each Manager has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Prospectus or any other offering material relating to the Notes. Persons into whose hands this Prospectus comes are required by the Issuer and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

Authorisations

The creation and the issue of the Notes has been authorised by a resolution of the Board of Directors of the Issuer dated 23 January 2007.

Clearing of the Notes

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for the Notes are as follows:

	ISIN	Common Code
Step-Up Notes	XS0304963290	030496329
Non Step-Up Notes	XS0304963373	030496337

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Litigation

Save as disclosed in this Prospectus, there are no governmental, legal or arbitration proceedings against or affecting the Issuer, its subsidiaries or any of their respective assets, nor is the Issuer aware of any pending or threatened proceedings of such kind during the 12 months before the date of this Prospectus, which may have, or had in the recent past, significant effects on the Issuer's or the BPVN Group's financial position or profitability or which are or might be material in the context of the issue of the Notes.

No significant change

Save as otherwise disclosed in this Prospectus and since 31 December 2006 there has been no significant change, or any development reasonably likely to involve a significant change, in the condition (financial or otherwise), trading position or general affairs of the Issuer or any of its Subsidiaries.

Material adverse change

There has been no material adverse change in the prospects of the Issuer, the BPVN Group or the BPI Group since 31 December 2006.

Trend information

Save as disclosed in this Prospectus, the Issuer is not aware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Issuer's prospects for the current financial year since 31 December 2006, the date of the last published audited financial statements of the Issuer.

Material contracts

There are no material contracts that are not entered into in the ordinary course of the Issuer's business, which could result in any BPVN Group member being under an obligation or entitlement that is material to the Issuer's ability to meet its obligation to security holders in respect of the securities being issued.

Change in control

There are no arrangements known to the Issuer the operation of which may result in a change of control of the Issuer other than as described herein.

Documents available for inspection

For so long as the Notes are outstanding, copies and, where appropriate, English translations of the following documents may be inspected during normal business hours at the specified office of the Paying Agent, namely:

- (a) the Agency Agreements;
- (b) the Deeds of Covenant;
- (c) the Subscription Agreements; and
- (d) the by-laws of the Issuer.

Documents available

For so long as the Notes are outstanding, copies and, where appropriate, English translations of the following documents may be obtained during normal business hours at the specified office of each Paying Agent, namely:

- (a) a copy of this Prospectus (including any supplement to this Prospectus);
- (b) english translation of the audited consolidated annual financial statements of the Issuer as at and for the years ended 31 December 2005 and 2006;
- (c) english translation of the unaudited consolidated interim financial statements of the Issuer as at and for the three months ended 31 March 2006 and 2007;
- (d) english translation of the audited consolidated annual financial statements of BPI as at and for the years ended 31 December 2005 and 2006;
- (e) english translation of the unaudited consolidated interim financial statements of BPI as at and for the three months ended 31 March 2006 and 2007; and
- (f) english translation of the unaudited pro forma consolidated financial information of the Issuer as at and for the year ended 31 December 2006.

Auditors

The auditors of the Issuer are Reconta Ernst & Young S.p.A. and the auditors of BPI are Deloitte & Touche S.p.A., both of whom who are registered on the special register of accounting firms held by CONSOB.

Potential conflicts of interest

Save for the commissions payable to the Managers (for further detail, see “Subscription and Sale” above), there are no interests, conflicting or otherwise, of natural and legal persons involved in the issue of the Notes that are material to the issue of the Notes.

Legend

The Notes and any Coupons 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 ISSUER

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L-2085 Luxembourg

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To the Issuer as to Italian Law:

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*To the Joint Lead Managers as to
Italian tax law*

Studio Vitali Romagnoli Piccardi e Associati

Via Crocefisso 12
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*To the Joint Lead Managers as to
English and Italian law*

Clifford Chance Studio Legale Associato

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BANCO POPOLARE DI VERONA E NOVARA S.C.A R.L.

Reconta Ernst & Young S.p.A.

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